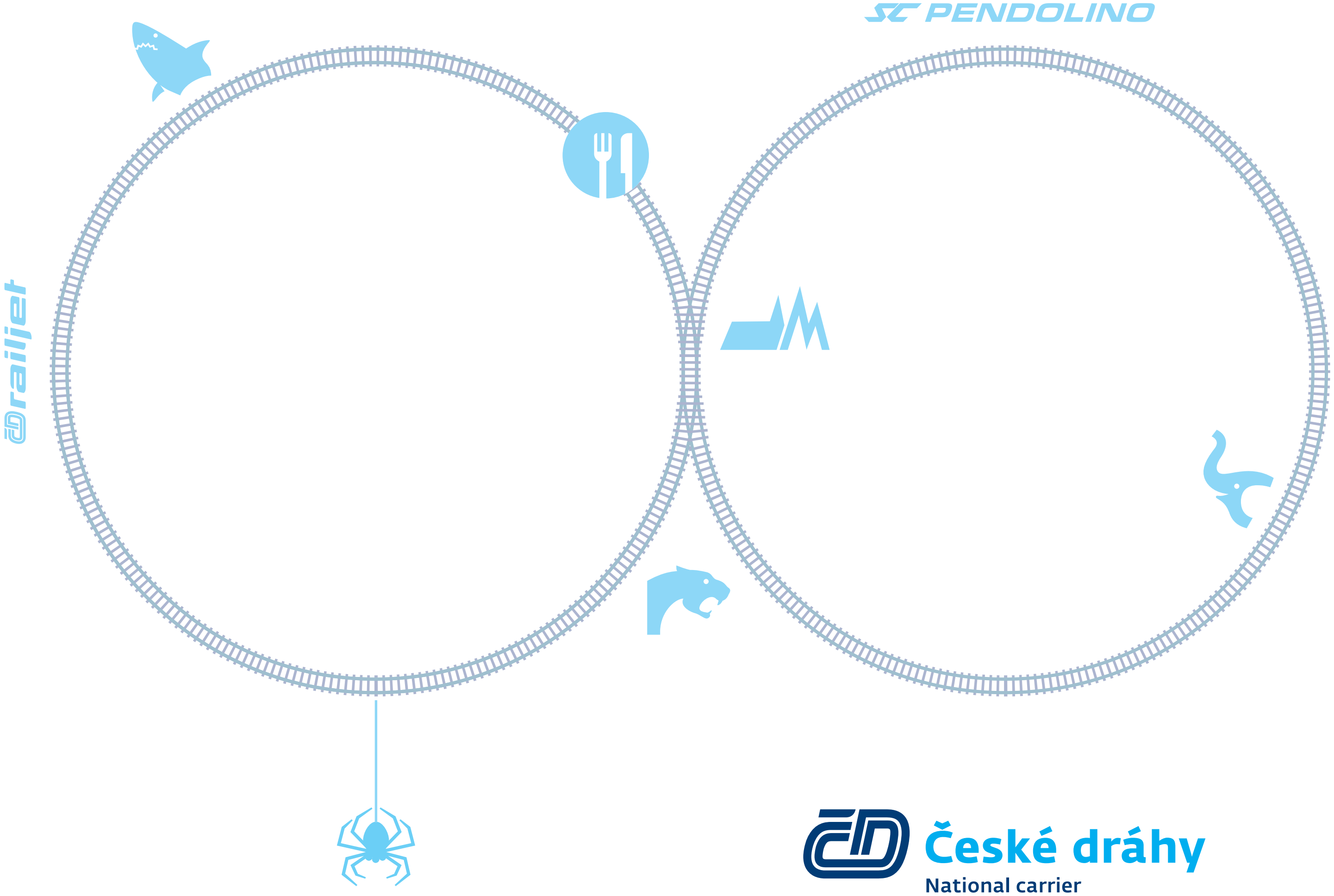
Annual Report of the České dráhy Group

2018



České dráhy
National carrier

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01

Foreword of the Chairman of the Board of Directors

Dear Ladies and Gentlemen,

České dráhy Group closed business year 2018 with the profit of CZK 1.2 billion according to the International Financial Reporting Standards (IFRS). It means year-to-year improvement of CZK 200 million. Positive result was reported by all companies of the Group, including Parent Company České dráhy, a.s., whose main business activity is passenger rail transport.

It was the passenger transport segment that noticed significant growth last year. Number of passengers increased and so did the transport performance. In total 179.2 million of passengers used services of České dráhy, which represents increase by 4.5 million. In the last quarter, new government discounts brought additional customers to national carrier trains. The long-term growth trend is mainly due to investments in vehicles and constant improvement of our services. České dráhy continues to improve the quality of its services. Last year, Pendolino trains were completely redesigned. In Plzeň region nine new RegioPanter units were introduced and in fast-trains used in Prague – Děčín line part of old passenger cars were replaced with modern, air-conditioned ones. At the same time, we have signed contracts for delivery of fifty most modern, long distance passenger cars. Tenders for other trains are in progress. During the next five years, we plan to invest CZK 40 billion to passenger train vehicles. This ambitious investment plan is in line with contracts we have signed with regions and state for the public service obligation after 2019, when we have managed to retain the vast majority of current performance volumes.

Year 2018 was also prosperous for the freight transport segment. The subsidiary's, ČD Cargo, a.s., domestic transport market share increased by 1.75% in gross tonne-kilometres. The company transported 68.4 million tonnes of goods, which is by 2.3 million tonnes more than in the previous year. With the exception of hard coal and coke, all commodities increased, most notably brown coal, wood and paper products. The further development of the freight transport segment, including the continuing successful expansion into foreign markets, depends on investment in the vehicle fleet. The company has 12 new Vectron locomotives and another 10 TRAXX locomotives are currently in production. At the same time the modernization of freight wagons continues.

České dráhy Group is profitable in the long term. Our goal is to maintain this status and to continue developing our core businesses: passenger and freight rail transport. We want to maintain positive results also in the Parent Company České dráhy despite the steady increase in costs, in particular traction energy, payments for rail replacement bus service or personnel costs, which is related to the overall boom in the labour market and the growth of wage levels in most professions. This is also included in our business plan for year 2019.

Miroslav Kupec
Chairman of the Board of Directors
České dráhy, a.s.

02

Our Vision

We are and will remain the first choice rail carrier whose customers are all citizens of the Czech Republic.

We are and will remain a national carrier that provides the broadest range of nationwide services on and off the train.

Service and public utility

We promote service beyond the business idea and feel responsible for each of our customers, as we have been a national carrier for almost 180 years.

Pride

We are proud of our national carrier's size and strength because we believe that our country will be just as big as will be Czech companies and brands.

Quality of transport services

The time spent on the way improves with our help because we enhance travel and change the traffic habits of the citizens by offering the most efficient and modern transport solution - the train.

Modern society

We are a leading European railway company that meets the highest international management standards.

Our people

We appreciate our employees, support them because we know they are proud of their work, and put their mind and heart into that.

03

Main Indicators
for ČD Group

Key indicators	2018	2017	Difference	INDEX
Revenue	39,097	33,969	5,128	**115.1**
EBITDA from continued operations (CZK million)	8,848	7,872	976	**112.4**
EBIT from continued operations (CZK million)	2,625	1,704	921	**154.0**
Profit (loss) for the period from continued operations (CZK million)	1,185	984	201	**120.4**
Total assets (CZK million)	84,832	86,368	(1,536)	**98.2**
CAPEX (CZK million)	7,392	5,098	2,294	**145.0**
Depreciation and amortisation (CZK million)	6,223	6,168	55	**100.9**
Leverage (%) (liabilities/total assets)	52.8	54.9	-2.1	**96.2**
Current liquidity (%) (Current assets/Current liabilities)	60.2	94.6	-34.4	**63.6**
ROCE (%) (EBIT/(total assets less current liabilities))	4.0	2.4	1.6	**166.7**
Average full time employees equivalent	23,374	23,542	(168)	**99.3**
Passenger transport				
Number of passengers (mil.)	179.2	174.7	4.5	**102.6**
Traffic performance (mil. person-kilometres)	8,225	7,778	447	**105.7**
Transport performance (mil. train-kilometres)	123.6	122.8	0.8	**100.7**
Average traffic distance (km)	46	45	1	**103.1**
Occupancy ratio (%)	30	29	1	**104,5**
Freight transport				
Traffic volume (mil. tones)	68.4	66.1	2.3	**103.5**
Traffic performance (mil. tariff ton-kilometres)	12,928	11,819	1,109	**109.4**
Transport performance (bn. gross ton-kilometres)	25.7	23.3	2.4	**110.3**

Board of Directors of the Company
as of 31 December 2018

Miroslav Kupec

After graduating from Faculty of Mechanical Engineering in Prague, he joined Poldi Kladno in 1983, where after two years of practice, he started working as an operations manager. In 1990, he won a tender for the position of CEO of ČKD Slaný. Later he worked for F.X. Meiler where since 1994 he became the managing director and the executive director. Since 2001, he held the position of Chairman of the Board and CEO of the Company Škoda Machine Tool in Pilsen and Škoda Vagónka in Ostrava. Since 2009, he worked as a consultant and professed with private business. Four years later, he joined ČD Cargo as the director of repairs. Since the beginning of 2014 until December 2016 he worked as the head of the Supreme DKV Prague and then he moved to senior management of the czech national carrier.

- Chairman of the Board of Directors since 11 September 2018
- Responsible for the section of the Board of Directors and the management of the company

Michal Štěpán

- Memeber of the Board of Directors since 21 February 2014
- Responsible for the section of Sales

Michal Štěpán got a degree at the University of Transport and Communications in Žilina. Until 1998, he worked in several different positions in railway transport. Between 1998 and 2003, he worked at the Passenger Transport and Traffic division of the General Directorate of ČD. Subsequently, he held the position of chief stationmaster at the Chrudim junction train station. Since 2005, he worked at the Pardubice Regional Centre of Passenger Transport, where he became a director in 2008. In August 2013, he was entrusted with managing the section of Strategy and Sales at the General Directorate of ČD. As of 1 October 2013, he was appointed Deputy CEO for Passenger Transport. Since 1 November 2018 he held the position of Deputy CEO for Sales.

Radek Dvořák

Radek Dvořák holds a degree from the Faculty of Transport Engineering of University Pardubice. He started his career in 2006 in automotive industry at Toyota Peugeot Citroen Automotive. In 2007, he changed from automotive to České dráhy where he held positions of project manager, Office director of the Board Member for Passenger Transport and he was in charge of ČD´s commercial and investment strategies in passenger transport. As Deputy CEO for Economics he is primarily responsible for the Company's annual and medium-term plans, as well as for financing, the ČD Group investments and public contracts and controlling. As Deputy CEO for Passenger Transport he is responsible for the development of regional and long distance passenger transport and related strategies.

- Member of the Board of Directors since 18 September 2018
- Until 16 January 2019 responsible for the section of Economy
- Since 16 January 2019 responsible for the section of Sales and in charge of the section of Economy

PASSENGERS

Year 2018 was best ever in terms of passengers transported. ČD transported 179.23 million of people that represents 8.225 billion kilometres.

České dráhy
National carrier

+ 2,6 %

indicator	year 2017	year 2018
passengers transported (in million)	174,7	179,2
traffic performance (in mil. person-kilometres)	7 778	8 225

+ 5,7 %

SERVICE

Expansion of gastronomical services on the trains of ČD was a result of continuing orientation on the customers.

České dráhy
National carrier


ČD Restaurant
ČD Snack
Board portal orders
Servis point
ČD Minibar

MULTIMEDIA

ČD wifi service was expanded to 80 more trains in 2018. Passengers can connect to internet in more than 800 trains.

České dráhy
National carrier


Board portal
ČD WiFi
Children's cinema

DESTINATION

In 2018, over 7,000 trains per day operated not only in domestic regions, but also connected ČR with all surrounding countries, Hungary and Switzerland.

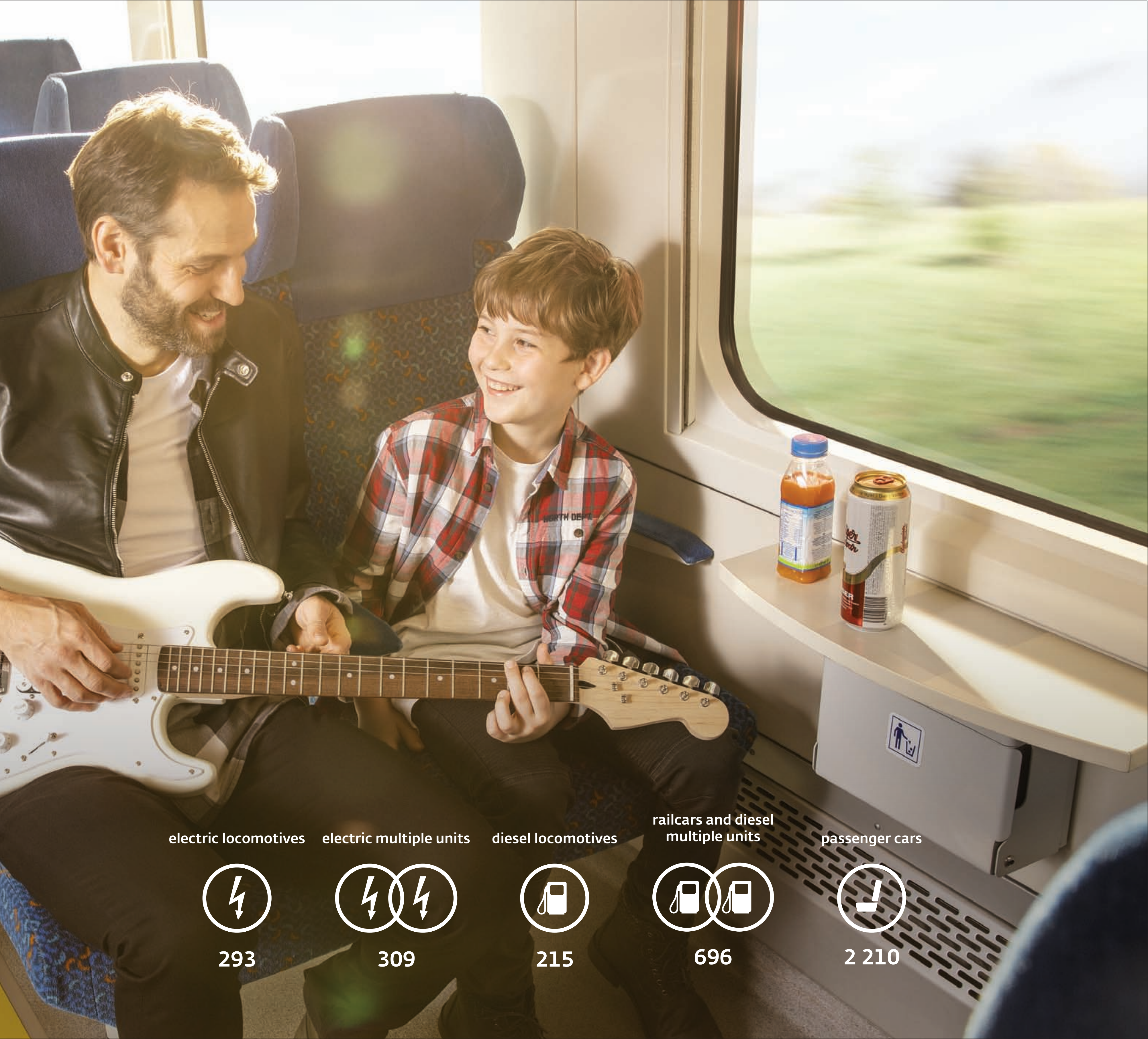
České dráhy
National carrier


Hamburg
Berlin
Dresden
Nürnberg
Regensburg
München
Wien
Graz
Linz
Warszawa
Katowice
Kraków
Bratislava
Žilina
Banská Bystrica
Humenné
Košice
Budapest
Zürich

FLEET OF RAILWAY VEHICLES

In 2018, České dráhy put in operation 90 new or modernised vehicles.

České dráhy
National carrier


electric locomotives
293
electric multiple units
309
diesel locomotives
215
railcars and diesel multiple units
696
passenger cars
2 210

04

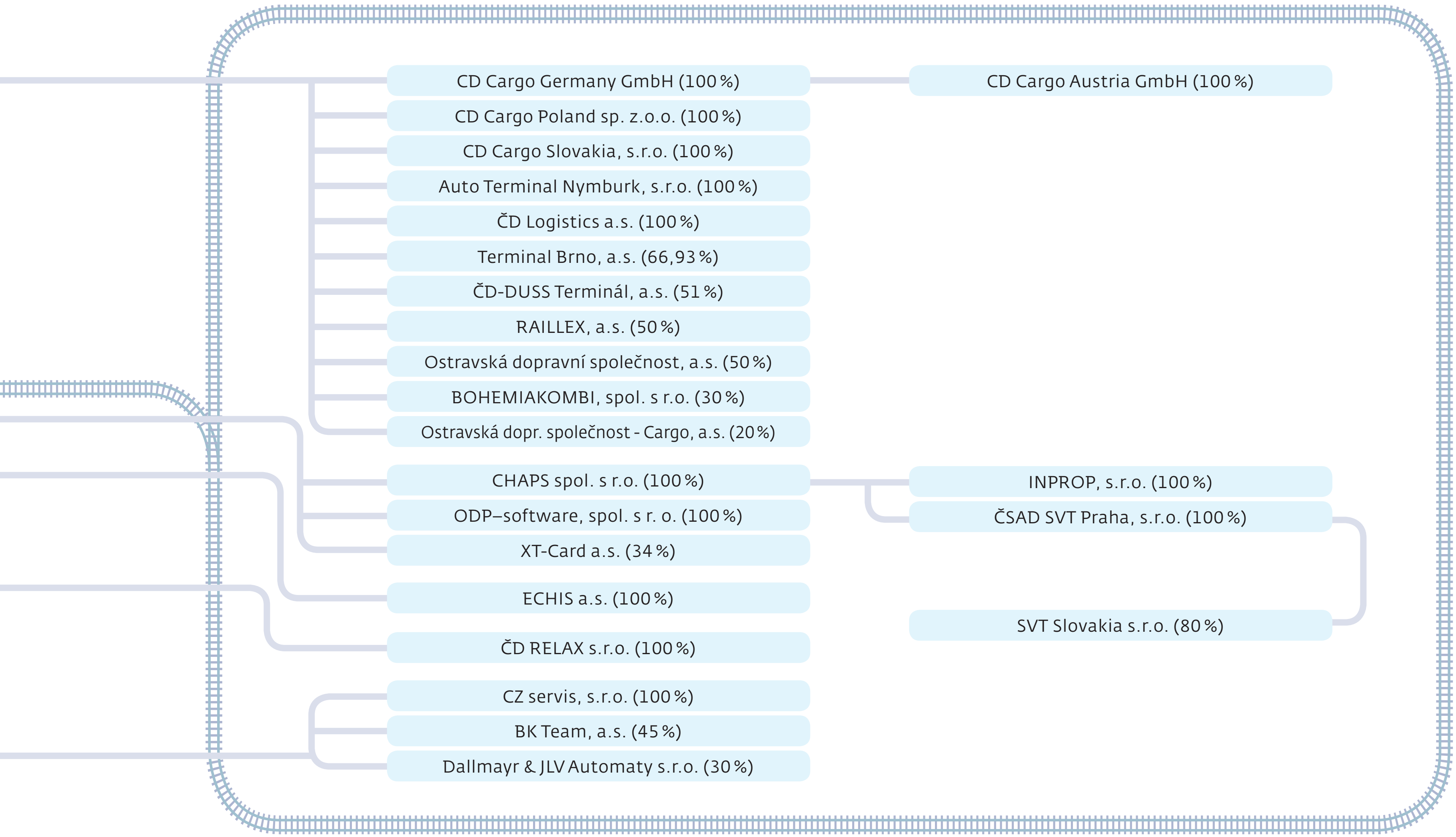
Overview of the Investment Shares Held by the ČD Group

České dráhy, a.s.

- ČD CARGO, a.s. (100 %)
- DPOV, a.s. (100 %)
- Výzkumný Ústav Železniční, a.s. (100 %)
- Dopravní vzdělávací institut, a.s. (100 %)
- ČD Reality a.s. (100 %)
- ČD Restaurant, a.s. (100 %)
- ČD - Informační Systémy, a.s. (100 %)
- ČD - Telematika a.s. (70,96 %)
- RailReal a.s. (66 %)
- ČD travel, s.r.o. (51,72 %)
- Žižkov Station Development, a.s. (51 %)
- Smíchov Station Development, a.s. (51 %)
- JLV, a.s. (38,79 %)

- Masaryk Station Development, a.s. (34 %)
- CR-City a.s. (34 %)
- RS Residence s.r.o. (34 %)
- Hit Rail BV (4 %)
- BCC, s.c.r.l. (3,36 %)
- EUROFIMA (1 %)
- Intercontainer-Interfrigo, SA (0,43 %)
  from 26 November 2010 in liquidation

as of 31 December 2018



05

Corporate Governance

Legal Relationships of the Company

The legal relationships of the joint stock Company České dráhy (hereinafter „ČD“ or „the Company“) are governed by:

- Act No. 77/2002 Coll., on the joint stock company České dráhy, the Railway Infrastructure Administration state organisation, and on the Change of Act No. 266/1994 Coll., on Railways, as amended, by Act No. 77/1997 Coll., on the State Enterprise, as amended;
- Act No. 89/2012 Coll., the Civil Code, as amended
- Act No. 90/2012 Coll., the Act on Business Corporations and Cooperatives, as amended.

The legal relationships of the Company, as well as the rights and obligations of the shareholders and Company bodies, are comprehensively stipulated in the Articles of Association.

Shareholder Structure and Bodies of the Company

The Czech Republic is the sole shareholder of ČD. The supreme body of the Company is the General Meeting. If the Company only has a sole shareholder, the General Meeting is not held and the sole shareholder acts in the capacity of the General Meeting. The scope of the General Meeting’s powers is set forth is the legislation stipulating the legal relationships of the Company and the Articles of Association of the Company.

Steering Committee

The state exercises its sole shareholder rights in ČD through the Steering Committee. The Steering Committee is composed of three employees from the Czech Ministry of Transportation and one employee from each of the following ministries: Finance, Defence, Industry and Trade, and Regional Development, who are appointed, in writing, by the government. The decision-making procedure of the Steering Committee is governed by the legislation stipulating the legal relationships of the Company, the Articles of Association of ČD, a.s. and the Steering Committee‘s Rules of Procedure. The work addresses of the members of the Steering Committee are located at the headquarters of the Company.

The members of the Steering Committee as at 31 December 2018 were as follows:

Tomáš Čoček	Chairman, representative of Transportation Ministry
Ladislav Němec	Vice-Chairman, representative of Transportation Ministry
Pavel Kouřil	Member, representative of Finance Ministry
Jakub Landovsky	Member, representative of Defence Ministry
Eduard Muřický	Member, representative of Industry and Trade Ministry
Václav Nebeský	Member, representative of Regional Development Ministry
Luděk Sosna	Member, representative of Transportation Ministry

Kamil Rudolecký was recalled from the role of Vice-Chairman of the Steering Committee effective from 31 December 2017 according to Government Resolution no. 897 from 22 December 2017 and Ladislav Němec was appointed as Vice-Chairman of the Steering Committee with effect from 1 January 2018. In addition, the activity in the Steering Committee was also terminated for Jindřich Kušnír, David Koppitz and Marek Ondroušek with the effective date 31 December 2017. Roles in the Steering Committee were passed to Luděk Sosna, Václav Nebeský and Eduard Muřický with the effective date 1 January 2018.

Supervisory Board

The Supervisory Board has nine members. Two-thirds of the members are elected by the sole shareholder through the Steering Committee and one-third is elected by the Company's employees pursuant to the election procedure approved by the Board of Directors following discussions with the relevant trade unions. The term of office of a member of the Supervisory Board is five years. The Supervisory Board meets as needed, usually on a monthly basis but at least four times a year. The Supervisory Board oversees the execution of the role of the Board of Directors and the Company's activities. The most significant areas of authority include:

- reviewing the report on the Company's business activity and the Company's financial performance, including a report on the settlement of public budgets and submits its observations to the General Meeting,
- approving the annual business plan and the budget for operating the Company's railway transport,
- granting prior approval for asset management, if such a procedure is required by the Company's Articles of Association,
- review final, extraordinary or consolidated financial statements and, in cases where other legal regulations stipulate it, interim financial statements,
- examine the proposal for the allocation of profit earned or other own resources or the proposal for allocation of the loss incurred and presents its observations to the General Meeting.

The decision-making procedure of the Supervisory Board by the legislation stipulating the legal relationships of the Company, the Articles of Association and the Rules of Procedure of the Supervisory Board. The work addresses of the members of the Supervisory Board are located at the headquarters of the Company.

The members of the Supervisory Board as at 31 December 2018 were as follows:

Petr Moos	Chairman
Vojtěch Kocourek	Member
Josef Kolář	Member
Antonín Leitgeb	Member
Jaroslav Pejša	Member
Karel Pospíšil	Member
Jan Štrof	Member
Lukáš Týfa	Member
Vladislav Vokoun	Member

Milan Feranec, Jan Hart, Tomáš Révész, Milan Kucharčík and Antonín Tesařík were recalled from the function of Supervisory Board members by the decision of the sole shareholder acting through the Steering Committee during meeting on 13 July 2018, effective on that date. At the same time, effective from 13 July 2018 the sole shareholder passed the role of Supervisory Board members to Peter Moos, Josef Kolář, Jan Štrof, Karel Pospíšil, and Lukáš Týfa. Supervisory Board on its meeting on 16 August 2018 chose Peter Moos as Chairman of the Supervisory Board.

On regular Supervisory Board meeting on 15 January 2019, Lukáš Týfa resigned from the function of České dráhy, a.s. Supervisory Board member. In the aforementioned case, on the proposal of the Chairman of the Steering Committee of České dráhy, a.s., a decision per rollam was adopted, assigning Libor Švadlenka the role of Supervisory Board member effective from 13 February 2019.

The Supervisory Board within its competence set up the Committee for the management of real estate and Remuneration Committee.

Committee for management of real estate discusses proposals for the prior consent of the Supervisory Board to dispose of the property in cases where such consent is required under the Statutes or when the discussion of the proposal in the Committee before submission to the Supervisory Board is required by internal regulation for the sale and lease of ČD's real estate. Committee members are appointed and dismissed by the Supervisory Board. The decision making process is particularly maintained by the code of rules and in the details by the rules of procedure of the Committee, approved by the Supervisory Board.

The Remuneration Committee shall monitor compliance with the rules for remuneration of members of the Board of Directors. According to these rules, remuneration of the members of the Board of Directors depends particularly on the objectives achievement. The Committee also reviews proposals for the remuneration and other benefits to members of the Board of Directors and submits to Supervisory Board its observations and recommendations on these proposals. The decision-making process is particularly maintained by the code of rules and in the details by the rules of procedure of the Committee, approved by the Supervisory Board.

Board of Directors

Operational management and corporate business governance are performed and ensured by the Board of Directors, which is composed of five members. Members of the Board of Directors are elected and dismissed by the Supervisory Board. The Board of Directors meets as needed, usually on a weekly basis but at least once every three months. The Board of Directors principally decides on:

- all of the Company's affairs unless they are reserved for relevant regulations, the Company's Articles of Association, the General Meeting, the Supervisory Board or the Audit Committee,
- whether to approve the election and recall procedure used to elect the Supervisory Board's members by the Company's employees as negotiated with trade unions,
- how to manage the Company's assets.

The decision-making procedure of the Board of Directors is governed by the legislation stipulating the legal relationships of the Company and by the Articles of Association of ČD. The work addresses of the members of the Board of Directors are located at the headquarters of the Company.

Members of the Board of directors as at 31 December 2018 were as follows:

Miroslav Kupec	Chairman
Radek Dvořák	Member
Michal Štěpán	Member

On 11 September 2018, the Supervisory Board of the Company recalled Pavel Krtek from the function of the Chairman of the Board of Directors and Martin Bělčík and Ludvík Urban were recalled from the function of the Board of Directors members effective from 11 September 2018. At the same time, the Supervisory Board passed the function of the Chairman of the Board of Directors to Miroslav Kupec. On its meeting held on

18 September 2018, the Supervisory Board recalled Pavel Krtek from the function of the Board of Directors member and passed this function to Radek Dvořák effective immediately.

Between the end of the reporting period and the date of approval of the Annual Report, there were changes in the composition of the Board of Directors. Michal Heřman was assigned the function of member of the Board of Directors of the Company effective from 16 January 2019 and Michal Vereš was assigned the function of member of the Board of Directors of the Company effective from 1 March 2019. Supervisory Board of České dráhy, a.s. took these decisions on its meeting held on 15 January 2019. On Supervisory Board meeting held on 13 March 2019, Patrik Horný was appointed as member of the Board of Directors of České dráhy, a.s. effective from 1 June 2019.

Members of the Board of directors as at 8 April 2019:

Miroslav Kupec	Chairman
Radek Dvořák	Member
Michal Heřman	Member
Patrik Horný	Member
Michal Vereš	Member

Audit Committee

The members of the Audit Committee are appointed and dismissed by the sole shareholder through the Steering Committee. The Audit Committee has three members. The term of office of the member of the Audit Committee is five years. The Audit Committee meetings are held as and when needed, however at least four times a year. The most significant areas of authority include:

- monitoring the procedure of preparing the financial statements and the consolidated financial statements,
- monitoring the efficiency of internal control and of the risk management system,
- monitoring the efficiency of internal audit system and ensuring its functional independence,
- monitoring the process of the mandatory audit of the financial statements and the consolidated financial statements,
- recommends the auditor to the supervisory body, duly substantiating this recommendation,
- discusses with the auditor information, statements and communications under the law.

The activities of the Audit Committee are based on Act No. 93/2009 Coll., on Auditors, as amended, and the Articles of Association of ČD, a.s. The Company's Articles of Association stipulate the Audit Committee's decision-making procedure.

The members of the Audit Committee as at 31 December 2018 were as follows:

Tomáš Vyhnánek	Chairman
Otakar Hora	Vice-Chairman
Lenka Hlubučková	Member

There was no change in the composition of the Audit Committee in 2018.

Internal Audit

Internal audit activities are within the scope of authority of the Internal Audit and Control department, which reports to the Board of Directors of ČD. The Audit Committee oversees the independence and efficiency of Internal Audit.

The activity of Internal Audit of ČD is based on the principles of the International Standards for the Professional Practice of Internal Auditing. In accordance with the standards, it is subject to an independent external assessment thanks to which the quality of the internal audit services is ensured and undergoes constant improvement. Internal Audit of ČD fulfils the role of an independent "third line of defence" of the conceptual layout of internal control levels within the framework of the "three lines of defence" principle of the organization.

To ensure better coordination, Internal Audit also communicates and cooperates with external control bodies, the external auditor and criminal law authorities

Compliance

The goal of the Compliance function is to monitor the conduct of the Company and to ensure that the conduct of the Company, its employees and the management was in accordance with legal regulations and internal Company's guidelines, with an emphasis on compliance with corporate ethics, e.g. Code of Conduct. Compliance function is performed in accordance with the rules of procedure of the several Company's departments: the Legal Department, the Department of Security and Emergency Planning, the Department of Internal Audit and Control and the Department of Personnel.

Legal Department monitors whether activities of the Company comply with the law, monitors the legislation of the Czech Republic and the EU, and it is necessary place for preparing comments in the process of internal legislation. Department of Security and Emergency Planning evaluates risks and proposes measures to eliminate crime and its consequences, and the Department of Internal Audit and Control then checks the entire system of compliance in the Company. No any significant cases of breaching laws or regulations, including bribery and fraudulent activities, were noted in 2018.

Risk Management and ISO Management Systems

The key objective of the implemented risk management system in the ČD Group is to continuously limit the adverse impact of risks on the financial results of the entire Group, i.e. at its maximum minimise the risks of revenue decrease and costs increase. The ČD risk management system is based on the set framework of Corporate Governance rules and is part of the "second line of defence" of the conceptual framework of internal control levels within the principle of all "three lines of defence" of the organization.

Risk Management Committee of ČD fulfils a significant management role in the risk management system. The Committee also provides the function of a permanent advisory body of the Board of Directors and meets at least four times a year.

A unified system for recording and evaluating risks is used within the entire ČD Group, including the same way of quantification and risk categorization, which allows providing comparable data, especially when compiling the current overall risk position. Continuous monitoring of the significant risks development and their regular evaluation, which is linked to respective approved limits, ensure that the Group Management keeps to be regularly informed about current risk position.

Significant part of the "second line of defence" are also management systems implemented in line with requirements of international ISO norms. Selected standards are binding for ČD due to the fulfilment of the requirement of legislation or based on the commitment of the ČD Board of Directors in the area of quality of offered services or emphasises the area of safety and health protection of employees.

Currently, the main activity of České dráhy, i.e. passenger transport, including the operation and maintenance of rolling stock, is certified according to ISO 9001 and OHSAS 18001. The Company is also certified in the field of energy management according to ISO 50001.

Information on Mandatory or Voluntary Codes of Corporate Governance

České dráhy, a.s., voluntarily did not adhere to and are not subject to any specific code of Company management, neither as a whole nor in individual parts. The content common for complex corporate governance codes is governed by respective internal regulations of the Company.

06

Report on the Activities
of the Supervisory Board of České dráhy, a.s., for the Year Ended 31 December 2018

In 2018 the Supervisory Board held ten ordinary, two extraordinary and one per rollam meeting in the registered office of České dráhy, a.s. and the Supervisory Board always had a quorum. The Chairman of the Board of Directors regularly participated in the meetings of the Supervisory Board while other members of the Board of Directors attended the meetings as needed.

The Company's Supervisory Board performed its activities and fulfilled the aggregate tasks in accordance with the legal regulations and the Company's Articles of Association, using all the possibilities stipulated within the Articles of Association for its supervisory activities.

As part of its supervisory activities, the Supervisory Board monitored whether the activities of the Board of Directors and of the Company are duly performed. The Board of Directors regularly informed the Supervisory Board on the current activities of the Company, the Company's economic results and financial position, financial risks and risk profile of the Company, and on the economic results of subsidiaries, particularly ČD Cargo, a.s.

At the meetings of the Supervisory Board, requested documentation and applications of the Company's Board of Directors were presented to the Supervisory Board to obtain its approval prior to specific legal acts. The Supervisory Board duly discussed and assessed all of the applications. The Supervisory Board entrusted the Board of Directors with examining the need for and the extent of investment projects in order to reduce the costs of the Company. As part of its activities, the Supervisory Board predominantly monitored the achievement of economic goals that were determined in the Company's annual business plan and required reasoning based on the Company's economic development.

The Supervisory Board states that in 2018 the Company's Board of Directors provided the Supervisory Board with the aggregate information required or necessary as well as the cooperation, and the Supervisory Board had all underlying documents necessary for its oversight activities.

As part of its oversight activities, the Supervisory Board did not identify any violation or non-fulfilment of duties set out by the relevant legal regulations, the Articles of Association, internal company regulations or instructions of the General Meeting by the Company or individual members of the Board of Directors.

In conclusion, the Supervisory Board states that it was provided with all conditions necessary for the due performance of its activities.

Prague, 15 January 2019

prof. Petr Moos
Chairman of the Supervisory Board
of České dráhy, a.s

07

Social Responsibility

Social responsibility has a long-established tradition in ČD. Despite the adoption of austerity measures, the Company, being a national carrier, continues in this trend not only in the economic and environmental sectors, but in the social area as well. České dráhy is actively involved in partnerships, education and awareness, cooperates with non-profit organizations and foundations, and supports the community in the field of culture and sports. Most of the projects the Company supports on the basis of long-term and proven cooperation. Great care is also devoted to the support of projects and events in individual regions of the Czech Republic. Towards the traveling part of public České dráhy aims to continuously improve passenger transport quality and by this way to build positive perception of the Company.

Barrier-free Travelling

ČD is practically the only carrier in the Czech Republic that enables a comprehensive network-wide traveling for passengers with disabilities, also in relation to neighbouring European countries. ČD also run a unique ordering and reservation system that allows handicapped people to order transportation and assistance at stations, on boarding, leaving or taking off the train. In 2018 total of 7,546 registered clients with disabilities used the reservation system. It is about 1,300 more than in 2017. However, the actual number of passengers with disabilities, especially wheelchair users, is estimated to be doubled. Thanks to the large number of barrier-free and easily accessible trains, many people on the wheelchair no longer require help in their journey.

- In the end of 2018 ČD took over 9 barrier-free electric RegioPanter 650 units, which extended barrier-free connections in the Plzeň region;
- In the new timetable in December 2018 the number of barrier-free Bbdgmee passenger cars was increased on the fast-train line R20 Prague - Děčín.

Important is also a cooperation between České dráhy and the National Disability Council, in terms of which, in 2018, the Company again supported the „Euroklíč" project, which aims to ensure fast and dignified access to public social and technical compensation facilities for persons with reduced mobility throughout the Czech Republic.

Barrier-free passenger cars and trains are dedicated also to others with limited mobility, such as elderly people, passengers with temporarily reduced mobility, as well as pregnant women and passengers travelling with kids in strollers. In 2018, there was an introduction of 382 connections with the section for passengers with children and children's cinema has been implemented in all 680 Pendolino units. At the end of 2018 children's cinema was available for passengers on the following routes: Prague - Plzeň - Cheb, Prague - Ústí nad Labem - Karlovy Vary - Cheb, Prague - Děčín, Prague - Pardubice - Olomouc - Ostrava - Košice a Prague - Pardubice - Brno - Břeclav - Vienna - Graz. In addition, České dráhy allows the transport of dogs and small domestic animals. Guide and assistance dogs can be transported free of charge.

Education and Awareness

Preventive Railroad Safety Train

Preventive train ("Preventivní vlak") is already a traditional project within the awareness area focused on safe behaviour in railway areas and in railway transport in general, designed for secondary school pupils and students of secondary schools and vocational schools. In 2018, the second part of the film, You won't make it! 2 ("To nedáš! 2"), prepared by Czech Railways in cooperation with the Railway Infrastructure Administration. In the film Preventive Train participants see what consequences violations of given standards and regulations may have and what behaviours they should avoid. This is multiplied by the presentation of ČD or SŽDC investigators, where videos and photographs from real accidents are shown. The culmination is the demonstration of the firefighters' work. This project is not only of great interest to schools, but also some cities are interested in the Preventive Train, which is why ČD is doing extraordinary Preventive Trains in cooperation with cities. Almost 240,000 participants have visited the Preventive Train since 2007, and this project is also planned for next year.

Junior Program

Junior program is intended to support and present all the activities aimed at children. These comprise the publication of the My Train magazine ("Můj vláček"), large Elf's Exercise Book Against Boredom ("Elfíkovy sešity proti nudě") and small themed Elf's workbooks and colouring books received by children on the board of long-distance trains for fun and to make the trip passed faster. Simultaneously, kids receive information on safe behaviour on the railway. The children's tickets on which children can write poems are very popular as well. In December 2018, the tenth edition of this competition with thousands of individual participants and dozens of teams taking part every year was launched. Children can meet the Elfík mascot on various ČD events, such as "ZOO Trip with Elfík the Elephant", the Children's day or St. Nicholas rides. The Company also supports the Run Czech series of family running events and participates in the "Sport without Prejudice" project.

ČéDés Scholarship Program

The program is designed for pupils of partner elementary schools who study high school in the field of transport. The aim is, among other things, to acquire new potential employees of the company into operating professions, i.e. customer staff and drivers.

České dráhy allows secondary school students to gain professional experience in the Company's operations. University students have the possibility to consult their bachelors or diploma theses on railway transport with the competent staff of the Company.

Other Projects in the Field of Education and Awareness, in which ČD is Involved

- The Theresienstadt Centre for Genocide Studies follows the Lustig's Train ("Vlak Lustig") project, which brings period of holocaust closer to the public.
- Revolution train – a unique drug prevention project.
- Legiovlak, which spreads the awareness of Czechoslovak legions and their merits in the creation of an independent Czechoslovak state.
- European Mobility Week – it promotes clean transport without smog. ČD was part of this extraordinary project as one of the environmentally friendly carriers. The project also included accompanying events, Prague Railway Day ("Pražský železniční den") in Smíchov and Day without cars ("Den bez aut").

Cooperation with Foundations and Non-profit Organizations

Mum, I am breathing („Maminko, dýchám“)

Since 2009, in cooperation with foundation Crossroad (Křižovatka), České dráhy have provided breathing monitors Babysence to the hospitals in the Czech Republic, as a part of the project "Mum, I am breathing" ("Maminko, dýchám"). In 2018 the monitors were handed over to hospitals in Tábor, Ostrava-Vítkovice, Stod, Prague Motol, Ostrava-Poruba, Třebíč, Slaný, Nové Město na Moravě, Prostějov and Prague Thomayer Hospital. In 9 years, the Company has supported the delivery of 279 monitors. The aim and purpose of the project is to provide the Czech hospitals and their obstetric, neonatal and ICU departments with breathing monitors for each bed and to spread awareness of infant sudden death syndrome.

Other Projects Carried Out in Cooperation with Foundations and Non-profit Organizations:

- Support of the Tereza Maxová Foundation, the Fund for Children at Risk, the Golden Hazel or the Association of SOS Children's Villages - transporting children from children's homes and socially disadvantaged families to schools, clubs, performances, sports matches etc.
- Emil Open (European games of handicapped young people) - in the Czech Republic the transport of handicapped athletes to the venue of the games and back.
- Promotion of the Movember project organized by the Cancer Men Foundation with the active involvement of ČD employees.

Community Support for Leisure, Culture and Sport

ČD Nostalgia

As part of ČD Nostalgia's agenda, České dráhy, a national carrier, defends the legacy and technical skills of our ancestors and develops it in order to convey the message to future generations. The Agenda consists mainly of nostalgic rides often connected with visiting cultural monuments and important places in the locality. In cooperation with the clients, the activities of deploying historical kits are expanded into regular weekend operations.

ČD Museum

Since 1999, České dráhy Museum in Lužná u Rakovníka has been engaged in the maintenance and operation of historic railway vehicles, which after long years of service have made the joy for the railway enthusiasts and all those interested in the history of transport. Promotional activities are also conducted in its depository and workshop in Olomouc, where excursions to schools and the public are provided.

National Day of the Railway

The exhibition of railway history and modernization of ČD fleet is designed for the whole family and takes place every year in another city. The event also includes a rich accompanying program for children and adults. In 2018 the event took place in České Budějovice with more than 30,000 visitors.

In September 2018 the traditional smaller regional railway celebrations took place all over the Czech Republic.

Other Projects in the Field of Leisure Activities, Culture and Sport

- proud partner of the Bethlehem light project.
- Support of municipalities and regions in their historical and tourism presentation activities (celebrations of town anniversaries, arrivals of important citizens, Rožnov Summer, Perštejn Manor Celebrations, Mattoni Express).
- Cinematrain ("Kinematovlak"), which, in connection with the Zlín Festival, provides free screening of fairy tales and films for children at selected railway stations. In 2018 this train had already left for the fifteenth time and was visited by almost three and a half thousand visitors. For many kids, this is the first contact with rail transport in a very playful form, because Kinematovlak is not just a screening of fairy tales in Kinovoz, but it is also a Toy Train, a car remodelled into a children's playroom and also an exhibition car where children learn something about railroad history.
- Partnership with the National Technical Museum and the Wing Wheel Foundation, where České dráhy supports the reconstruction and preservation of historical railway technology and buildings.
- Days of the European Heritage, during these days unique historical spaces in the railway stations are available for visitors.
- Train full of smiles for disabled children and children from orphanages („Vlak plný úsměvů pro postižené děti a děti z dětských domovů") at the International Children's Film Festival in Zlín, which ČD organizes in cooperation with the Union of railway employees and the management of the festival. For the physically and mentally disabled children, this is the only way to visit the festival, make a trip and meet new friends.
- Support of the Moravian-Silesian Railway Museum, which is spreading awareness in the Ostrava region.

08

Report of the Board of Directors on the Company's Business Activities and Assets

Economic Results

Profit/Loss by Principal Activity Segment

[CZK mil.]		Passenger transport	Freight transport	Asset management	Other	Elimination	Total
Revenue	2018	23,509	13,076	384	5,329	(3,201)	39,097
	2017	22,110	11,923	-	-	(64)	33,969
Purchased consumables and services	2018	(9,580)	(6,334)	(318)	(3,225)	2,821	(16,636)
	2017	(9,783)	(6,026)	(294)	(2,637)	2,189	(16,551)
Staff costs	2018	(8,901)	(4,407)	(178)	(1,253)	359	(14,380)
	2017	(8,240)	(4,076)	(170)	(1,023)	285	(13,224)
EBITDA from continued operations	2018	5,397	2,254	330	1,258	(391)	8,848
	2017	4,981	2,285	162	967	(523)	7,872
Depreciation/amortisation	2018	(4,635)	(1,235)	(85)	(366)	98	(6,223)
	2017	(4,674)	(1,190)	(92)	(303)	91	(6,168)
EBIT from continued operations	2018	762	1,019	245	892	(293)	2,625
	2017	307	1,095	70	664	(432)	1,704
Profit/loss from continued operations for the period	2018	(230)	663	262	798	(308)	1,185
	2017	(27)	743	98	551	(381)	984

The above table has been prepared based on the information in the Segment Data section of the consolidated financial statements.

The increase in sales in the passenger transport segment is due to the continuously increasing interest of rail transport among passengers. This was further supported by the introduction of state discounts for selected groups of the public (children, students and persons over 65) in the second half of 2018. The increase in sales relates to fares from domestic transport and payments from public transport orderers. On the other hand, international fare dropped in 2018 due to the termination of the Metropol train, from Budapest to Germany, and to the entry of another carrier to Prague – Vienna line.

In suburban transport, the increase in revenues is linked to the gradual expansion of individual integrated transport systems.

The increase in freight transport is mainly related to the increase in the volume of goods transported. All commodities except for hard coal and coke recorded a year-to-year increase. The most significant increase was recorded for the brown coal commodity and wood and paper products due to bark beetle calamity.

The growth in operating performance is linked to increases on the cost side, especially in the area of traction energy and repair costs. Extensive lockout activity caused by the rail infrastructure administration has led to an increase in replacement bus costs. These were compensated by the infrastructure administration but not in full, so the overall impact on the passenger transport segment is negative.

A significant trend is the increase in personnel costs caused by the boom in the labour market in the Czech Republic. This leads to an increase in the wage level in most professions and at the same time to shortages of available staff and an increase in overtime hours.

Improvement of results in the asset management segment was caused mainly by the sale of significant items of unnecessary assets in Prague Masarykovo nádraží and Praha hlavní nádraží locations.

Passenger Transport

Long-distance Transport News

At the end of 2018 a unified concept of long-distance train management has been introduced on selected routes, which ensured shorter travel times with integrated and extended services in trains. For better awareness of the passengers on the routes, the train names have been unified.

In Pendolino 680 units led under commercial name SC Pendolino a complete modernization was carried out consisting in the replacement of the interior including the seats, the installation of a visual information system, and reservation system. New luggage shelves have been installed for passengers' convenience, and children's cinema has been implemented for the youngest passengers.

Also the bistro cars were renovated. New combi steamers were installed which allows more meals to be heated at the same time and thus more passengers can be served.

In 2018 ČD joined the "#dostbyloplastu" (enough plastics) campaign. One of the implemented measures was to equip SC Pendolino unites with collecting bags for separate collection of plastic packaging.

Supplementary Services

In 2018 ČD Minibar service has been offered in long-distance trains in the same extension as at the end of 2017, that is on lines: Ex1, Ex6, Ex7, R8, R10 and R18. Based on the planned development and improvement of the ČD Minibar service and the demand of passengers, the sales portfolio was expanded. On trains, starting from Prague main station fresh stuffed baguettes and fruit and vegetable salads were included in the offer.

At the end of 2018 process of rebuilding WRmee cars to bistro cars of ARmpee type was started. These will offer 40 seats in 1st class and fully equipped kitchen including combi steamer for hot dishes preparation. The all-new interior of these cars is based on the modernized interior design of the 680 Pendolino units.

In the whole Czech republic 90 new ČD Bike rentals were opened. All of them were equipped with high-quality bicycles, children's bicycles and children's bicycle seats could be rented in selected ones. It was possible to borrow electric bikes in 16 stations and scooters in 19 stations.

České dráhy also support projects related to the construction of bike towers to promote ecological travel. Thanks to the cooperation with the operators of these bike towers passengers with a valid In Karta application may park their bikes and e-bikes of up to 50kg including luggage free of charge for the first 24h. In 2018, the number of bike towers increased, new ones were added in the following locations: Pardubice, Litoměřice, Břeclav, Poděbrady, Hodonín, Moravská Třebová.

At the end of 2018, the 7th ČD Lounge in Břeclav was opened, dedicated to T.G. Masaryk. Passengers are offered a pleasant environment with free WiFi access, mobile device charging and daily newspapers.

ČD Parking service offering discounted or free parking was extended by 21 railway stations.

On long-distance trains, ČD offers a children's cinema for the smallest passengers. This service is being offered in SC Pendolino, ČD railjet and classic units of Bmz229 type. Films change, respectively fairy tales, is performed 4 times a year.

In the regions within the ČD Ski project, ČD supports connections to partner ski resorts in Bohemia and Moravia. A total of 7 domestic ski areas have joined this project and offer a 20 % discount on the daily ski pass. Abroad, namely in Slovakia and Switzerland, partner ski resorts offer discounts on 2-day or 3-day ski passes as a support for travel by night with ČD trains and SuperCity Pendolino Košičan.

ČD automobile train provides connection between Prague and Poprad, Košice and Humenné. There are up to 5 wagons daily to transport cars and motorcycles at night connections between the Czech Republic and Slovakia. From September 2018, passengers at the Prague main station terminal can use the new check-in area with waiting room.

Medium-term Outlook

Within the so-called shoot-offs implemented by the Ministry of Transport, ČD acquired to operate set of lines Ex2 and R18 and concluded a contract for lines R13 and R14. Line R8 and operating set of lines R21, R22, R24 and R26 lines were acquired directly by competing carriers. A key challenge will be the continued negotiations between ČD and the Ministry of Transport on the offer and contract for the remaining long-distance routes for up to 10 years, in line with the rail liberalization schedule, with the conclusion of a contract for the period from 2019/20 until the end of September 2019.

ČD consistently negotiate with regional transport buyers about their requirements for the scope of transport performance and their contractual security after December 2019, when most of the existing Public Service Contracts for Railway Passenger Transport (PSO Contracts) end.

From the point of view of securing the public service obligation in 2018, it can be stated that ČD ensured regional transport for 14 buyers (all 13 regions and capital city of Prague) based on 16 PSO contracts on over 84 million train km per year. As at February 2019, ČD have concluded or are about to close contracts for securing the regional public transport obligation in the total of almost 42 million train km per year. In relation to vehicles acquired from subsidy funds (Regional Operational Programs), ČD has entered into contractual obligations for further almost 13 million train km per year.

In addition to above mentioned performance of 55 million train km per year in the area of regional transport in 2019, ČD are trying to conclude contracts with the remaining regions and the capital city of Prague valid from December 2019. Performance coming from these contracts can exceed 27 million train km per year.

Thus, from December 2019, ČD can provide a public service obligation for rail passenger transport of up to 82 million train km per year. This slight decrease compared to 2018, which represents approximately 4% of the total transport performance, is due to the continuing liberalization of the public rail passenger market.

ČD is thus successful in securing future transport performance of public regional transport, despite the continuing liberalization of the market, and in 2020 and in subsequent years it is expected to provide more than 95% of the total transport performance from 2019.

The main goal of the long-distance passenger transport strategy is, in particular, to maintain existing and acquire additional passengers and to improve all performance indicators in view of the increasing pressure of competing carriers, whether in rail or bus transport. In the coming period, from the point of view of market segments, the additional target will be to increase sales on key domestic long-distance lines and to use the opportunity for growth of international transport on key backbone lines. České dráhy will also continue to implement long-term contracts with foreign partners DB, ÖBB, ZSSK and DLB. In 2019, the passenger transport segment will mainly continue to increase the quality of travel and to customize the portfolio of services offered to customers' needs, thus continuing to maintain the trend of passenger growth as well as of revenue growth. Improvement of the railway vehicles quality and of the complementary passenger services variety, both on- and off-board, is one of the key preconditions for achieving ČD's targets in this segment, which can also bring additional revenue from international transport operations.

Trade

The sales activities were mainly focused on supporting companies' travel both within the Czech Republic and abroad, especially to Germany.

In particular, the following products were offered through direct communication, participation in tourism fairs, participation in networking club meetings and personal meetings with companies, travel agencies, music festival organizers and potential partners:

- In Karta with In Business application – year-to-year increase in sales by14 %
- Corporate ČD e-shop – year-to-year increase by 43 % in companies purchases and travel agencies registered in the Firma program
- Excursion train - year-to-year increase of customers by 50 %, total of 180 transports were carried out. Important events included the transportation of participants of the XVI. Sokol festival or to arrange transportation of athletes at the European Athletics Championships to Berlin.

10x Germany and 10x Vienna tickets were included in the offer for travel to Germany and Austria.

The trade also provided partners for the ČD Body loyalty program. The program offers its members 34 benefits from 15 partners. The number of members increased by 39 % year-to-year.

Marketing

In 2018, ČD monitored the strengthening of the reputation of the České dráhy, a.s. as the main target of the marketing communication. We introduced it as an irreplaceable, unique and national brand that is proud of its past and at the same time is ready to offer its customers comfortable rail travel in the spirit of the latest trends.

The long-term and consistent communication of the ČD brand can thus help to win even those who still refuse to accept the brand (and services).

The ČD brand is widely known, with virtually every citizen across generations having customer experience with it,. Long-term and sustained communication to the general public aims to enhance the pride and positive attributes of brand perception as a national carrier with a strong and stable background, 180 years of experience, responsible for operating the rail infrastructure in the country. We want to upgrade our activities to a social mission.

A wide range of topics has been communicated to the various target groups, which have been linked by one emotional message: „We care about you and serve you all without distinction".

For the business growth of the company and its individual products, it was necessary to focus on 2 segments of the public with the aim of:

1. GETTING NEW PASSENGERS

- In the coming years, it is crucial to win new passengers, especially from the younger generation. Therefore, full-time holiday season communication under the name Vlak'n´roll was focused on the young generation. It approached the target group with most familiar form - through online influencers, who are being watched daily on social networks and are being identified with as positive examples. With the use of selected influencers we have built up long-term relation to train travels which are becoming a natural travel habit for the next generations.
- It is also desirable to acquire new customers who use a different type of transport (cars, buses, etc.) and offer them comfortable travel by ČD trains as an ideal alternative. For this purpose, a television campaign was prepared with the subtitle „Enjoy a journey without worries", which highlights the benefits of traveling by train, such as comfort, the possibility of relaxation, refreshments and the traveling itself as a pleasant experience.

2. KEEPING EXISTING CUSTOMERS

- Equally important to gaining new clients is to keep existing ones and to keep them up to date in all areas of modern travel, from technology to new offers. For traveling abroad, Early Ticket Europe has been introduces at an attractive price relating to favourite"weekend breaks" in the spring months and trips to Christmas markets to neighbouring metropolises at the end of the year.
- The biggest novelty for all passengers was improvement of My train application (Můj vlak) and possibility to upload In Karta with a customer discount. Other benefits for existing customers include the ČD Body Loyalty Program with news in the selection of rewards.

All marketing communication was also supported on social networks. Thanks to targeted communication on Facebook, we have exceeded 50 thousand fans, we have also been intensively focused on the growing Instagram network, where we have been steadily growing. The communication was mainly connected with attractive price offers, introduction of new products and vehicles deployed, but also the image communication representing the national carrier as a modern, accommodating and dynamic company played an important role.

Operating Indicators

Number of trains dispatched in 2018*:	
Long distance passenger transport	204,824
Regional passenger transport	2,370,610
Total	**2,575,434**

* These values refer to the numbers of trains in the destination stations.

Performance of the timetable (fully measured at the departure and destination stations)	
Long distance passenger transport	77.7 %
Regional passenger transport	90.0 %
Total	**89.0 %**

Performance of the timetable (fully measured at the destination stations)	
Long distance passenger transport	68.1 %
Regional passenger transport	87.8 %
Total	**86.3 %**

Performance of the timetable with deduction of causes of delay outside the carrier (performance measured at destination station)	
Long distance passenger transport	94.55 %
Regional passenger transport	98.32 %
Total	**97.99 %**

ČD responsibility for train delays (performance measured at destination station)	
Long distance passenger transport	17.1 %
Regional passenger transport	13.8 %
Total	**14.7 %**

Similarly, to the previous years, the delay of trains caused by the railways operator was influenced mainly by the closures and construction activity on the railway infrastructure, more than half of the emergency situations of extraordinary operational cases fall into the category of other influences (extraordinary events, weather conditions).

Extraordinary events were another reason of non-compliance with timetables. The number of emergencies and incidents on the Railway Transport Route Administration infrastructure, using the MIMO system, which resulted in a shutdown of operations, amounted to 6,164 cases in 2018.

In total, the dispatching apparatus using the MIMO system dealt with 11,178 extraordinary cases (including emergency situations without stopping of traffic or delays in the territory of other states). Extraordinary events and extraordinary operational cases require the adoption of operational measures in passenger transport, except for changes in staff turnover, locomotives and trains, i.e. the introduction of rail replacement transport and, if necessary, the withdrawal of trains without compensation (spare transport capacities are not available, road freight is not viable, route prospects are earlier than possible substitution vehicles, train replaced by other, later train including extended stopping, etc.).

In 2018, we report the following operational arrangements for emergencies:

Number of trains with operational replacement transport	6,942
- of that long-distance transport	*1,306*
- of that regional transport	*5,636*
The scope of operational replacement transport [train kilometres]	94,023.6
- of that long-distance transport [train kilometres]	*22,562.8*
- of that regional transport [train kilometres]	*71,460.8*
Number of trains partially or totally cancelled without compensation	10,537
- of that long-distance transport	*1,419*
- of that regional transport	*9,118*
Share of trains that have been operationally cancelled on the total planned number of trains	0.41 %

For reasons on the part of the carrier, a total of 2,890 trains were cancelled. Of which total of 2,759 trains were operational cancels due to defects in the traction vehicles. Operating substitute transport had to be secured in 1,308 cases due to defects on the part of the carrier, of which 1,255 due to defects in the traction vehicles. For reasons beyond the carrier, a total of 7,647 trains were cancelled operatively (3,523 trains at the rail operator's fault). Due to unexpected or exceeded exclusions, it was necessary to provide operational substitute transport for 1,151 trains.

Quality Standards Assessment

The quality of service provided to the travelling public forms a substantial part of České dráhy's image as it is visible and monitored by the general public, mass media, competitive carriers and passenger transport orders of the regional and long haul transport. ČD's quality standards determine a single quality level of provided services to passengers and orders and are based on the Company's current financial abilities.

The quality management system is applied in the company České dráhy in the scope of all requirements of the standards ČSN EN ISO 9001, ČSN OHSAS 18001 and ČSN EN ISO 50001.

Measurement of compliance with quality standards is utilising inputs from the internal control, deliverables from the orderers' inspections, received complaints and suggestions and it is complemented by the measurement of the customer satisfaction in the form of a questionnaire survey, mystery shopping and specific research.

The level of compliance with required quality standards deteriorated in comparison to 2017. Failure to comply with the standard concerns the area of Timetable Accuracy in long-distance and regional transport in the following areas:

- the trains arriving within the tolerance limit (0 – 5 min.) for accurate transportation in long-distance and regional traffic
- the trains arriving within the tolerance limit (6 – 60 min.) for accurate transportation in long-distance and regional traffic

The overall delay of ČD passenger trains increased by 16 % year on year (based on the total number of minutes of delays). The aforementioned increase in delays was due to exclusions and other construction reasons on the part of SŽDC and subsequent related reasons (especially train sequence and crossing, turnover of sets, locomotives and ČD personnel). However, there was also an increase in delays also due to the fault of ČD, due to transport reasons and due to vehicle and train failure. Year-to-year, the number of cases falling under the so-called other influences (accidents, level crossing crashes, IRS intervention, etc.) increased - the proportion of these causes of delay represents half of the causes of delay (50.4 %).

The share of ČD's own fault in the above-mentioned facts is, in the long-distance transport at a tolerance of 0 - 5 minutes for punctual operation 5.4 %, in regional transport, the share in a tolerance of 0 - 5 minutes for punctual operation is 1.7 %. From this point of view, the noncompliance of these sub-indicators is crucial.

In the case of the „Information and transport documents“ standard, there was a partial failure to meet the standard for the set indicators in the following areas:

- securing the sale of tickets
- the functionality of providing information in vehicle and station information systems

Checking and selling tickets on the train, as well as providing other services, is directly influenced by the throughput of the train. During the peak periods, especially in relation to daily commute combined with the planned train shifting and the possibility of shifting up the wagons, the trains were overfilled to the extent that it was impossible to move the train stuff along the set. Also within the framework of the safety improvement measures, the train departure was prioritized to verify the safe closing of the door of the trains prior to boarding or during the journey - this is especially true for connections with a higher stop frequency.

The evaluation of the functionality of information systems in vehicles also includes the electronic reservation system, which was gradually launched in 2018. Depending on the substitutions of the ranges of long-distance vehicles, it was necessary to replace this reservation system with ticket stamping. Filling the indicators was also greatly influenced by operating replacement sets for 661 unit types (replacement sets without electronic site tagging system).

Information systems in the stations are operated by SŽDC, fulfilment is assessed as a subcontract of the system. The resulting assessment is not only linked to the audit findings, but also to the number of legitimate complaints directed to this area. There has been a slight increase in the number of changes in the announced platforms, an unsuitable approach to inconsistent publication of train delays at stations continues (cumulative anticipated delay versus gradual 10 min delay). Defects detected are discussed with the rail system operator.

Where the level of compliance with individual standards for the defined period was lower than the determined minimum value, the individual organisational units are obliged to verify the reasons, adopt measures remedying the situation and implement them immediately.

Conclusions of inspection activities for 2018 comply with the outcome of the quality standard assessment. In 2018, a total of 129,756 inspections were realised, of which 21,427 inspections were carried out at train stations and 108,329 on board of trains. Inspection activities in 2019 will focus on the verification of effectiveness of the measures adopted to meet the quality standards.

Sheet of standards		Level of requirements	2018	Meeting standards
1.	**Information and tickets**			
1.1.	**Sale and inspection of tickets on trains**			
	Sale of tickets (except for rail replacement bus service)	99%	98.97%	not met
	Quality of work of train personnel when selling tickets	99%	99.95%	met
1.2.	**Providing information on trains**			
	Providing information on trains (except for rail replacement bus service)	99%	99.66%	met
	Quality of work of train personnel	99%	99.98%	met
1.3.	**Sale of tickets at railway stations**			
	Sale of tickets in every staffed railway station or stop	99%	99.09%	met
	Alternative ticket sale	99%	99.98%	met
1.4.	**Providing information at railway stations**			
	Providing information to passengers in a staffed railway station/stop	90%	94.30%	met
	Quality of work of railway station personnel	99%	99.85%	met
1.5.	**Behaviour of the train and railway station personnel**	99%	99.96%	met
1.6.	**Information systems in trains**			
	Functionality of providing information	99%	98.86%	not met
	Quality of work of train and vehicle personnel	99%	99.94%	met
1.7.	**Information systems at railway stations**			
	Functionality of providing information	99%	98.56%	not met
	Quality of work of railway station personnel	99%	99.96%	met
2.	**Accuracy of train connections and the general principle for procedures in operational extraordinary events**			
2.1.	**Operational extraordinary events in railway transport**			met
	Reliability of the timetable	98%	98%	met
	Quality of solutions for extraordinary events	75%	85.2%	met

Sheet of standards		Level of requirements	2018	Meeting standards
2.2.	**Compliance with the planned requirements and planned train capacity**	95%	95.84%	met
2.3.	**Accuracy of compliance with the timetable of the long-haul and regional transport**			not met
	Long distance transport			
	Trains arriving within the tolerance limit (0 – 5 min.) for accurate transportation	78%	68.1%	not met
	Trains arriving within the tolerance limit (6 – 60 min.) for accurate transportation	20%	31%	not met
	Trains arriving within the tolerance limit over 60 min. for accurate transportation	2%	0.9%	met
	Long-distance transport - responsibility of the carrier			
	Trains arriving within the tolerance limit (0 – 5 min.) for accurate transportation	94%	94.6%	met
	Trains arriving within the tolerance limit (6 – 60 min.) for accurate transportation	5.5%	5.2%	met
	Trains arriving within the tolerance limit over 60 min. for accurate transportation	0,5%	0.2%	met
	Regional transport			
	Trains arriving within the tolerance limit (0 – 5 min.) for accurate transportation	91%	87.8%	not met
	Trains arriving within the tolerance limit (6 – 60 min.) for accurate transportation	8%	12.1%	not met
	Trains arriving within the tolerance limit over 60 min. for accurate transportation	1%	0.1%	met
	Regional transport – responsibility of the carrier			
	Trains arriving within the tolerance limit (0 – 5 min.) for accurate transportation	97%	98.3%	met
	Trains arriving within the tolerance limit (6 – 60 min.) for accurate transportation	2,5%	1.7%	met
	Trains arriving within the tolerance limit over 60 min. for accurate transportation	0,5%	0%	met
2.4.	**Connecting trains**			
	Compliance with border of connections planning	95%	99.98%	met
	Compliance with procedure to ensure connecting links	99%	96.87%	not met
3.	**Compliance with the contracted scope of transport and cancellation of transport connections**			
	Compliance with the contracted scope of transport	99%	99.9%	met
	Cancellation of transport connections	1%	0.1%	met

Sheet of standards		Level of requirements	2018	Meeting standards
4.	**Cleanliness of trains and railway station facilities**			
4.1.	**Cleanliness of train stations and operational facilities / availability of restrooms**	99%	100%	met
4.2.	**Cleanliness of trains**	95%	96.21%	met
5.	**Customer satisfaction survey**	100%	100%	met
6.	**Handling complaints, reimbursement of transportation costs and compensation in the event of non-compliance with service quality standards**			
6.1.	**Handling passengers' complaints**	100%	100%	met
	Filing coefficient per 100 thousand transported passengers	7	6.61	met
	Justified filing coefficient per 100 thousand transported passengers	4	1.53	met
	Average time for handling a complaint	30 days	18 days	met
6.2.	**Exercising of the right arising from the transportation contracts and refunds to passengers**	100%	100%	met
	Unjustified request rejections	none	none	met
	Loss of the request	none	none	met
	Dealing with the request in the determined period	100%	100%	met
	Average length of dealing with the request	4 weeks	4 weeks	met
7.	**Assistance provided to disabled people and people with reduced mobility and orientation**			met
	Satisfying a customer's order or requirement	99%	100%	met
	Sorting requirements by orders	99%	99.09%	met
	Functionality and technical capacity of mobile platforms	99%	99.11%	met

Repairs and Maintenance of Rail Vehicles in Passenger Transport

The maintenance and repairs of railway vehicles for passenger transport are provided by the ČD Group and by the own capacities of ČD repair centres of railway vehicles in the whole Czech Republic. Own capacities are mainly used for regular repairs, while DPOV performs periodic high-grade repairs, modernisations and reconstructions.

The renewal of railway vehicles for passenger transport that took place in 2018 was in accordance with the management plan and the investment plan.

Important projects include the complete revitalization of 680 Pendolino units, the purchase of another 41 passenger carriages for 200 km / h speed and the continuing modernization of cars purchased from ÖBB in the past. In addition, 9 units of RegioPanter electric units intended for the Plzeň Region were delivered and the 12 modern shunting locomotives delivery was almost completed.

In 2018, the railjet repairs were also completed. In addition, the modernization of the WRmee restaurant cars into the ARmpee bistros with 1 st class section was launched. Other passenger transport vehicles continued to be equipped with WLAN equipment for Internet access for passengers.

In relation with renewal and modernisation of the railway vehicles, investments in the ČD Group are also directed to the construction and modernisation of the repairment workplaces and to the railway vehicles repair and maintenance technologies. In 2018, the construction of a new railway vehicles maintenance hall in the Rakovník maintenance centre was completed and the revitalization of the maintenance centre in Prague Libeň was completed. In September 2018, a significant investment in the Maintenance Centre Praha Jih - Komplex pro soustruží kolejových podvozku was completed. At the same time, a new facility was put into operation at the České Budějovice Maintenance Centre - Stable Washing of Rail Vehicles.

Freight Transport

Mission, Vision and Goals

The strategic vision of ČD Cargo, a.s. (hereinafter referred to as ČD Cargo), is to be a stable and dynamic company with a leading position in the rail freight market in the Czech Republic and a strong position among the largest freight rail carriers in Europe. ČD Cargo will continue expanding the services provided and adapting them to be attractive not only to existing customers but also to attract new ones, as well. The strategy also includes offering new and more efficient technologies. High quality and efficiency will increase the attractiveness of rail freight transport in comparison with other modes of transport, thereby saving both the environment and human resources.

Freight Transport

In 2018, ČD Cargo trains transported 68.4 million tonnes of goods, which is 2.3 million tonnes more than in the previous year. All commodities except black coal and coke recorded a year-to-year increase. The biggest year-to-year increase was recorded for brown coal commodity. At the same time, the share of ČD Cargo in the domestic transport market also increased by 1.75% (according to gross tonne kilometres).

Revenues from freight transportation reached CZK 11,869 billion in 2018, which is CZK 636 million more than in 2017. The biggest excess of revenue was achieved in commodities wood and paper products, and the biggest year-to-year dropdown was noticed in the black coal and coke commodities.

The results in the iron and engineering products commodity were affected by the restructuring of the transport of iron ore to domestic iron works. Its transport from Ukraine dropped, where the lack of locomotives and train drivers of Ukrainian railways caused major problems in the flow of transports. Partially or completely new was the transport of ore through Croatian, Polish and German ports. In the building material commodity, the plan was fulfilled at 100% despite the growing competition of private carriers. Especially the transport of desulphurization limestone from Beroun to German power plants with the Vectron locomotive was very successful. The brown coal commodity revenue plan was exceeded. The positive result was achieved mainly thanks to the increase in transport to the Chvaletice power plant, which was carried out in Innofreight containers since May. On the other hand, the commodity of hard coal and coke recorded a decline mainly due to the market situation in these commodities. There was a gradual decline in mining both in OKD and in Poland, where the local mines prefer the Polish customers to Czechs due to coal deficiencies. Also in 2018, close cooperation with the subsidiary CD Cargo Poland continued. Change in the business policy of fuel suppliers or preferences of pipeline transport are just two of the many factors that have influenced the results in the chemical products and liquid fuels industry. It has to be said that there has been a sharp competition for many years and it is not easy to succeed in it. Therefore, much more positive is the increase in fuel transport from Germany and other business cases. Our position on the market was also strengthened by deploying our own tank wagons. The bark beetle calamity spread throughout the year from Jeseníky to other areas - the Beskydy Mountains or the Bohemian-Moravian Highlands and ČD Cargo had to respond to this extension operatively. In the course of the year, we managed to increase the park of wagons for timber hauling and thanks to all the measures adopted, the plan in timber and paper products was significantly exceeded. In the second half of the year, grain transport in transit through the Czech Republic to Germany went well, and the new line for PEPSICO beverage from Prague to Budapest can be evaluated as a success. ČD Cargo again secured the transportation of sugar beet to Hrušovany nad Jevišovkou without any problems. The situation in the other commodities was also stable. New trains from China have been launched in the combined transport segment and a new line for LKW Walter has also been launched. In the automotive commodity, due to the active trade policy implemented in conjunction with the subsidiary CD Cargo Germany, transportation increased year-to-year, while some transports were lost, for example due to extensive closure activity on the Elbe Valley line.

Railway Vehicles, Management of Vehicles

To ensure the operation of freight trains, ČD Cargo had 804 traction vehicles in evidence as of 31 December 2018, of which 65 locomotives acquired under financial leases. 692 locomotives were used for transport operations. As of 31 December 2018, the freight vehicles fleet consists of almost 21.7 thousand wagons of various types. The fleet of railway vehicles is expanded by leased vehicle in average number of 3,000 as required. Out of the total of railway vehicles, approximately 18 thousand vehicles are operable.

During 2018, 812 vehicles were scrapped due to physical wear and tear, moral obsolescence and poor technical condition, and 200 vehicles were sold for subsequent rebuilding and upgrading. These upgraded wagons are re-leased by the company to provide further services. For 2019, another 563 obsolete and technically worn freight wagons are planned to be scrapped. During 2018, 30 locomotives were physically scrapped and about 16 machines were sold to those interested for further use, especially for Nostalgia. Suitable parts from disposed vehicles have been recovered for repair purposes.

Maintenance and repairs of railway rolling stock were carried out mainly in the own rolling stock repair shops, in the České dráhy, a.s., DPOV a.s. Přerov and in external contractual capacities. In the course of the year, especially in the first half of the year, some types of freight wagons (Eas, Falls Series) did not cover business needs. During 2018 more than 5.5 thousand freight wagons underwent periodical maintenance, which was a record amount in the history of ČD Cargo.

ČD Cargo's freight vehicle repair centres continued to carry out assembly work on completed projects, such as electric traction power consumption metering, activation of multi-function displays on locomotives for displaying and transmitting traffic data, or projects to improve drivers working conditions and safety. For wagons used to transport timber, scrap, or coal, this was a continuation of the reconstruction of the combined wooden floor with a full metal one.

In 2018, the adaptation of the rail freight car fleet continued to meet the needs of the transport market with the aim of increasing the operability of vehicles in international traffic. A further 87 eight-axle 80 ft Sggrrs cars were added to the ČD Cargo freight car fleet, which are primarily intended for the transport of containers and superstructures from Innofreight company. The vehicles are used in combination with SteelPallets for the transport of cast-iron and slabs, in combination with WoodTainers and MonTainers, for the transport of brown coal and wood chips for various customers who adapt the unloading to the new technology.

Under the "Sustainability and Development of the Railway freight car fleet" contract for the supply of new freight wagons Eanos, Sgnss and Zacns in 2019-2020 was concluded in 2018.

In the area of freight wagons management in 2018, great attention was paid to the planning and use of vehicle capacity in the coming years. The aim of this effort is to minimize inefficiencies in transport and vehicle management. Regular evaluation of the utilization of vehicle capacity is put in place within the company's reporting, including the identification of key problems according to the individual freight wagons groups. Possible excess fleet capacity is used in other business for rent so that the management of the available freight wagons is maximally effective and provides additional resources to ensure its operability.

In 2018, measures were taken to improve the operational reliability of traction vehicles. One of the ways is to acquire 4 more modern interoperable locomotives of the 383 Vectron series, with the total inventory being increased to 12 machines at the turn of 2018/2019. Furthermore, contracts for the supply of other locomotives were concluded based on the results of the tenders: 10 pcs of TRAXX MS3 (with an option for another 40 locomotives); 5 diesel locomotives for light track service and shunting of Effi Shunter (with option for another 5 locomotives) and contract for modernization of 30 diesel locomotives of 742 type (with option for another 20 locomotives).

Lease of Railway Vehicles

One of the major business activities in other business is the lease of rail vehicles. In case of traction vehicles, this is a form of long-term lease to our partners, where the traction vehicles are adapted to operate in a particular territory. These traction vehicles are used exclusively outside the Czech

Republic. In the case of short-term locomotive rental, it is the deployment of locomotives for specific partial performances according to the business case and it relates to primarily the interoperable locomotives.

In the area of freight cars, we offer our customers both long-term rental and short-term or repeated rental of cars for spot and one-off operations. For these needs, ČD Cargo releases cars from its total unbound capacity. Most of the ranges of cars, including tankers, are in the offer, and there is an effort to also put into operation non-operating vehicles. These are various forms of securing the commissioning of shutdown wagons and their subsequent operation.

Free capacities of rail fleet are being used more and more frequently in the execution of business cases in cooperation with subsidiaries in the framework of expansion on foreign markets.

Expected Development, Goals and Intentions

A company without visions and goals cannot be perceived by customers or suppliers as a prospective and serious partner. ČD Cargo is a firm that has its priorities firmly established, and, more importantly, it also gradually fulfils them. The primary objective is to stabilize the position on the domestic transport market and gradually increase the proportion of transports carried out abroad. With our own licenses or through subsidiaries, but also thanks to the corresponding fleet of locomotives and cars, which we are constantly expanding, we are building a strong ČD Cargo brand on the European transport market.

A very important goal for ČD Cargo is the development of combined transport, where a great potential is perceived, especially in the continental transport of road trailers and swap bodies. Only by using synergies between rail (transporting large volumes of goods over long distances) and road transport (flexibility on first / last mile), using intermodal transport units, it is possible to progressively meet the objectives of the European Union White Paper on moving goods from road to rail. Therefore, ČD Cargo became a member of the Rail Freight Forum platform. ČD Cargo's competitive advantage is its ownership interest in two combined transport terminals in Brno and Lovosice as well as a 100% stake in ČD Logistics, a.s.

The company's economic goals include, in particular, maintaining a stable level of cash-flow, based, on ensuring the planned level of revenues from its own transport on the one hand, and on the other hand on the effective use of cost items and ensuring sufficient liquidity in the medium and long term. The long-term goal is to stabilize the profitability of the core business and other businesses.

Asset Management

Number of all buildings owned by ČD as at 1. 1. 2018	4,094
Of which entered into the Land Registry	3,489
Number of all buildings owned by ČD as at 31. 12. 2018	3,928
Of which entered into the Land Registry	3,262
The number of land plots owned by ČD as at 1. 1. 2018	13,247
The number of land plots owned by ČD as at 31. 12. 2018	*14,337
The area of land owned by ČD (m^2) as at 1. 1. 2018	62,619,477
The area of land owned by ČD (m^2) as at 31. 12. 2018	62,047,027
Difference in the number of buildings in the Land Registry, which ceased to be at LV ČD, a.s	(227)

*Increase of number of land registered in the Land Registry is due to running ÚMVŽST project with SŽDC, s.o., when the existing plots of ČD are divided into smaller plots

During 2018, there were no major transfers of real estate from ČD, a.s. compared to 2016, when expedition buildings were sold to SŽDC. The total number of ČD buildings decreased from 3,489 to 3,262 that is decrease by 227 buildings. Number of buildings in Land Registry decreased by approximately 6.5%.

Number of apartments in buildings owned by ČD as at 1 January 2018	756
- of those rented	*443*
Number of apartments in buildings owned by ČD as at 31 December 2018	659
- of those rented	*401*
Number of external rental contracts for premises and land owned by ČD	7,773
- of those number of rentals in ČD records	*17,894*
Number of internal rental contracts for premises and land owned by ČD	418
- of those number of rentals in ČD records	*3,116*
Income from external lease contracts for buildings, land and apartments (CZK mil.)	247
Income from internal lease contracts for buildings, land and apartments (CZK mil.)	17
Total external income from rental and operation of buildings (CZK mil.)	323
Income from the sale of property (CZK mil.)	650

In 2018 the most significant sales of assets took place in the Prague districts of Radlice (land plots), Smíchov (land plots), Hlubočepy (land plots), Karlín (land plots), Vinohrady, Žižkov, Braník and Nové Město (land plots), in the cities of České Budějovice, Přerov, Kladno, Jihlava, Děčín and Pardubice (real estate plots).

In 2018, repairs and investments continued to improve the working environment both in the premises of ČD's employees and in the premises that are leased to external entities. Investment costs were spent on reconstructions and modifications of administrative buildings in Jihlava, Chrudim, Prague, Kolín, Letohrad, Olomouc and Pilsen. Reconstruction of building in Veselá nad Lužnicí is coming to an end, and this year an extensive repair of the administrative building in Ústí nad Labem and Liberec will start, where ČD organizational units will be deployed after completion.

Intensive preparation for transfer of land under the road to SŽDC, s.o continues. During 2018, fieldwork was carried out in relation to land distribution and the creation of geometric plans.

Within the real estate management segment, ČD is involved in several development projects, most often through specially designed subsidiaries and affiliates. The most intensive development took place in 2018 in the locations of Masaryk Station (Masaryk Station Development, a.s.), Prague - Smíchov (Smíchov Station Development, a.s.) and Prague Main Station (CR-City a.s., CR office a.s.). Development in the part of the Žižkov Freight Station (Žižkov Station Development, a.s.) continues to be complicated due to influence of the immovable cultural monument status. In the part of the site, the project of the joint venture into which Penta entered (RailReal, a.s.) significantly accelerated. The contractual relations were updated in the main railway station in Brno and the main phase of the reconstruction of the station building was started. ČD intends to complete all development projects in the medium term.

Other Activities

Information and Communication Technology Services

ČD – Informační systémy, a.s. (hereinafter ČD-IS) provides comprehensive ICT services for the ČD Group in a long term.

ČD-IS was commissioned by the parent company to implement the strategic ČD Group project within the ICT area – modernization of information systems for passenger transport (so called MISOP). In 2018 realisation of this project entered into a second phase. At the same time, 2018 also brought other key projects that were successfully implemented, such as the project on information security and data protection, the GDPR, which was implemented in May 2018 following legislative requirements. Also worth mentioning, is the transformation of the database environment and associated SAP / HANA activities with live traffic in the ČD holding since October 2018.

The basic vision of ČD-IS is to provide complex IT / ICT services for České dráhy Group, SŽDC and other major customers operating in the transport sector. The long-term ambition is to satisfy all the needs and wishes of customers from the delivery and implementation of new systems and applications, including their integration into an existing environment, to ensure their smooth and secure operation. An integral part of ČD-IS's activities is the provision and further development of service activities across the Czech Republic. The gradual integration of individual activities, expanding professional competencies and ensuring the operational and maintenance activities of ICT fulfils one of the goals - to minimize the dependence of ČD Group on external service providers.

ČD-IS - thanks to two major acquisitions - ODP Software, s.r.o. and CHAPS spol. s r.o. has expanded the portfolio of products and competencies of the "ČD-IS Group" to become a key IT partner, both inside and outside the ČD Group. The main objective is to maintain and further develop the competencies of the ČD-IS Group companies in the area of project management, IT architecture, analysis and development of SW, operation of IT systems and applications and service activities. Enhancing the scope operation with products by ODP Software, s.r.o. and CHAPS spol. s r.o. in the area of handling of rail and bus transport, transport companies and Transport Service Integrators at the level of regions and cities and agglomerations, poses further challenges to ČD-IS, especially in the area of strengthening business-technical activities and overall capacity enhancement.

The ČD-IS Group's natural direction is also to provide comprehensive IT services to all transport service organizers.

Our core challenges, not only in 2019, include completing the modernization of the rail passenger check-in system (phase 2nd and 3rd), further development of the IDOS search engine, the development of systems for commercial and operational activities in the rail freight sector and, undoubtedly, other development projects in the field of railroad management and bus and passenger check-in.

In line with the medium-term objectives, the company will continue to strive to become one of the main suppliers and guarantors of IT solutions across the transport sector.

The ČD Group also operates on the external market of ICT services through its subsidiary ČD - Telematika a.s. (hereinafter referred to as ČD-T).

ČD-T is an important provider of wholesale internet, data and voice services and a supplier of services in the field of management, maintenance and construction of optical infrastructures. It operates its second largest optical network in the Czech Republic, which is part of the key infrastructure of the state. The portfolio of its activities is complemented by value-added services including system integration, diagnostics and data analysis or cyber security. Another dynamically developing segment of provided services is road telematics or the Internet of Things, where it has been realising solutions such as smart parking. ČD-T provides its services to demanding clients from state administration, the railway transportation segment, large companies and local internet connectivity providers.

In 2018, ČD-T continued in the GSM-R construction projects, in the construction of backbone optical routes for Vodafone and covered another five train stations with Wi-Fi technology to provide access to the public Internet network for the travellers. It provided highly modern MV Plasser & Theurer car of EM type to the Prague Public Transport Company to measure track geometry parameters. It also continued to fulfil the contract for system integration of the new technological infrastructure passport (TPI) of SŽDC customer and continued to work on the Integration Bus for MLSA project.

In the area of roads, ČD-T succeeded in the implementation of the project "Easy Transport České Budějovice - parking meters" and in the delivery of the Central Information System (CIS) for this city. An important contract was the installation, implementation and servicing of intelligent parking meters for the city of Brno. ČD-T also developed business efforts on the IoT market (smart solutions) and established cooperation with the University of West Bohemia in the development and construction of Smart Campus.

The exchange of active elements on the L2 access network, which brought broadening and improving the quality of customer service, was an important investment that was realised in 2018. This follows modern trends in Ethernet networks and increases the capacity of ČD-T transmission network.

The Company's strategy for the next period is the development of business opportunities in the České dráhy Group, the strengthening of the strategic partnership with SŽDC, the strengthening of telematics projects and the growth in revenues outside the railway infrastructure and transport sector. In 2019, major growth opportunities will be driven by growing demand for telematics services. ČD-T invests in this area for strengthening its competencies.

ČD-T will continue in strengthening partnerships with companies that provide ICT services to end-customers in business and government segments and in offering joint solutions using their own unique infrastructure and know-how.

Research and Development

The subsidiary Výzkumný Ústav Železniční, a. s. (VUZ) provides specialised professional services of railway research and development. Main customers are global manufacturers of railway machinery and equipment. In this field VUZ is recognized as renowned institution specialised in the provision of professional services and comprehensive solutions in specialised assessment, assessing compliance with the requirements of the interoperability and expert activities for railway systems and railway transportation, not only in EU countries, but also globally.

VUZ provides these services as follows

- authorised entity no. AO 258
- notified entity no. 1714 for assessing compliance with the requirements for the interoperability of the European railway system
- accredited testing laboratory no. 1462
- an accredited certification body for products no. 3149
- accredited inspection body no. 4056
- a certified entity for assessing safety under CSM (security method for evaluating and assessing risks).

In Testing Centre Velim by Cerhenice VUZ operates two railway testing circuits equipped with modern infrastructure with newly built ETCS European Security System, making the Testing Centre one of the most important and renowned testing centres for railway machinery and equipment within Europe. In terms of railway research, VUZ participates in the solution of national and international projects (TAČR, Shift2Rail). For this purpose, VUZ builds close relationships with the academic sphere, offering practical programs of theoretical knowledge.

Employment Policy

Company's priority is to work with trade unions and to maintain social peace. The collective agreement for 2018 was implemented during the year and its evaluation was carried out on a continuous basis with the social partners.

Because of the boom in the labour market, the Company launched incentive programs that motivate, both, existing and new employees in the deficient professions.

Another priority is the continuous improvement of staff qualification. Dopravní vzdělávací institut, a.s. (hereinafter DVI) provides the railway experts training area for the ČD Group.DVI holds the accreditation for the training of key occupations in the field of rail transport and for the implementation of psychological examinations. The Company also operates on an external market where SŽDC is a key customer. In May 2018, the Company received recognition from the Rail Authority for a Safety Assessment Body (SPB) in accordance with EU Regulation No. 402/2013. DVI operates in the Czech Republic through the regional centres of education and training centres. It has a wide network of classrooms, an electronic sign-in system, an iTutor e-learning education system and a team of specialists in the subject areas of education. Other areas of activity of DVI include language training, soft skills training, production of electronic lessons for presentation and e-learning.

In addition to staff training, the ČD Group also develops activities in the field of youth education. The ČéDés scholarship program is intended for pupils of partner secondary schools who are studying graduation courses with transport and technical specialization. The aim is, among other things, to acquire new potential employees of the company into operating professions, especially customer staff and train drivers. In addition, ČD allow secondary school pupils to practice in the company's operations, and university students can then consult their bachelor's or master's thesis on rail transport with competent company staff.

Recreation is also an integral part of the employment policy. This area is provided for the Group by the subsidiary ČD travel, s.r.o and ČD relax s.r.o.. Part of its offer includes domestic and international tours, wellness stays and fitness-healing stays. Its services are mainly provided to employees of the Group, who may for these services draw a contribution from the Social Fund in the cases defined in the collective agreement.

International Relations

2018 was a period of further intensive contacts with the EU institutions and the Brussels institutions in the area of applying the conclusions of the fourth railway package, especially its so-called political pillar, for ČD. The representatives of České dráhy worked on (either through the Community of European Railways - CER and directly with the institutions) applying these principles in accordance with the needs and wishes of our customers in particular.

Our representatives have been in permanent contact with the European Commission (DG MOVE) and the Permanent Representation of the Czech Republic to the EU and have advocated that the process of procurement in the public interest (whether by the state or by the regions) should be high-quality services to customers. České dráhy experience says that limiting the criteria to a price alone results in lower quality services and thus a weakening of the railways position compared to other modes of transport.

In the second half of the year, ČD's efforts also focused on promoting our interests in connection with the upcoming amendment to European legislation on passenger rights. In this area, we are making efforts both through CERs and directly with representatives in the European Parliament or the Transport Council, our aim is to assess the proposed provisions in terms of the entire EU transport services complex.

During 2018, ČD tried to present its position to European partners at several events. In October, the Chairman of the Board of Directors of ČD met in Brussels with MEPs from the Czech Republic, and in November ČD organized a "Market on Tracks" seminar in Brussels with the participation of CER representatives, the European Commission and other partners.

Our activities in the International Railway Union (UIC) focused primarily on making this organization more effective and the practical operational needs of European carriers. In the framework of the UIC statutory bodies meeting, we advocated in particular a higher involvement of UIC in EU normative processes.

At the Railway Cooperation Organization (hereinafter OSŽD), we are working with representatives of the Ministry of Transport to speed up the process of reforming this organization. The adoption of the new OSŽD Convention will bring more efficiency and greater involvement of all players, especially SŽDC.

In 2018, our largest subsidiary, ČD Cargo, successfully presented itself at Transport Logistic in Shanghai, where cooperation with Yiwu city representatives was confirmed. From this Chinese city, complete container trains are under full control of ČD Cargo. ČD Cargo actively performed at international conferences, such as the October OSŽD conference in Iran, dedicated to Eurasian transport, the Transsiberian Transport Coordination Committee in Sochi, or the meeting of V4 rail carriers, whose cooperation intensified significantly during last year.

Environmental Protection

ČD in connection with the environment protection, it monitors the impacts of its operations on individual components of the environment. ČD continually modernizes its fleet, which not only improves reliability, competitiveness, travel culture, but also enables the use of more environmentally friendly technologies. On the basis of a joint initiative "enough plastic", ČD and the Ministry of the Environment concluded on 19 June 2018 a voluntary agreement to gradually reduce the impact of disposable tableware on the environment.

Pursuant to this agreement and in accordance with the resolution of the Board of Directors, ČD undertook to limit disposable tableware coming from operational activities and to take further measures to reduce the negative impact on the environment. ČD is a socially responsible company that recognizes the importance of minimizing the use of disposable beverage or food packaging and the need for proper disposal. ČD ensures the fulfilment of legislative obligations in all areas of the environment protection.

Main areas of environmental protection:

- Water management - in accordance with the concluded contract, monitoring of drinking and wastewater is carried out. A competent person ensures monitoring and the quality of drinking and waste water is monitored, including compliance with the limits set by the state administration authorities. Furthermore, the water consumption and the amount of wastewater discharged are monitored so that the water permit limits are met. Emergency plans are continually updated in locations where harmful substances are handled.
- Waste management - on the basis of a contract for the receipt of hazardous waste and a contract for the receipt of other waste, the fulfilment of legislative obligations, including the handover of waste to the authorized person for its acceptance. The production of individual waste is continuously monitored. Take-back products are returned to the supplier.
- Chemicals and chemical products – ČD ensures compliance with legislative obligations. The Rolling Stock Department ensures regular training to ensure proper handling of chemical substances and chemical products (storage, handling - safety data sheet obligations).
- Protection of nature and landscapes - In order to ensure the safety and smoothness of the railway operation, the main attention is paid to the maintenance of the accompanying greenery on ČD plots. The ČD organizational units carry out the inventory of wooden plants and their operational safety monitoring.
- Soil and groundwater remediation – ČD ensures compliance with decisions of state administration bodies (water control authorities, Czech Environmental Inspectorate). Based on their decision to impose remedial measures, ČD carries out remediation work. The scope of remediation works is continuously discussed with state administration bodies on half-year inspection days.
- Air protection – In accordance with the valid legislation and concluded contract, measurement of emissions, efficiency of boilers and control and cleaning of flue gas paths are realized. In order to ensure that the set limits are met, stationary sources are continuously upgraded.
- Release of harmful substances into the environment – the organizational units, in cooperation with the accident breaker of the Rail Vehicles Department, coordinate the removal of the primary consequences of harmful substance leaks and negotiate with the state administration authorities on further steps.

Independent Auditor's Report
to the Shareholder of České dráhy, a.s.

Report on the Audit of the Consolidated and Separate Financial Statements

Our Opinion

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the consolidated financial position of České dráhy, a.s., with its registered office at Nábřeží L. Svobody 1222, Praha 1 ("the Company") and its subsidiaries (together "the Group") as at 31 December 2018, of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU").
- The accompanying separate financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2018, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

What we have audited
The Group's consolidated financial statements comprise:

- The consolidated statement of profit or loss for the year ended 31 December 2018;
- The consolidated statement of comprehensive income for the year ended 31 December 2018;
- The consolidated statement of financial position (balance sheet) as at 31 December 2018;
- The consolidated statement of changes in equity for the year ended 31 December 2018;
- The consolidated cash flow statement for the year ended 31 December 2018; and
- The notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

The Company's separate financial statements comprise:

- The statement of profit and loss for the year ended 31 December 2018;
- The statement of comprehensive income for the year ended 31 December 2018;
- The statement of financial position (balance sheet) as at 31 December 2018;
- The statement of changes in equity for the year ended 31 December 2018;
- The cash flow statement for the year ended 31 December 2018; and
- The notes to the separate financial statements, which include significant accounting policies and other explanatory information.

Basis for Opinion
We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council ("the EU Regulation") and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Evidence No 021.

Independence
We are independent of the Group and Company in accordance with the Act on Auditors, EU Regulation and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have not provided any prohibited non-audit services and we fulfilled our other ethical responsibilities in accordance with these regulations.

Our audit approach

Overview

Overall materiality for the Group: CZK 320 million

Overall materiality for the Company: CZK 250 million

We have identified six entities and one subgroup which were subject to our audit based on their size or level of risk.

Within the audit procedures described above we have cooperated with component auditors from Slovakia, Poland and Germany. All component auditors belong to PwC network.

The entities, for which we performed the above procedures, represent 97% of Group's profit before tax and 99% of Group revenues.

The scope of the audit provides us sufficient and suitable basis for our opinion on the separate and consolidated financial statements.

- Appropriateness of revenue recognition and disclosures of the initial application of IFRS 15 - Revenue from Contracts with Customers; and
- Appropriateness of classification and measurement of financial assets and financial liabilities as well as disclosures of the initial application of IFRS 9 - Financial instruments.

As part of designing our audit, we determined the materiality and assessed the risks of material misstatement in the consolidated and separate financial statements (together the "financial statements"). In particular, we considered where management made subjective judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance as to whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for each set of financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on each set of financial statements.

Overall Group materiality	CZK 320 million
How we determined it	0.8% of total revenue
Rationale for the materiality benchmark applied	Materiality was based on total revenues from operating activities. First we considered profit before tax as the basis for materiality calculation; however, due to its high year-on-year fluctuation, we decided to use revenues, which is a more stable indicator. We have also considered performance measurement method implemented by the Group, which is, except for revenue, also oriented towards profit before tax and EBITDA . In order to take into account all these performance indicators, we set the base for determining materiality at 0.8% of total revenues.
Overall materiality for the separate financial statements	CZK 250 million
How we determined it	1% of total revenue
Rationale for the materiality benchmark applied	Materiality was determined based on total revenues from operating activities. First, we considered profit before tax as the basis for materiality calculation; however, due to its high year-on-year fluctuation, we decided to use revenues, which is a more stable indicator.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of each set of financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Appropriateness of revenue recognition and disclosures of the initial application of IFRS 15 - Revenue from Contracts with Customers In 2018, the Company and the Group implemented IFRS 15 - Revenue from contracts with customers. For the purpose of the first application, the Company and the Group chose a retrospective modified method that does not require the restatement of comparative information. To identify all performance obligations towards customers all customer contracts are initially analysed. Subsequently, the transaction price is determined based on the relevant contract terms. The transaction price is allocated based on relative standalone selling prices when two or more performance obligations are identified within the contract. Following this, revenue for individual performance obligations is recognised in the appropriate amount either at a certain point in time, or over the contract term on an ongoing basis (it may be reported over several accounting periods). Revenue is reduced by expected penalties, rebates and other similar discounts. For more information on the application of IFRS 15, see Notes 2.5, 3.1 and 6 of the consolidated financial statements and Notes 2.3, 3.1 and 5 of the standalone financial statements.	In connection with the application of IFRS 15 we performed the following procedures: ■ Assessing the impact analysis prepared by management for different revenue streams. ■ Assessing the appropriateness of the methods used to determine the expected impact of the initial application of IFRS 15. ■ We tested, on a sample basis, timing and measurement of sale transactions within different revenue streams comparing actual results with IFRS 15 requirements. ■ Reading and assessing the adequacy and completeness of the IFRS 15 disclosures in the consolidated and separate financial statements.
Appropriateness of classification and measurement of financial assets and financial liabilities as well as disclosures of the initial application of IFRS 9 - Financial instruments. In 2018, the Company and the Group implemented IFRS 9 - Financial Instruments. For the purpose of its first application, the Company and the Group chose a retrospective modified method that does not require the restatement of comparative information. According to IFRS 9, financial assets are classified in the following three categories: financial assets at amortised cost, financial assets at fair value through profit or loss, or financial assets at fair value through other comprehensive income. For trade receivables, the Group applied the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The percentage in the amount of 0.3% that the Group and the Company	In connection with the application of IFRS 9 we performed the following procedures: ■ Assessing the appropriateness of hedge accounting documentation prepared by management. ■ Assessing the appropriateness of classification and measurement of financial assets and liabilities. ■ Assessing the reasonableness of the expected credit loss rate applied to trade receivables not overdue to calculate expected credit loss allowance. ■ Reading and assessing the adequacy and completeness of the IFRS 9 disclosures in the consolidated and separate financial statements.

Key audit matter	How our audit addressed the key audit matter
applied to trade receivables not overdue was determined based on historical data of receivables that were written off in the past and, at the same time, taking into account the macroeconomic trends expected to affect the development of the customers' payment discipline. For more information on the application of IFRS 9 see Notes 2.21, 3.1, 21 and 36 of the consolidated financial statements and Notes 2.17, 3.1, 19 and 33 of the standalone financial statements.	

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide opinion on each set of the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group and the Company operates.

The Group operates mainly in railway transportation of passengers and cargo and in the related services in the Czech Republic and Central Europe. The consolidated financial statements include six subsidiaries, ČD Cargo and ČD - Informační Systémy subgroups, encompassing further nine and six entities respectively, of which the Company alone together with ČD Cargo a.s. are the largest entities.

In our audit we determined the scope of work, which was considered necessary for individual components and the subgroup. We performed an audit of six entities and one subgroup. The audit scope definition criteria were especially size, complexity and level of risk from the perspective of audit procedures.

Audit procedures related to the entities located in the Czech Republic were performed by the group audit team, the procedures related to foreign subsidiaries were performed by components' auditors from the PwC network on the basis of the instructions submitted by the ČD Cargo subgroup audit team. We have established an adequate level of communication with the component auditors, which provided us adequate basis for our opinion. This communication included, especially, the regular exchange of information obtained during the audit and discussions of the key audit and accounting procedures.

The scope of work described above covers 99% of the Group's revenues, 97% of the Group's profit before tax and 99% of the Group's assets. We consider the remaining entities as not being significant to the Group.

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

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than both of the financial statements and auditor's report therein. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other financial and non-financial information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Group and the Company obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with laws and regulations in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group and the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Board of Directors, Supervisory Board and Audit Committee for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the financial reporting process. The Audit Committee is responsible for monitoring of the financial statement preparation process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above-stated requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or taken together, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above-stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit 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 Group and the Company's internal controls.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report on the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors, Supervisory Board and Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement showing that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of the EU Regulation, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Consistency of the Audit Opinion with the Additional Report to the Audit Committee

We confirm that the audit opinion expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 8 April 2019 in accordance with Article 11 of the EU Regulation.

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 30 August 2016 for three-year period and our uninterrupted engagement has lasted for 3 years.

Provided Non-audit Services

The non-audit services are disclosed in the Note 8 of notes to the consolidated financial statement and in the Note 7 of notes to the standalone financial statements.

PwC Network did not provide prohibited services referred to in the Article 5.1 of the EU Regulation.

8 April 2019

PricewaterhouseCoopers Audit, s.r.o.

represented by

Václav Prýmek

Milan Zelený
Statutory Auditor, Licence No. 2319

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Consolidated Financial Statements
for the Year 2018 Prepared Under IFRS as Adopted by the EU

Name of the company: **České dráhy, a.s.**
Registered office: **Nábřeží L. Svobody 1222, 110 15 Praha 1**
Legal form: **Joint Stock Company**
Corporate ID: **70994226**

Components of Consolidated Financial Statements prepared for the year 2018 under IFRS as adopted by the EU:
Statement of Profit or Loss
Statement of Other Comprehensive Income
Statement of Financial position (Balance sheet)
Statement of Changes in Equity
Cash Flow Statement
Notes to the Financial Statements

Consolidated Financial Statements were prepared on 8 April 2019.
Statutory Body of the Entity

Miroslav Kupec
Chairman of the Board
of Directors
České dráhy, a.s.

Radek Dvořák
Member of the Board
of Directors
České dráhy, a.s.

Statement of profit or loss for the year ended 31 December 2018

		Year ended 31.12.2018 CZK million	**Year ended 31.12.2017** CZK million
CONTINUING OPERATIONS			
Revenue	6	39,097	33,969
Other operating income	7	1,423	4,589
Purchased consumables and services	8	(16,636)	(16,551)
Employee benefit costs	9	(14,380)	(13,224)
Depreciation and amortisation	10	(6,223)	(6,168)
Other operating expenses	11	(656)	(911)
Profit on operating activities		**2,625**	**1,704**
Financial expense	12	(1,488)	(1,346)
Financial income	13	318	887
Share of income of joint ventures and associates	19	17	18
Profit before tax		**1,472**	**1,263**
Income tax	14	(287)	(279)
Profit for the period from continuing operations		**1,185**	**984**
Profit for the period		**1,185**	**984**
Attributable to equity holders of the parent company		1,166	964
Attributable to non-controlling interests		19	20

Statement of comprehensive income for the year ended 31 December 2018

	Year ended 31.12.2018 CZK million	**Year ended 31.12.2017** CZK million
Profit for the Period	**1,185**	**984**
Actuarial gains on liabilities related to employee benefits	5	20
Remeasurement of financial assets at fair value through other comprehensive income	17	-
Other comprehensive income for the period (items that are not subsequently reclassified to profit or loss)	**22**	**20**
Exchange differences from foreign units translation	(3)	-
Cash flow hedges	(170)	1,172
Hedge accounting expenses	36	-
Related income tax	23	(13)
Other comprehensive income / (loss) for the period (items that may be reclassified to profit or loss)	**(114)**	**1,159**
Other comprehensive income / (loss) for the period after tax	**(92)**	**1,179**
Total of comprehensive income for the period	**1,093**	**2,163**
Attributable to equity holders of the parent company	1,074	2,143
Attributable to non-controlling interests	19	20

Statement of financial position (balance sheet) as at 31 December 2018

		31.12.2018 CZK million	31.12.2017 CZK million
Property, plant and equipment	15	70,509	69,720
Investment property	16	611	666
Goodwill	17	141	141
Intangible assets	17	989	917
Investments in joint ventures and associates	19	200	194
Deferred tax asset	14	29	26
Trade receivables	21	1	-
Other financial assets	22	633	945
Other assets	23	5	8
Total non-current assets		**73,118**	**72,617**
Inventories	20	1,657	1,538
Trade receivables	21	3,611	3,270
Prepaid income tax		2	17
Other financial assets	22	800	226
Other assets	23	2,206	899
Cash and cash equivalents	32	3,438	7,801
Total current assets		**11,714**	**13,751**
TOTAL ASSETS		**84,832**	**86,368**
Share capital	24	20,000	20,000
Reserve and other funds	24	17,241	17,200
Retained earnings		2,183	1,121
Equity attributable to the equity holders		**39,424**	**38,321**
Non-controlling interests	18	613	664
Total equity		**40,037**	**38,985**
Loans and borrowings	25	22,418	29,672
Deferred tax liability	14	1,683	1,581
Provisions	26	607	660
Other financial liabilities	28	519	534
Other liabilities	29	116	395
Total non-current liabilities		**25,343**	**32,842**
Trade payables	27	5,886	4,835
Loans and borrowings	25	9,051	5,332
Income tax liabilities		34	27
Provisions	26	851	1,082
Other financial liabilities	28	278	433
Other liabilities and contract liabilities	29	3,352	2,832
Total current liabilities		**19,452**	**14,541**
TOTAL LIABILITIES		**84,832**	**86,368**

Statement of changes in equity for the year ended 31 December 2018

	Share capital in CZK million	Reserve and other funds*) in CZK million	Cash flow hedging reserve in CZK million	Hedge accounting expenses in CZK million	Remeasurement fund from assets at fair value in other comprehensive income in CZK million	Retained earnings in CZK million	Equity attributable to equity holders of the Parent Group in CZK million	Non-controlling interests in CZK million	Total equity in CZK million
Balance as at 1 January 2017	**20,000**	**16,809**	**(821)**	**-**	**-**	**190**	**36,178**	**644**	**36,822**
Comprehensive income									
Profit for the period	-	-	-	-	-	964	964	20	984
Other comprehensive income for the year	-	-	1,159	-	-	20	1,179	-	1,179
Comprehensive income for the year - total	**-**	**-**	**1,159**	**-**	**-**	**984**	**2,143**	**20**	**2,163**
Transactions with owners									
Allocation to the reserve fund	-	53	-	-	-	(53)	-	-	-
Total transactions with owners for the period	**-**	**53**	**-**	**-**	**-**	**(53)**	**-**	**-**	**-**
Balance as at 31 December 2017	**20,000**	**16,862**	**338**	**-**	**-**	**1,121**	**38,321**	**664**	**38,985**
Impact of the implementation IFRS 9 and IFRS 15	-	-	302	(300)	93	(52)	43	(5)	38
Balance as at 1 January 2018	**20,000**	**16,862**	**640**	**(300)**	**93**	**1,069**	**38,364**	**659**	**39,023**
Comprehensive income									
Profit for the period	-	-	-	-	-	1,166	1,166	19	1,185
Other comprehensive income for the year	-	(3)	(147)	36	17	5	(92)	-	(92)
Total of comprehensive income for the period	**-**	**(3)**	**(147)**	**36**	**17**	**1,171**	**1,074**	**19**	**1,093**
Transactions with owners									
Allocation to the reserve fund	-	62	-	-	-	(62)	-	-	-
Dividends paid	-	-	-	-	-	-	-	(12)	(12)
Impact of change in the consolidation group	-	(19)	-	-	-	5	(14)	(53)	(67)
Total transactions with owners for the period	**-**	**43**	**-**	**-**	**-**	**(57)**	**(14)**	**(64)**	**(79)**
Balance as at 31 December 2018	**20,000**	**16,902**	**493**	**(264)**	**110**	**2,183**	**39,424**	**613**	**40,037**

*) Reserve and other funds include Share premium of CZK 16,440 million (as at 1 January 2017, 31 December 2017 and 31 December 2018)

Cash flow statement for the year ended 31 December 2018		Year ended 31.12.2018 CZK million	Year ended 31.12.2017 CZK million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax		**1,472**	**1,263**
Dividend income	7	-	(6)
Financial expenses - interest	12	1,048	1,168
Profit from the sale and disposal of non-current assets	7	(503)	(421)
Profit from sale of joint venture		-	(40)
Depreciation and amortisation of non-current assets	10	6,223	6,168
(Reversal of impairment) / Impairment of property, plant and equipment, property investments and assets held for sale	11	(131)	170
Increase in allowance for trade receivables	11	14	13
Change in provisions	26	(284)	(51)
Foreign exchange rate gains (losses)		91	(703)
Other		(27)	(116)
Cash flows from operating activities before changes in working capital		**7,903**	**7,445**
Decrease (increase) in trade receivables	21	(485)	(61)
Decrease (increase) in inventories	20	(145)	(148)
Decrease (increase) in other assets	22, 23	(1,450)	(257)
Increase (decrease) in trade payables	27	1,248	506
Increase (decrease) in other liabilities and contractual liabilities	28, 29	173	(5)
Total changes in working capital		**(659)**	**35**
Cash flows from operating activities		**7,244**	**7,480**
Interest paid	12	(1,085)	(1,130)
Income tax paid	14	(140)	(115)
Dividends received	7	-	6
Net cash flows from operating activities		**6,019**	**6,241**

CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment	15	(7,053)	(4,416)
Proceeds from disposal of property, plant and equipment	7	800	513
Payments for investment property	16	(1)	(2)
Payments for intangible assets	17	(338)	(332)
Acquisition of subsidiaries and joint ventures, net of purchased cash		-	(348)
Net cash flows from the sale of joint venture		-	59
Received interest	13	30	22
Net cash flows used in investment activities		**(6,562)**	**(4,504)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings	25	1,239	70
Repayments of loans and borrowings	25	(4,052)	(824)
Payment of financial leasing installments	25	(933)	(836)
Impacts of changes in equity		(62)	-
Dividends paid		(12)	-
Net cash flows from financing activities		**(3,820)**	**(1,590)**
Net increase (decrease) in cash and cash equivalents		**(4,363)**	**147**
Cash and cash equivalents at the beginning of the reporting period		7,801	7,654
Cash and cash equivalents at the end of the reporting period	**32**	**3,438**	**7,801**

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1. General Information

1.1. General information

České dráhy, a.s. (hereinafter "the Company" or "ČD") was established on 31 March 2002 on the basis of Act 77/2002 Coll. about the joint stock České dráhy, a.s., the State Organisation Railway Route Administration and the Changes to the Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll. as amended. On 1 January 2003, the state organisation České dráhy, a.s., discontinued its activities and operations and the state organisation Railway Route Administration ('SŽDC') was formed as its legal successors. As of that date, the Company was recorded in the Register of Companies.

The sole shareholder of the Parent Company is the Czech Republic. The Parent Company's share capital is CZK 20,000 million. The Company's registered office is located at Nábř. L. Svobody 1222, Prague 1.

The Company is the Parent Company of the České dráhy Group (the 'Group'). The consolidated financial statements have been prepared as of and for the year ended 31 December 2018. The reporting period is the calendar year, i.e. from 1 January 2018 to 31 December 2018.

1.2. Principal Operations

The Group's main bussines activity is operating railway passenger transportation. Other Group activities includes mainly the administration of immovable assets. In addition, the Group is engaged in other activities relating to its principal business activities.

The assets comprising the railway routes are in the ownership of the State, not in the ownership of the Group. The right of management of these assets rests with SŽDC. SŽDC secures the operability and servicing of the railway routes.

1.3. Definition of the Consolidation Group

1.3.1. Entities Included in the Consolidation

Name of the entity	Registered office	Corporate ID	Ownership percentage *)	Degree of influence
České dráhy, a.s.	Prague 1, Nábřeží L.Svobody 12/1222	70994226		
ČD - Telematika a.s.	Prague 3, Pernerova 2819/2a	61459445	70,96	Control
Výzkumný Ústav Železniční, a.s.	Prague 4, Novodvorská 1698	27257258	100	Control
DPOV, a.s.	Přerov, Husova 635/1b	27786331	100	Control
ČD Cargo, a.s.	Prague 7, Jankovcova 1569/2c	28196678	100	Control
ČD - Informační Systémy, a.s.	Prague 3, Pernerova 2819/2a	24829871	100	Control
Dopravní vzdělávací institut, a.s.	Prague 8, Prvního pluku 621/8a	27378225	100	Control
ČD travel, s.r.o.	Prague 1, 28. října 372/5	27364976	51,72	Control
CD Cargo Germany GmbH	SRN –Frankfurt n. Moh., Kaiserstrasse 60	HRB 73576	100	Control
CD Cargo Austria GmbH	Rakousko – Wien, Rotenturmstraße 22/24	FN 291407s	100	Control
CD Cargo Poland Sp. z o.o.	Polsko-Varšava Ul. Grzybowska nr. 4, lok. 3	140769114	100	Control
ČD Cargo Slovakia, s.r.o.	Slovensko – Bratislava, Seberíniho 1	44349793	100	Control
Auto Terminal Nymburk, s.r.o.	Prague 7, Jankovcova 1569/2c	24234656	100	Control
ČD Logistics, a.s.	Prague 1, Opletalova 1284/37	27906931	100	Control
Terminal Brno, a.s.	Brno, K terminálu 614/11	28295374	66,93	Control
ČD-DUSS Terminál, a.s.	Lovosice, Lukavecká 1189	27316106	51	Control
Smíchov Station Development, a.s.	Prague 8, U Sluncové 666/12a	27244164	51 **)	Joint control
Žižkov Station Development, a.s.	Prague 8, U Sluncové 666/12a	28209915	51 **)	Joint control
Masaryk Station Development, a.s.	Prague 1, Na Florenci 2116/15	27185842	34,00	Significant
JLV, a.s.	Prague 4, Chodovská 228/3	45272298	38,79	Significant
RAILLEX, a.s.	Prague 5, Trnkovo náměstí 3, čp. 1112	27560589	50	Joint control
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6	45270589	30	Significant
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9	60793171	50	Significant
ODP-software, spol.s r.o.	Prague 3, Pernerova 2819/2a, Žižkov	61683809	100	Control
ČD relax s.r.o.	Prague 1, 28. října 372/5	05783623	51,72	Control
Ostravská dopravní společnost - Cargo, a.s.	Ostrava, U Tiskárny 616/9	05663041	20	Significant
CHAPS spol. s r.o.	Brno, Bráfova 1617/21	47547022	100	Control
ČSAD SVT Prague , s.r.o.	Prague 8, Křižíkova 4-6	45805202	100	Control
SVT Slovakia s.r.o.	Banská Bystrica, Partizánska cesta 97	36620602	80	Control
INPROP, s.r.o.	Žilina, Rosinská cest 12	31609066	100	Control

*) Ownership percentage is the same as the voting rights percentage
**) In accordance with the Articles of Association of these entities, it is necessary to have the unanimous consent of the parties that share the control.

Name of the entity	Principal activity
ČD - Telematika a.s.	Provision of telecommunication services, software and advisory services.
Výzkumný Ústav Železniční, a.s.	Research, development and testing of rail vehicles and infrastructure facilities.
DPOV, a.s.	Inspections, repairs, modernisation and renovation of railway vehicles
ČD Cargo, a.s.	Freight railway transportation.
ČD - Informační Systémy, a.s.	Provision of telecommunication services, software and advisory.
Dopravní vzdělávací institut, a.s.	Organisation of professional courses, training and other educational events, language courses.
ČD travel, s.r.o.	Travel agency and provision of travel services.
CD Cargo Germany GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping.
CD Cargo Austria GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping.
CD Cargo Poland Sp. z o.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping.
ČD Cargo Slovakia, s.r.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping.
ČD Logistics, a.s.	Shipping.
Terminal Brno, a.s.	Operations of the combined transport terminal in Brno.
ČD-DUSS Terminál, a.s.	Operations of the container terminal in Lovosice.
Auto Terminal Nymburk, s.r.o.	Shipping and technical services in transportation.
Smíchov Station Development, a.s.	Design, renovations, modernisation and development of the Smíchovské train station locality.
Žižkov Station Development, a.s.	Design, renovations, modernisation and development of the Žižkov train station locality.
Masaryk Station Development, a.s.	Development of the Masaryk railway station locality
JLV, a.s.	Provision of accommodation and catering services
RAILLEX, a.s.	Handling of cargo and technical services in transportation
BOHEMIAKOMBI, spol. s r.o.	Mediation of services in transportation except for transportation by own vehicles
Ostravská dopravní společnost, a.s.	Operation of railway transportation and lease of railway vehicles and railway wagons
ODP-software, spol.s r.o.	Development and support of mobile POS systems for trains passengers service and systems with contactless cards
ČD relax s.r.o.	Travel agency activity with a specific focus only on fitness and recovery stays for employees of ČD Group
Ostravská dopravní společnost - Cargo, a.s.	Operation of rail transport and rental of railway vehicles and railway wagons
CHAPS spol. s r.o.	Development of IT applications and systems, their maintenance and operation
ČSAD SVT Praha, s.r.o.	Development and operation of information systems for transport
SVT Slovakia s.r.o.	Development and operation of information systems for transport
INPROP, s.r.o.	Plans and solutions of information system for inventory management

The consolidation Group is hereinafter referred to as the “Group”.

1.3.2. Changes in the composition of the Group

During the year 2018, the Parent Company increased its share in ČD - Telematika a.s., of 1.78 %, to the total of 70.96%. The acquisition price was CZK 30 milion.

On 28 February 2018, the Parent Company increased its share in DPOV, a.s., by CZK 28 milion. The ownership percentage did not change.

On 13 February 2018, the company ČD Cargo, a.s., as a sole shareholder of the company CD Cargo Slovakia, s.r.o., during the General Meeting, it was decided to increase the share capital of its subsidiary by the amount of CZK 69 milion (EUR 2,7 milion). In June 2018, the company ČD Cargo a.s., bought from the Company AWT Čechofracht, a.s., 22% of the shares of its subsidiary ČD Logistics, a.s., for CZK 32 milions. ČD Cargo a.s., became the 100% owner of this company.

Acquisition of subsidiaries in 2017

On 24 October 2017, the Company ČD - Informační systémy acquired a 100% share in CHAPS spol. s r.o., which deals with the development, maintenance and operation of IT applications and systems in the field of passenger transport. Thanks to this acquisition ČD - Informační systémy gained shares in the companies owed by CHAPS. In particular, a 100% share in ČSAD SVT Praha, s.r.o., a 100% share in INPROP, s.r.o. (Slovakia) and an 80% share in SVT Slovakia s.r.o. (Slovakia).

This acquisition is a strategic step for ČD - Informační systémy and the Group as a whole. CHAPS has long been operating and developing key customer check-in systems for the Group. As such, the Group has acquired the strategic know-how, licenses and source codes of all customer check-in applications in the passenger transport segment of the national carrier.

2. Significant Accounting Policies

2.1. Statement of Compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

2.2. Basis of preparation of the consolidated financial statements

The consolidated financial Statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments.

Accounting policies are consistent in the reporting period with the accounting policies used in previous periods, if not stated otherwise.

The preparation of consolidated financial statements in accordance with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying accounting policies. Areas with a high degree of judgment or complexity, or areas where they are in terms of these financial statements, the significant assumptions and estimates are published in the Note 4.

2.3. Basis of consolidation

The consolidated Financial Statements incorporate the financial statements of the Parent Company and entities it controls (its subsidiaries). Control is achieved when the Group has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control stated above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- The size of the Group's holding of voting rights relative to the size and dispersal of holdings of the other vote holders;
- Potential voting rights held by the Group, by other voting rights holders or by other parties;
- Rights arising from other contractual arrangements;
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ends when the Group loses control of the subsidiary. Specifically, the income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

The profit or loss and each component of other comprehensive income are attributed to the owners of the Parent Company and to the non-controlling interests. The total comprehensive income of subsidiaries is attributed to the owners of the Parent Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the company.

2.4. Business combinations

Acquisitions of business are being accounted for based on the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values at the acquisition date of the assets transferred by the Group, the Group's liabilities arising against the former owners of the target firm and the shares issued by the Group in exchange for control of the target firm. Acquisition-related costs are recognised in profit or loss.

Identifiable assets acquired and liabilities assumed are recognised at their fair value, with the following exceptions:

- Deferred tax assets or liabilities and assets and liabilities related to arrangements of the employee benefits are recognised and measured in accordance with IAS 12 Income Taxes, or IAS 19 Employee Benefits,
- Liabilities or equity instruments related to agreements on share-based payments in the target company or agreements on share-based payments are replacing the agreement on share-based payments in the target company at the date of acquisition are measured in accordance with IFRS 2 Share-based Payment.

Goodwill is measured as the excess of the sum of the consideration transfer of the amount of non-controlling interests in the target company and the fair value of any Group's previously held equity interest in the target company over the fair value of identifiable assets acquired and liabilities assumed, measured at the date of acquisition. If, after reassessment, the share of the fair value of the identifiable net assets of the target company exceeds the aggregate of the consideration transferred, the amount of any non-controlling interest in the target company and the fair value of any Group's previously held equity interest in the target company, the amount of surplus is immediately recognised in profit or loss as a bargain purchase profit.

Non-controlling interests, which represent current ownership interests of third parties and entitle the holders to the proportionate share of the target company's net assets in case of liquidation may be initially measured at fair value or proportionate share of non-controlling interest on the recognised identifiable net assets acquired. The measurement basis can be selected individually for each specific acquisition. Other types of non-controlling interests are measured at fair value or, if practicable, on the basis set by IFRS 13.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at fair value at the acquisition date and becomes part of the consideration transferred in a business combination. Changes in fair value of contingent consideration classified as changes within the "measurement period" shall be made retrospectively with a corresponding adjustment to goodwill. Changes within the "measurement period" are changes that arise from additional information obtained during the "measurement period" (which may not exceed one year from the acquisition date) about facts and circumstances that existed as of the acquisition date.

Subsequent accounting for changes in the fair value of contingent consideration, that cannot be considered as changes within the measurement period, depends on the classification of the contingent consideration. Contingent consideration that is classified as equity is not remeasured at the date of the subsequent financial statements and its subsequent payment is recognised in equity. Contingent consideration that is classified as an asset or liability is revalued at the date of the subsequent financial statements in accordance with relevant standards: IFRS 9 – Financial instruments or IAS 37 – Provisions, Contingent Liabilities and Contingent assets. Related gains or losses are included to profit or loss.

If the business combination is achieved in stages, the shares in the acquired entity, which the Group owned earlier, are revalued to fair value at the acquisition date (i.e. at the date when the Group obtains control) and any resulting gain or loss is recognised in profit or loss. Amounts related to holding shares in the target company before the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, if such an approach was appropriate in the event of the sale of these shares.

If the initial accounting for a business combination is not finalised by the end of the reporting period in which the combination took place, the Group presents the outstanding items at their provisional amounts. Provisional amounts are adjusted during the "measurement period" (see above) or additional assets liabilities are recognised, in order to reflect new information obtained about facts and circumstances that existed at the acquisition date and which, if it were known, affected the amounts provided at that date.

2.5. Revenue recognition

2.5.1. Revenue from contracts with customers

In 2018, the Group has implemented IFRS 15 – Revenue from contracts with customers. For the purposes of its initial application, the Group has chosen a modified retrospective modified method that does not require the adjustments of comparable information (2017 in these financial statements).

In the first phase, all contracts with customers are analysed with the purpose of identifying all performance obligations to the customer. Subsequently, the transaction price is determined and, in the case of several identified performance obligations, is allocated according to their relative standalone selling prices. Consequently, revenue is recognised at the appropriate amount for each performance obligation at a certain point in time or over time of the contract term (it may be recognised over several reporting periods). Revenue is reduced for estimated customer returns, rebates and other similar discounts.

Revenue from personal transportation is recognised as at the first day of the ticked validity.

Revenue from the sale of services is recognised at the time when the service was provided, or on linear basis throughout the period of time, if the services are provided by an undetermined number of actions during the determined period of time. The received payment is first recognised as a contract liability that is subsequently released to revenue as the service is provided to a customer.

Revenue related to transportation services is recognised in the period in which the services are provided in reference to the stage of completion of the service contract (e.g. period of validity of long-term travel documents).

Information about revenue from passanger transportation is transferred to the accounting from the information system of passenger traffic, which keeps track of receipts in cash, receipts paid by credit cards, revenue from e-shop and other forms of income. On the other hand, revenue from prepaid products is accounted for over time. Prepaid products include, for example, annual tickets, annual employee fare, kilometre bank, loyalty programme, etc.

In contrast with domestic transportation, international transportation also includes the settlement process of receivables and liabilities to foreign carriers and sellers of international tickets. In some cases, such settlements may be delayed by a few months. For this reason the revenue is accrued for as at the time the service is provided based on the information available to the Group.

In addition to selling tickets and similar documents, a significant part of revenue from transportation includes revenue from the usage of passenger cars in the RIC mode („Regolamento Internazionale delle Carrozze", based on the Convention for the reciprocal use of wagons in international traffic), where there is a settlement once a year. Therefore, in this case revenue is also recognised based on the estimate.

Payments from ordering parties such as the Ministry of Transportation and regions are key revenues and are included in passenger transportation. These revenues are accounted monthly in accordance with annually approved orders and the volume of services provided.

Revenue from domestic and international freight transport is recognised when the service is rendered based on the stage of completion of an individual transaction determined by the actual number of days/kilometres of transportation spent/covered in the reporting period relative to the total number days/kilometres of transportation.

Traction price has both a fixed and variable consideration. The fixed part represents the transaction price without consideration of fees and penalty fees. If the price for services rendered by the Group is higher than the received payment for the service, a contract asset is booked. If the payment for the services is higher than the price of services provided, a contract liability is booked. A variable consideration exists in the form of fees and penalty fees connected with the failure of the Company to fulfil the customer contract i.e. breach of time schedule, damages to the transported goods, etc. In the case of the variable consideration, revenue is recognised to the extent to which it is highly probable that the revenue will not be subject to its future reversal.

Subsequently, sales estimates are corrected for adjustments resulting from the source data for billing shipments in the Transit Sales Rebate (OPT) information system and the data is sent for billing to the SAP system. The source data includes, among other things, information about when the service is performed or delivered.

In 2017, revenues were measured at the fair value of the consideration received or receivable and reduced for estimated customer returns, rebates and other similar discounts.

Revenue from the sale of services was recognised when the services were provided to the counterparty. Revenues related to transportation services were recognised in the period in which the services were provided in reference to the stage of completion of the service (e.g. period of validity of long-term travel documents). Accrued revenues were recognised linearly because the Group had no reliable information about services consumed. Due to the high number of customers using these services, management of the Group did not indicate significant variation between revenues recognised and actually consumed services.

2.5.2. Other income

Dividend income is recognised when there is the right to receive payment and the receipt of such payment is probable.

Interest income is recognised when it is probable that the economic benefits will flow into the Group and the amount of income can be measured reliably. Interest income is accrued for on a timely basis, by reference to the principal outstanding and at the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

2.6. Lease

A lease is classified as a finance lease whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.6.1. The Group as a Lessor

Amounts due from finance lessees are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2.6.2. The Group as a Lessee

Assets held under finance leases are initially recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the financial position statements as a finance lease obligation.

Lease payments are apportioned between finance expenses and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

2.6.3. Sale and leaseback

A sale and leaseback transaction involves the sale of an asset and leaseback of the same asset. Lease payments and sale prices are usually interdependent because they are negotiated in a single transaction. The accounting treatment of a sale and leaseback transaction depends on the type of lease, which is part of the transaction.

If the leaseback is a finance lease, the lessor provides cash to tenants with the leased asset as a security of the loan.

For this reason, excess proceeds from a sale where the sale price exeeds the asset's carrying amount is not considered as income. The Group recognises recoveries as a financial liability (debt), which, together with interest, is amortised by lease payments.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognised immediately. The exception is when the loss is compensated by future lease payments set out below market price. In this case, the loss must be postponed and offset in relation to the lease payments over the intended period of use of the asset.

2.7. Foreign Currencies

Each entity in the Group determines its functional currency according to the environment in which it operates. Given the economic substance of transactions and the environment in which the Group operates, the presentation currency used in the consolidated financial Statements is the Czech crown (CZK). The Czech crown is also the functional currency of the Parent Company.

Transactions denominated in foreign currencies are recorded at the fixed exchange rate announced by the Czech National Bank. If the exchange rate does not significantly change over time, the Group uses the foreign exchange rate promulgated as of the first day of the period for a longer period of time – usually one month. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the exchange rate of the Czech National Bank as of that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not recalculated.

Exchange differences are recognised in profit or loss except for exchange differences on transactions entered into in order to hedge certain foreign currency risks. Such foreign exchange rate differences are recognised directly in equity and reclassified to profit or loss when the hedged underlying item is settled.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into CZK using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

2.8. Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.9. Government Grants
Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets, are recognised in the statements of financial position as a reducion of the cost of those non-current assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support without future related costs are recognised in profit or loss in the period in which they become receivable.

2.10. Employee Benefit Costs
Employee benefit costs predominantly include payroll costs, payments by the employer for deductions of statutory health insurance, social security, pension insurance, and the costs of other employee benefits resulting from the collective agreement.

The employee benefit obligations and provisions reported in the statements of the financial position represent their present value as adjusted for unrecognised actuarial gains and losses. Additions to these obligations and provisions are reported as part of expenses when the employees render services for which they will have the right to such benefits.

Provision for long-term employee benefits is measured at the present value of the future cash outflows used to settle those obligations.The discount rate used is a market rate of return on government bonds at the balance sheet date, as there is no developed market for high quality corporate bonds denominated in Czech crowns. The currency and terms of such bonds are consistent with the currency and timing of those long-term benefits. The value of this provision is determined annually based on reports prepared by independent qualified actuaries. Gains or losses arising from changes in actuarial assumptions for post employment benefits at retirement are included in other comprehensive income: changes in the provision for other benefits are included in profit or loss.

2.11. Taxation
The income tax includes current tax payable and deferred tax.

2.11.1 Current Tax Payable
Current tax calculation is based on taxable profit for the year. The taxable profit differs from the profit as reported in the consolidated statements of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax payable is calculated using tax rates that have been enacted by law or announced by the end of the reporting period.

2.11.2 Deferred Tax
Deferred tax is recognised based on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used to calculate taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2.11.3. Current Tax Payables and Deferred Tax for the Period
Current and deferred tax are recognised as expenses or income in profit or loss, except when they relate to items that are recognised outside of profit or loss (whether in comprehensive income or directly in equity), in which case the tax is also recognised outside of profit or loss.

2.12. Property, Plant and Equipment
Property, plant and equipment are carried at cost less impairment, and by accumulated depreciation in the case of property and equipment. Freehold land is not depreciated.

Assets in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. Railway vehicles are depreciated using the components depreciation. Freight wagons and traction vehicles without components are depreciated to the estimated residual value. Components of these freight railway vehicles are depreciated based on their performance, according to the actual kilometres ran. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

Assets purchased through finance leases are depreciated over their expected useful lives on the same basis as owned assets. If there is no sufficient certainty that the lessee will acquire ownership of an asset at the end of the lease, this asset is depreciated over the lease period if it is shorter than the anticipated useful life.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The Group capitalises major (periodical) repairs of passenger rail vehicles. The costs of repairs are recorded as a separate asset item (component) and are depreciated over the useful life of repairs. The depreciation period of the components is determined for the series of rail vehicles and the type of components (periodical repairs – major, significant and overhaul). The average period of depreciation is six years.

2.13. Investment Property
Investment property, namely property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, the Group measures its investment property using the cost model; the carrying amounts are decreased by cumulative depreciation and impairment.

2.14. Intangible Assets
Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful lives of assets. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from the derecognition of an intangible asset, are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

2.15. Goodwill
Goodwill is initially measured at the amount corresponding to the difference between the consideration paid plus any non-controlling interest and fair value of any previously held interest and net amount of identifiable assets acquired and the liabilities assumed. Goodwill, which has arisen from the acquisition of subsidiaries, is included in intangible assets. Goodwill relating to associates and joint ventures is recognised in the balance sheet as part of investments in joint ventures and associates. After initial recognition, goodwill is stated at cost less accumulated impairment losses. Recognised goodwill is tested for impairment. This test is performed at least once a year or more if there are indicators of a possible impairment of goodwill. At the acquisition date, goodwill is allocated to those cash-generating units that are expected to benefit from the synergies resulting from the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are substantially independent of cash inflows from other assets. The impairment of goodwill is set by determining the recoverable amount of those cash-generating units to which goodwill has been allocated. If the recoverable amount of such cash-generating unit is lower than its carrying amount, an impairment is recognised. Recognised goodwill impairment losses cannot be reversed later. In the case of a partial sale of a cash-generating unit to which goodwill has been allocated, the carrying amount of goodwill related to the sold part of the cash-generating unit is included in profit or loss on disposal. The amount of derecognised goodwill is determined on the basis of the relative values of the sold part of the cash-generating in comparison with the part that remains in the Group's ownership.

2.16. Impairment of Tangible and Intangible Assets
At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether

there is any indication of impairment. If any such indication exists, the recoverable amount of such assets are estimated in order to determine the extent of the possible impairment losses. If it is not possible to determine the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are also allocated to individual cash-generating units, if a reasonable and consistent basis can be determined for allocation. Otherwise, corporate assets are allocated to the smallest group of cash-generating units for which it is possible to determine a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least once a year and when there is any sign of potential impairment.

The recoverable amount is equal to the fair value less costs to sell or value in use, whichever is higher. In assessing value in use, the future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which have not been adjusted with estimates of future cash flows.

If the recoverable amount of an asset (or a cash-generating unit) is lower than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

If the impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount. But the increased carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss has been recognised on that asset (or cash-generating unit) in previous years. Reversal of an impairment loss is recognised immediately in profit or loss.

2.17. Investments in Joint Ventures and Associates

The joint venture is a joint arrangement where the parties that control the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control over the arrangement that exists when decisions about the relevant activities require the unanimous consent of the parties sharing control.

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the decisions relating to relevant activities of the entity into which the investment was made, but it is not control or joint control over such entity. In this case, the Group ordinarily controls 20-50% of voting rights.

The economic results, assets and liabilities of joint ventures and associates are incorporated in this consolidated financial statements by using the equity method. According to the equity method, investments in joint ventures and associates on initial recognition are carried at cost in the consolidated statements of the financial position and are subsequently adjusted for the Group's share of profit or loss and other comprehensive income of the associate or joint venture. If the Group's share of losses of the associate or joint venture exceeds the Group's investment in the associate or joint venture, the Group will stop to show its share of further losses. Additional losses are recognised only when the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The Group will stop using the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held-for-sale. If the Group retains an interest in the former associates and joint ventures and the retained share is a financial asset, the Group recognises all the retained interest at fair value at that date and the fair value is considered fair value on initial recognition for a financial asset in accordance with IFRS 9 for the year 2018 and in accordance with IAS 39 for the year 2017. The difference between the carrying amount of the former associate or joint venture at the date of termination of the use of the equity method and the fair value of the retained interest in the former associate or joint venture is included when determining the gain or loss on the sale of associate or joint venture. The Group also accounts for all amounts recognised in other comprehensive income in relation to that former associate or joint venture in the same way as if the associate or joint venture directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by an associate or a joint venture have been reclassified to profit or loss upon disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it terminates the use of the equity method for that investment.

The Group continues to apply the equity method when the investment in an associate becomes an investment in a joint venture or if an investment in a joint venture becomes an investment in an associate. These changes in ownership do not trigger revaluation to fair value. If the Group reduces its ownership interest in an associate or joint venture, but continues to use the equity method, then the previously recognised portion of the gain or loss in other comprehensive income is reclassified to the profit or loss, should the gain or loss be reclassified into profit or loss at the sale of the related assets or liabilities.

If the Group's entities trade with a joint venture or an associate of the Group, profits or losses arising from those transactions with joint venture or associate are recognised in the consolidated financial statements of the Group to the extent of interest in a joint venture or an associate that does not belong to the Group.

2.18. Investments in subsidiaries and associates excluded from the consolidation

Investments in subsidiaries and associates excluded from the consolidation are considered immaterial for the Group. In the financial statements for 2018 (according to IFRS 9), these investments are recognised as financial assets at fair value through other comprehensive income. For 2017, these investments were classified as other available-for-sale financial assets. As their fair value cannot be reliably determined, they are measured at cost.

2.19. Inventories

Inventories are measured at the lower amount of cost and net realisable value. Costs of inventories are determined using the weighted arithmetic average method. The net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Inventory is mainly held for own use rather than for re-sale.

2.20. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that the reimbursement will be received by the Group and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised valid expectations in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures triggered by the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Group.

A provision can be used only for those expenditures for which it was originally created. A change in a provision is recognised in profit or loss for a specific expense category; the unused portion of the provision is recognised in Other operating income.

2.21. Financial Instruments

Financial assets and financial liabilities are recognised when the Group becomes a part of the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets or liabilities other than those measured at fair value through profit or loss are added upon initial recognition to the fair value of financial assets and deducted from the fair value of financial liabilities, respectively. The exceptions are transaction costs that are directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss which are recognised immediately in profit or loss.

In 2018, the Company adopted IFRS 9 – Financial instruments. The modiifed retrospective method, which does not require the adjustment of comparative information, was applied for IFRS 9 adoption. According to IFRS 9, financial assets are classified into the following three categories: financial assets measured at amortised cost, financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income. The classification depends on the Company's business model for managing financial assets and contractual cash-flow characteristics of the financial assets.

In 2017, financial assets were classified into the four specified categories: financial assets at fair value through profit or loss (FVTPL), held-to-maturity investments, available-for-sale (AFS) financial assets and loans and receivables. The classification depended on the nature and purpose of the financial assets and was determined at the time of initial recognition.

According to IFRS 9, financial liabilities are classified as either financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortised cost.

In 2017, financial liabilities were classified according to IAS 39 as either financial liabilities at FVTPL or other financial liabilities.

As a result of the adoption of IFRS 9 as of 1 January 2018, the change in the financial instruments classification and measurement is as follows:

(CZK million)	Former classification (IAS 39)	New classification (IFRS 9)	Former net book value (IAS 39)	New net book value (IFRS 9)	Difference
Non-current financial assets					
Other financial assets					
Financial assets measured at fair value through other comprehensive income	Financial assets – available for sale	Financial assets measured at fair value through other comprehensive income	336	429	93*)
Receivables from finance leases	Loans and receivables	At amortised cost	77	77	-
Hedging derivatives	Fair value – hedging instrument	Fair value – hedging instrument	91	91	-
Restricted cash	Loans and receivables	At amortised cost	315	315	-
Other financial assets	Loans and receivables	At amortised cost	128	128	-
Current financial assets					
Trade receivables	Loans and receivables	At amortised cost	3 270	3 215	(55)*)
Other financial assets					
Hedging derivatives	Fair value – hedging instrument	Fair value – hedging instrument	78	78	-
Receivables for deficits and damage	Loans and receivables	At amortised cost	55	54	(1)*)
Restricted cash	Loans and receivables	At amortised cost	45	45	-
Other	Loans and receivables	At amortised cost	48	48	-
Cash and cash equivalents	Loans and receivables	At amortised cost	7,801	7,801	-
Non-current financial liabilities					
Loans and borrowings	Other financial liabilities	At amortised cost	29,672	29,672	-
Other financial liabilities					
Hedging derivatives	Fair value – hedging instrument	Fair value – hedging instrument	350	350	-
Liability arising from the supplier invoices	Other financial liabilities	At amortised cost	24	24	-
Other	Other financial liabilities	At amortised cost	160	160	-
Current financial liabilities					
Loans and borrowings	Other financial liabilities	At amortised cost	5,332	5,332	-
Trade liabilities	Other financial liabilities	At amortised cost	4,835	4,835	-
Other financial liabilities					
Hedging derivatives	Fair value – hedging instrument	Fair value – hedging instrument	99	99	-
Other financial derivatives	Financial liabilities at fair value recogni-sed profit or loss	Financial liabilities at fair value recognised profit or loss	1	1	-
Liability arising from the supplier invoices	Other financial liabilities	At amortised cost	121	121	-
Other	Other financial liabilities	At amortised cost	212	212	-

*) Changes in the measurement are described in note 3.1.

2.21.1. Effective Interest Rate Method
The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest income / expense over the relevant period. The effective interest rate is the rate that exactly discounts expected future cash inflow/ outflow (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected duration of the debt instrument, to the net carrying amount at initial recognition.

Income and expenses are recognised on an effective interest rate basis for debt instruments other than financial assets and liabilities classified as at fair value through profit or loss.

2.21.2. Financial assets at FVTPL
Financial asset is classified as FVTPL when it does not qualify for classification as at amortised cost or at fair value through other comprehensive income. This category also includes financial assets whose contractual cash flows are not solely payments of principal and interest on the outstanding principal amount.

In this category, the Group recognises financial derivatives held for trading within other financial assets.

2.21.3. Financial assets measured at FVOCI
Since 2018, according to IFRS 9, financial assets measured at fair value through other comprehensive income include equity investments not held for trading. The Company holds equity investments that are not traded on an active market in these assets. Dividend income from equity investments is recognised in profit or loss when the Group's right to receive the dividends is established.

In 2017, according to IAS 39, such financial assets were classified as financial assets available for sale and defined as non-derivative financial assets that were either designated as available-for-sale or were not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. The Group held equity investments that were not traded at an active market, classified as financial assets available for sale and carried at cost less any impairment losses as their fair value was not reliably determinable.

Dividends on equity instruments are recognised in profit or loss when the Group has the right to receive dividends.

2.21.4. Financial assets measured at amortised cost
Loans and receivables (including bank balances) are financial assets held within the business model whose objective is to collect contractual cash flows that are solely payments of the principal and outstanding interest on the outstanding principal. Hence, the Company measures these assets at amortised cost applying the effective interest method, less any impairment. These assets are recognised when the cash, goods or services are provided directly to the debtor by the Group with no intention of trading the receivable.

In 2017, the Company measured loans and receivables at amortised cost applying the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables for which the recognition of interest would be immaterial.

2.21.5. Impairment of financial assets
In 2018, financial assets, other than those at FVTPL, are assessed for indicators of expected credit losses as at the asset recognition.

Full model (3 stage impairment model): the financial asset is initially categorised within Stage 1, where credit loss allowance is recognised at an amount equal to 12-month expected credit losses. During the useful life of an asset, the Company considers whether there is no significant increase in credit risk. If the increased risk is identified, the financial asset is reclassified to Stage 2, where the credit loss allowance is recognised at a lifetime expected credit loss. In the case of a counterparty default, such an asset is reclassified to Stage 3, where interest income on financial assets is recognised at amortised cost less impairment, applying the initial effective interest rate.

For the measurement of expected credit losses of current trade receivables and financial lease receivables, the Group applies the IFRS 9 simplified approach, whereby credit losses are always determined for the whole lifetime of the financial asset.

The simplified model is applied for current trade receivables not containing a significant financing component. The Group recognises the allowances for receivables assessed on a portfolio basis based on the impairment matrix including historical inputs reflecting future expectations.

For receivables assessed on an individual basis, the Company considers the following factors that affect the debtor's ability to meet its obligations:

- Future prospects
- Knowledge of a customer
- Payment ethics

The Group considers estimated impairment of cash and cash equivalents to be immaterial due to high-quality credit-ratings of cooperating banks confirmed by the external investment rating.

Based on historic experience, the Group uses the following criteria for determining the credit default of the counterparty:

– If information gathered from external sources indicates that the debtor will not be able to pay its creditors in full (insolvency or bankruptcy declaration of debtor)
– If the financial asset is more than 180 days due and the Group has no evidence that the delay in payments is not sufficient criteria for default determination

In 2017, financial assets, other than those at FVTPL, were assessed for indicators of impairment at the end of each reporting period. Financial assets were considered to be impaired when there was objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The Group recorded impairment losses (allowances) based on an individual assessment of trade receivables as equal to 50% of the outstanding carrying amount of the receivables that are past due by more than 18 months and full allowances against receivables registered for recovery under insolvency proceedings. In addition, full allowances were recognised in respect of receivables that were past due by more than 12 months and whose carrying amount did not exceed CZK 30 thousand.

With the exception of the equity instruments, if, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss was reversed through profit or loss. The carrying amount of the investment at the date the impairment reversal should have not exceed the amortised cost that would have been recognised if the impairment had not been accounted for.

In respect of the equity securities, impairment losses previously recognised in profit or loss were not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss was recognised in other comprehensive income.

The following table presents a comparison of prior period allowances measured on an incurred-losses-model basis in accordance with IAS 39 and the new expected credit loss measured on an incurred-losses-model basis according to IFRS 9 as at 1 January 2018:

(CZK million) **Measurement categories for financial assets**	**Allowance before the change in the accounting policies as at 31 Dec 2017**	**Change in allowances due to adoption of IFRS 9**	**Expected credit loss in accordance with IFRS 9 as at 1 Jan 2018**
Non-current financial assets	**2**	**-**	**2**
Other financial assets	2	-	2
Other	2	-	2
Current financial assets	**346**	**56**	**402**
Trade receivables	288	55	343
Other financial assets	58	1	59
Receivables for deficits and damage	4	1	5
Other	54	-	54

2.21.6. Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor substantially retains all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group substantially retains all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Upon derecognition of a financial asset as a whole, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

2.21.7. Financial liabilities measured at fair value through profit or loss

Financial liabilities are classified as financial liabilities measured at fair value through profit or loss when they are either available for sale or designated as measured at fair value through profit or loss.

This category includes financial derivative instruments recognised under other financial liabilities.

2.21.8. Financial assets measured at amortised cost

Financial liabilities which are not classified as held-for-sale or designated as financial liabilities measured at fair value through profit or loss are subsequently measured at amortised cost applying the effective interest method.

In 2017, other financial liabilities were measured at amortised cost applying the effective interest method in accordance with IAS 39.

2.21.9. Derecognition of financial liabilities

The Company derecognises financial liabilities only when its obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.21.10. Derivative financial instruments

The Group enters into a variety of derivative financial instrument contracts to manage its exposure to interest rate, currency and commodity risks.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured at their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives that do not meet the criteria for being recognised as hedging instruments are treated by the Group as fair value through profit or loss.

2.21.11. Hedge accounting

The Group designates certain hedging instruments as either fair value hedges or cash flow hedges.

At the creation of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the creation of the hedge and on an ongoing basis, the Group documents and monitors whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. Since 2018, the Group monitors the hedge ratio, sources of ineffectiveness and credit risk impact. Hedge accounting corresponds to the Group's risk management strategy. The Group recognises the time value of a commodity option separately from basis spreads from cross-currency interest rate swaps as hedge expenses according to IFRS 9. In 2017, the Company complied with the hedge accounting criteria set out in IAS 39.

2.21.12. Cash flow hedges

The effective part of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash-flow-hedging reserve. Since 2018, the Company presents hedge accounting expenses separately, if the criteria of expenses recognition through other comprehensive income are met. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of profit or loss as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

The Group prospectively discontinues the entire hedging relationship in cases when: the hedging relationship ceases to meet the risk management objectives that have made it eligible for hedge accounting, or ceases to meet other eligibility criteria (after taking into account any rebalancing of the hedge relationship), or the hedging instrument was sold or terminated in relation to the entire volume that was part of the hedging relationship or if the economic relationship between the hedged item and the hedging instrument ceases to exist; or if the development of credit risk begins to dominate changes in fair value resulting from the economic relationship or if the hedged cash flows (for the entire collateral size) cannot be considered as being highly probable. The Group prospectively discontinues part of the hedging relationship where: a part of the hedged item ceases to be part of the hedging relationship as a result of the hedge ratio adjustment, or if only part of the future transaction is no longer highly probable. If hedge accounting or its part is terminated, the fair value movements of derivatives (or the part thereof relating to the discontinuing hedge relationship) will be recognised in profit or loss.

2.21.13. Financial derivatives held for trading.
All derivative transactions that the Group concludes are acquired on economic terms for hedging purposes, but some of them are not classified as hedging instruments for formal reasons.

Derivatives that do not meet the conditions for hedging derivatives are classified by the Group as derivatives held for trading.

The change in the fair value of derivatives held for trading is recognised as an expense or income from derivative transactions.

3. Adoption of New and Revised International Financial Reporting Standards

3.1. Standards and interpretations effective for the annual period ended 31 December 2018

During the year ended 31 December 2018, the following standards, amendments and interpretations became effective:

Modifications, new and revised standards and interpretations	Effective for accounting periods beginning on or after the date
IFRS 9 – Financial instruments	1 January 2018
IFRS 15 – Revenue from Contracts with Customers	1 January 2018
IFRS 2 – Modifications of IFRS 2 – Classification and valuation of share-based payment transactions	1 January 2018
IFRS 4 – Modifications of IFRS 4 – using IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts	1 January 2018
IAS 40 – Modifications of IAS 40 – Transfers of Investment Property	1 January 2018
Annual improvements to IFRS – cycle 2014 – 2016	1 January 2018
IFRIC 22 – Foreign Currency Transactions and Advance Consideration	1 January 2018

As at 1 January 2018, the cumulative impact of changes made in the consolidated statement of financial position which results from adoption of IFRS 15 and IFRS 9 was as follows:

(CZK million)	**31 Dec 2017 (recognised)**	**Impact of IFRS 15**	**Impact of IFRS 9**	**1 Jan 2018**
NON-CURRENT ASSETS				
Deferred tax assets	26	-	-	26
Other financial assets	945	-	93	1 038
Other assets	8	-	-	8
CURRENT ASSETS				
Trade receivables	3,270	-	(55)	3,215
Other financial assets	226	-	(1)	225
Other assets	899	4	-	903
NON-CURRENT LIABILITIES				
Deferred tax liability	1,581	-	(5)	1,576
Provisions	660	-	-	660
Other financial liabilities	534	-	-	534
Other liabilities	395	-	-	395
CURRENT LIABILITIES				
Trade liabilities	4,835	-	-	4,835
Provisions	1,082	(24)	-	1,058
Other financial liabilities	433	-	-	433
Other liabilities and contractual liabilities	2,832	28	-	2,860
EQUITY				
Reserve and other funds	17,200	-	95	17,295
Retained earnings	1,121	-	(58)	(1,063)
Non-controlling interest	664	-	(5)	659

Impact of adoption of IFRS 15 and IFRS 9 during the current accounting period:

(CZK million)	2018 without adoption of new IFRS	Impact of IFRS 15	Impact of IFRS 9	2018 (recognised)
Revenues	39,116	(19)	-	39,097
Other operating income	2,322	(831)	(68)	1,423
Purchased consumables and services	(17,467)	831	-	(16,636)
Other operating expenses	(675)	19	-	(656)
Income tax	(300)	-	13	(287)

(CZK million)	31 December 2018, without adoption of new IFRS	Impact of IFRS 15	Impact of IFRS 9	31 December 2018 (recognised)
Other financial assets - non-current	523	-	110	633
Trade receivables - current	3,734	-	(123)	3,611
Other assets - current	2,186	20	-	2,206
Deferred tax liability	1 685	-	(2)	1,683
Provisions - current	808	43	-	851
Other liabilities and contract liabilities	3,375	(23)	-	3,352
Reserve and other funds	17 129	-	112	17,241
Retained earnings	2 301	-	(118)	2,183
Non-controlling interest	618	-	(5)	613

In addition, the Group changed the presentation of the following items in the consolidated statement of the financial position and statement of profit or loss:

Changes in presentation related to contracts with customers:

– Refunds and reimbursement liabilities newly presented under the Other liabilities and contract liabilities were initially recognised as part of the provisions (2017: CZK 24 million). In 2018, the amount recognised was of CZK 43 million.
– Revenues from other services, commissions for the purchase of oil and spare parts, commissions on the sale of fares and other transactions at cash registers and Rental Revenue (not part of revenue from contracts with customers) reported in 2018 in Revenue were in 2017 reported as part of other operating income in the comparable period (2017: CZK 3,305 million). In 2018, the balance recognised was CZK 3,396 million.
– Costs of alternative bus transport which were presented in Purchased consumables and services have been reduced against compensation received from SZDC in respect of the alternative bus service. In 2017, the compensation in respect of costs incurred for the alternative bus service was presented as part of Other operating income (2017: CZK 392 million). In 2018, the balance recognised was of CZK 831 million.
– Revenues were reduced by payments of contractual fines and default interest representing the variable part of consideration for the obligation from the provision of a public service, which was presented in 2017 within Other operating expenses in a comparative period (2017: CZK 10 million). In 2018, the amount recognised was CZK 15 million.
– In 2018, on the Balance sheet line Reserve and other funds, Reserve and other funds and Cash flow hedge fund are included. In 2017, these lines were disclosed separately in the Balance sheet.

Changes in presentation related to financial instruments:

- The Group measures financial instruments at fair value (level 2 of the fair value hierarchy) which in 2017 were measured at amortised cost. The impact of this valuation change in measurement was CZK 93 million as at 1 January 2018.
- The Group newly creates allowances for receivables before the due date, according to the expected credit loss. The impact of this change was CZK 55 million as at 1 January 2018.
- The application of IFRS 9 for hedge accounting was prospective. During 2018, the hedge documentation and methodology of effectiveness assessments were amended and the time value of the options and the currency base margin from the hedging instrument recognised under Hedging expenses was separated.

The adoption of these standards, amendments and interpretations did not have a significant impact on the Company during the period.

3.2. Standards and interpretations used prior to the effective date

The Group used no standard or interpretation before their effective date.

3.3. Standards and interpretations issued but not yet used

At the date of the preparation of the financial statements, the following standards and interpretations not yet effective and not used by the company before their effective date were issued.

Modifications, new and revised standards and interpretations	**Effective for accounting periods beginning on or after the date**
IFRS 3 – Modification of IFRS 3 – Business Combinations	1 January 2020*)
IFRS 16 – Leases	1 January 2019
IFRS 17 –Insurance Contracts	1 January 2021*)
IFRS 9 – Modification of IFRS 9 – Prepayment Features with Negative Compensation	1 January 2019
IFRS 10, IAS 28 – Modification of IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date will be determined *)
IAS 1, IAS 8 – Modification of IAS 1 and IAS 8 – Definition of Material	1 January 2020*)
IAS 19 – Modification of IAS 19 – Plan Amendment, Curtailment or Settlement	1 January 2019*)
IAS 28 – Modification of IAS 28 – Long – term Interests in Associates and Joint Ventures	1 January 2019*)
Annual improvements to IFRS – cycle 2015 – 2017	1 January 2019*)
IFRIC 23 – Uncertainty over Income Tax Treatments	1 January 2019

*) Standards, modifications and interpretations not yet approved for use in the EU

For IFRS 16, the Group expects recognition of a significant number of lease agreements on the balance sheet. IFRS 16 will be adopted by the Group as at its mandatory date of 1 January 2019. The Group will use the exemption for short-term leases and low-value assets and will not apply the IFRS 16 standard for these items. The Group assessed the impact of the new standard and the analysis indicates that, after the implementation of IFRS 16 based on the modified retrospective method, the Group's assets will increase by CZK 3,756 million and liabilities will increase by CZK 4,260 million (out of which, current liabilities: CZK 886 million). The impact to retained earnings is estimated at CZK 504 million (decrease). Information about the minimum lease payments under the operating lease contracts is disclosed in Note 33.

The management of the Group expects that the adoption of other standards, amendments and interpretations will not have a significant impact on the Group in the following periods.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

For the application of the Group's accounting policies, described in Note 2., the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period; or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.1. Impairment of assets

The Group assesses the recoverable value of all asset components when there are indicators of their impairment (with the exception of intangible assets under construction, the recoverable value of which is assessed annually). This assessment is based on anticipated assumptions and may change in the future as the situation evolves and information is available. Impairment of property, plant and equipment is disclosed in Note 15.1.

4.2. Provisions for legal disputes and business risks

The Group is involved in a number of court and out-of-court commercial disputes. Where the criteria for the recognition of provisions are met, the Group creates provisions for these disputes on the basis of the best available information and estimates. However, the actual outcome of the disputes may differ from these estimates. Information regarding Legal Disputes is disclosed in Note 35.

4.3. Payments from orderers

The Group receives compensation from regional budgets and the Ministry of Transport's budget for railway transport and the provision of public services. The Group also receives compensation from the Ministry of Transport's budget for the provision of transport services at discounted prices for selected groups (students, pensioners). The Group recognises the compensation as revenue from contracts with customers. This service is provided by the Group regardless of whether and how many people use their own personal transport service. The compensation is not a subsidy, because the contract for the provision of transport services is competed among a number of entities interested in providing that service. Only the company which wins the tender obtains the compensation.

A different set-up exists for preferential prices for different categories of customers (students, pensioners); this is a transaction where the customer uses the service (passenger transport provided by any transportation company) and pays only part of its price, while the balance of the market-based tarrif is paid by the third party (the state). It is not a subsidy because it is more about providing a discount to the population groups, not a motivating economic incentive to influence the behaviour of companies in a particular direction. The 75% discount for the elderly and students was introduced on 1 September 2018 and the amount of compensation recognised in 2018 was CZK 732 million.

5. Segment Information

5.1. Products and services from which reportable segments derive their revenues

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The Group's reportable segments under IFRS 8 are therefore as follows:

- Passenger transportation – other information on passenger railway transportation is disclosed in Note 6.;
- Freight transportation – other information on freight railway transportation is disclosed in Note 6.;
- Property management – the segment provides the administration and operations of real estate owned by the Group, including internal and external leases

5.2. Segment Revenues and Expenses

An analysis of the Group's results from continuing operations by reportable segments, in the format in which the report is presented to management of the Group, is presented below.

2018

(CZK million)	Passenger transportation	Freight transportation	Property management	Total of segments	Others	Elimination *)	Total
Revenue							
Revenue from passenger transportation	8,851	-	-	8,851	-	(13)	8,838
Revenue from orderers	14,299	-	-	14,299	-	-	14,299
Other ***)	359	13,076	384	13,819	5,329	(3,188)	15,960
	23,509	**13,076**	**384**	**36,969**	**5,329**	**(3,201)**	**39,097**
out of which revenues external of the Group:							
Revenue from passenger transportation	8,838	-	-	8,838	-	-	8,838
Revenue from orderers	14,299	-	-	14,299	-	-	14,299
Other	125	13,014	346	13,485	2,475	-	15,960
	23,262	**13,014**	**346**	**36,622**	**2,475**	**-**	**39,097**
Purchased consumables and services							
Traction costs	(2,451)	(1,367)	-	(3,818)	-	11	(3,807)
Payment for the use of the railway route	(1,798)	(1,126)	-	(2,924)	-	1	(2,923)
Other purchased consumables and services	(5,331)	(3,841)	(318)	(9,490)	(3,225)	2,809	(9,906)
	(9,580)	**(6,334)**	**(318)**	**(16,232)**	**(3,225)**	**2,821**	**(16,636)**
Personnel costs							
Payroll costs	(6,357)	(3,150)	(129)	(9,636)	(905)	243	(10,298)
Social security and health insurance	(2,135)	(1,046)	(43)	(3,224)	(296)	78	(3,442)
Other social costs	(409)	(211)	(6)	(626)	(52)	38	(640)
	(8,901)	**(4,407)**	**(178)**	**(13,486)**	**(1,253)**	**359**	**(14,380)**
Impairment **)	349	(82)	3	270	(112)	(1)	157
Other operating income and expenses	50	1	409	460	519	(369)	610
IntraGroup income and expenses	(30)	-	30	-	-	-	-
Depreciation	(4,635)	(1,235)	(85)	(5,955)	(366)	98	(6,223)
Interest income	39	-	17	56	2	(29)	29
Interest expenses	(919)	(135)	-	(1,054)	(27)	30	(1,051)
Tax expense	-	(215)	-	(215)	(67)	(5)	(287)
Other income and expenses	(112)	(6)	-	(118)	(2)	(11)	(131)
Profit (loss) for the period from continuing operations	**(230)**	**663**	**262**	**695**	**798**	**(308)**	**1,185**
Profit for the period from discontinued operations	-	-	-	-	-	-	-
Profit (loss) for the period	**(230)**	**663**	**262**	**695**	**798**	**(308)**	**1,185**

*) The 'Elimination' column includes eliminations of intragroup relations.
**) Impairment includes losses from impairment of property, plant and equipment, investment property, assets held for sale and receivables, write-off of inventories to the net realizable value.
***) Effect of the IFRS 15 implementation as at 1 January 2018, see income breakdown in Note 6.1.

2017 *)**

(CZK million)	Passenger transportation	Freight transportation	Property management	Total of segments	Others	Elimination *)	Total
Revenue							
Revenue from passenger transportation	8,066	-	-	8,066	-	(17)	8,049
Revenue from orderers	14,044	-	-	14,044	-	-	14,044
Other	-	11,923	-	11,923	-	(47)	11,876
	22,110	**11,923**	**-**	**34,033**	**-**	**(64)**	**33,969**
out of which revenues external of the Group:							
Revenue from passenger transportation	8,049	-	-	8,049	-	-	8,049
Revenue from orderers	14,044	-	-	14,044	-	-	14,044
Other	-	11,876	-	11,876	-	-	11,876
	22,093	**11,876**	**-**	**33,969**	**-**	**-**	**33,969**
Purchased consumables and services							
Traction costs	(2,299)	(1,257)	-	(3,556)	-	15	(3,541)
Payment for the use of the railway route	(1,864)	(1,322)	-	(3,186)	-	(1)	(3,187)
Other purchased consumables and services	(5,620)	(3,447)	(294)	(9,361)	(2,637)	2,175	(9,823)
	(9,783)	**(6,026)**	**(294)**	**(16,103)**	**(2,637)**	**2,189**	**(16,551)**
Personnel costs							
Payroll costs	(5,987)	(2,911)	(123)	(9,021)	(741)	191	(9,571)
Social security and health insurance	(1,976)	(965)	(41)	(2,982)	(243)	63	(3,162)
Other social costs	(277)	(200)	(6)	(483)	(39)	31	(491)
	(8,240)	**(4,076)**	**(170)**	**(12,486)**	**(1,023)**	**285**	**(13,224)**
Impairment **)	(78)	(24)	58	(44)	22	(59)	(81)
Other operating income and expenses	996	488	544	2,028	4,605	(2,874)	3,759
IntraGroup income and expenses	(24)	-	24	-	-	-	-
Depreciation	(4,674)	(1,190)	(92)	(5,956)	(303)	91	(6,168)
Interest income	14	-	17	31	-	(9)	22
Interest expenses	(1,023)	(148)	-	(1,171)	(8)	11	(1,168)
Tax expense	-	(203)	-	(203)	(85)	9	(279)
Other income and expenses	675	(1)	11	685	(20)	40	705
Profit (loss) for the period from continuing operations	**(27)**	**743**	**98**	**814**	**551**	**(381)**	**984**
Profit for the period from discontinued operations	-	-	-	-	-	-	-
Profit (loss) for the period	**(27)**	**743**	**98**	**814**	**551**	**(381)**	**984**

*) The ‘Elimination’ column includes eliminations of intragroup relations.
**) Impairment includes losses from impairment of property, plant and equipment, investment property, assets held for sale and receivables, write-off of inventories to the net realizable value.
***) In year 2017, the Group disclosed overhead costs in separate lines. In year 2018, these costs are included in costs and revenues to which they relate. 2017’s figures were adjusted accordingly.

6. Revenue

All of the additional information on the statements of profit or loss presented below relates to continuing operations.

6.1. Breakdown of revenue

(CZK million)	**2018**	**2017**
Revenue from contracts with customers		
Revenue from passenger transportation - fare	8,838	8,049
Domestic passenger transportation	6,223	5,340
International passenger transportation	2,615	2,709
Revenue from passenger transportation- payments from public service orderers	14,299	14,044
Payment from the state budget	4,723	4,599
Payment from the regional budget	9,576	9,445
Revenue from freight transportation	11,869	11,233
Revenue from domestic freight transportation	4,134	3,942
Revenue from foreign freight transportation	7,735	7,291
Revenue from freight transportation - Germany	2,478	2,343
Revenue from freight transportation - Slovakia	1,383	1,294
Revenue from freight transportation - Poland	1,493	1,468
Revenue from freight transportation - Austria	778	551
Revenue from freight transportation – other countries	1,603	1,635
Other revenue from freight transportation *)	520	497
Other revenue from domestic freight transportation	339	312
Other revenue from foreign freight transportation	181	185
Other transportation related services	175	146
Sale of other services	2,660	*)
- Sale of other services recognised over time	2,660	*)
- One-off sale of other services	-	*)
Sales of telematics services	1,525	*)
Sales of railway testing services	511	*)
Sales of other own services	624	*)
Commission for mediation of the purchase of diesel and spare parts	5	*)
Commission from ticket sales and other transactions at cash desks	5	*)
Total revenue from contacts with customers	38,371	33,969
Rental revenue		
Rental revenue	726	*)
Total revenue	**39,097**	**33,969**

*) in 2017, item was disclosed in Note 7. Other operating income
*) The remaining part of revenues from freight transport are particularly revenues from services performed in railway stations, ancillary services and siding services.

Payments from public service orderers relate to regional and long-distance intranational passenger transportation.

The Group provides transport services in public railway transport for a stated (often rectified) price and assures transport services in the specified categories of passenger trains on the railway network of the Czech Republic. The scope of these services and the compensation (Group profits) are set in agreements between the State and regional authorities. A contract concerning the obligation to provide a public service for the period of 2010-2019 was signed on 2.12.2009.

The Czech Republic has aligned its legislation in the area of public transport with the EU requirements by adopting Act no. 194/2010 Coll. concerning public transport services and amendments of other laws. České dráhy, a.s. arranged public service obligation agreements for the period of ten years and more, and these agreements are governed by the legislation applicable prior to the adoption of the above-mentioned law.

Government resolution no. 1132/2009 from 31.8.2009 secures the additional funding of the regional railway transport by regional subsidies, including the rules for increasing or reducing the scope of purchased railway transport and the increase of this special purpose arrangement during the following years. In 2016, the Government of the Czech Republic adopted a resolution on the organisation and financing of regional railway transport after 2019. This resolution sets out the rules for financing regional transport for the period following the end of of the majority of the aforementioned public service contracts. This document is crucial when deciding on individual orderers concerning regional transport in the year 2019.

There are intensive discussions being held on the matter of amendments to the long-term contracts for the year 2019 to the date of the financial statements for the year 2018. Three amendments concerning regional transport for the year 2019 have already been concluded. Other amendments are in the process of being discussed at the appropriate regional level. The signing of all amendments is only a formality – they have already been discussed and agreed. In relation to the provision of public transport services, this does not constitute any restriction. Because of the long-term contracts no interruption of services or discontinuation of funding will occur. Advances for payments from regional budgets are sent at an appropriate amount – in the case of yet unsigned amendments for the year 2019.

Significant transactions with the main customers with state participation are stated in Note 31.6.

6.2. Contract liabilities and refund liabilities

The Group recognises the following contractual liabilities (see also Note 29.) and refund liabilities (see also Note 29.) related to revenue from contracts with customers:

(CZK million)	31 Dec 2018	1 Jan 2018
Contract liabilities related to revenue from contracts with customers		
Prepaid products – i.e. Kilometric Bank, annual ticket	188	188
Payments from public service orderers	-	-
Prepayments received	71	60
Revenues from intrastate passenger transportation over time	1	8
Other contract liabilities	223	237
Total contractual liabilities	**483**	**493**

Other contract liabilities include mainly deferred revenue related to ongoing telecommunication projects performed by ČD - Telematika a.s.

(CZK million)	31 Dec 2018	1 Jan 2018
Refund liabilities		
Liabilities from rebates and claims	44	22
Other refund liabilities	20	10
Total refund liabilities	**64**	**32**

6.2.1. Revenues related to contract liabilities

(CZK million)	2018
Revenues included in the opening balance of the contract liabilities	
Revenue from passenger transportation - fare	146
Sale of other services	245
Commission from ticket sales and other transactions at cash desks	5
Total	**396**

6.2.2. Remaining contract obligations

The Group does not recognise any other remaining contractual obligations that should be presented according to IFRS 15 as at 31 December 2018, except for contract liabilities.

7. Other Operating Income

(CZK million)	2018	2017
Gain from disposal of property, plant and equipment and investment property	503	279
Commission for mediation of the purchase of diesel and spare parts	*)	31
Profit from disposal of redundant assets	162	197
Sales of other services	*)	2,295
Rental income	*)	727
Compensations for deficits and damage	91	127
Contractual penalties and default interest	52	76
Payments for rail replacement bus service	**)	392
Dividends received	-	6
Commission from ticket sales and other transactions at cash desks	*)	55
Foreign exchange gains - operational	150	79
Release of provisions	118	59
Release of allowance for accounts receivable	29	19
Release of allowance on property, plant and equipment	131	-
Reversal of write-off of inventory to net realisable value	-	70
Other	187	177
Total other operating income	**1,423**	**4,589**

*) in 2018, item is disclosed in Note 6.1. Breakdown of revenue
**) in 2018, material and energy consumption is reported under services in Note 8., where the item is offset with costs for substitutional bus services

8. Purchased Consumables and Services

(CZK million)	2018	2017
Traction costs	(3,807)	(3,541)
Traction fuel (diesel)	*(1,652)*	*(1,545)*
Traction electricity	*(2,155)*	*(1,996)*
Payment for the use of railway route	(2,923)	(3,187)
Other purchased consumables and services	(9,906)	(9,823)
Consumed material	*(1,457)*	*(1,477)*
Consumed other energy	*(395)*	*(392)*
Consumed fuel	*(77)*	*(79)*
Repairs and maintenance	*(932)*	*(904)*
Travel costs	*(206)*	*(167)*
Telecommunication, data and postal services	*(279)*	*(273)*
Other rental	*(414)*	*(314)*
Rental for rail vehicles	*(1,236)*	*(1,114)*
Transportation charges	*(1,503)*	*(1,379)*
Rail replacement bus service	*(144)*	*(512)*
Services of dining and sleeping carriages	*(160)*	*(175)*
Services associated with the use of buildings	*(273)*	*(267)*
Operational cleaning of rail vehicles	*(347)*	*(329)*
Border area services	*(664)*	*(625)*
Advertising and promotion costs	*(253)*	*(199)*
Commission for the sale fares paid by other carriers, resellers	*(146)*	*(151)*
Infrastructure capacity allocation	*(83)*	*(81)*
Operation, maintenance and other services related to IT	*(140)*	*(142)*
Performances of fire brigade service	*(36)*	*(40)*
Services in the field of ecology	*(40)*	*(43)*
Other services	*(1,121)*	*(1,160)*
Total purchased consumables and services	**(16,636)**	**(16,551)**

Other services include training costs, commission costs for representation abroad on preventive health care, guidance, expertise and other services.

Other Services include Audit and non-audit services provided by the PwC network companies. Total remuneration for these services is presented below:

(CZK million)	2018	2017
Compulsory audit of annual financial statements	(5)	(5)
Economic and organisational advisory	(8)	(11)
Tax advisory	(1)	-
Other non-audit services	(4)	-
Total	**(18)**	**(16)**

9. Employee Benefit Costs

(CZK million)	2018	2017
Payroll costs	(10,164)	(9,442)
Severance pay	(53)	(48)
Statutory social security and health insurance	(1,022)	(941)
Contributions to pension schemes	(2,420)	(2,221)
Other social costs	(584)	(446)
Other employee benefit costs	(137)	(126)
Total employee benefit costs	**(14,380)**	**(13,224)**

Other social costs include, in particular, catering allowances. Other employee benefit costs include, in particular, allowances for health recovery stays or remuneration to members of statutory bodies.

10. Depreciation and Amortisation

(CZK million)	2018	2017
Depreciation of property, plant and equipment	(5,946)	(5,944)
Depreciation of investment property	(23)	(24)
Amortisation of intangible assets	(254)	(200)
Total depreciation and amortisation	**(6,223)**	**(6,168)**

11. Other Operating Expenses

(CZK million)	2018	2017
Impairment of property, plant and equipment, investment property and assets held for sale	-	(170)
Write-off of inventories to net realizable value	(4)	-
Costs of contractual fines and default interest	(44)	(55)
Taxes and fees	(23)	(31)
Insurance	(170)	(178)
Foreign exchange losses - operational	(138)	(140)
Shortages and damages	(42)	(44)
Expenses for uniforms and personal protective equipment	(42)	(47)
Provision for legal disputes related to other operating expenses	-	(77)
Lump sum payments to employees	(18)	(23)
Other operating expenses	(175)	(146)
Total other operating expenses	(656)	(911)
Total other operating expenses	**(656)**	**(911)**

Other operating expenses primarily include fees and fines of CZK 65 million. Further, it includes costs of loans written off and transferred, membership fees, damages and other.

12. Financial Expenses

(CZK million)	2018	2017
Interest on bank overdrafts and loans	(3)	-
Interest on issued bonds	(851)	(897)
Interest on finance lease payables	(133)	(153)
Other interest	(64)	(125)
Less: amounts capitalised as part of the costs of an eligible asset	8	13
Unfolding of reserves discount	(8)	(6)
Foreign exchange losses - financial	(378)	(131)
Bank charges	(11)	(11)
Other financial costs	(48)	(36)
Total financial expenses	**(1,488)**	**(1,346)**

The capitalisation rate of interest costs in 2018 is 2.80% p. a. (2017: 2.77 % p. a.).

13. Financial Income

(CZK million)	2018	2017
Foreign exchange income – financial	284	818
Profit from sale of securities and shares	-	40
Received interest	30	22
Other financial income	4	7
Total financial income – continuing operations	**318**	**887**

14. Income Taxation

14.1. Income Tax Reported in Profit or Loss

(CZK million)	2018	2017
Tax for the current year recognised in the income statements	(162)	(133)
Deferred tax recognised in the profit and loss account	(123)	(145)
Other *)	(2)	(1)
Total income tax expense related to continuing operations	**(287)**	**(279)**

Reconciliation of the total tax charge for the year to accounting profit:

(CZK million)	2018	2017
Profit for the period before tax	**1,472**	**1,263**
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected income tax expense	**(280)**	**(240)**
Adjustments:		
Effect of the unrecognised deferred tax asset	163	62
Effect of unused tax losses release	(134)	-
Tax allowance for research and development not included in the accounting for deferred taxes	4	(3)
Non-deductible expenses – Creation (-) / cancellation (+) of provision for the fine by the Office for Protection of Competition.	38	(26)
Tax non-deductible expenses - deficits and damage	(2)	(4)
Tax non-deductible payroll expenses	(31)	(29)
Other tax non-deductible items, net	(45)	(39)
Income Tax Reported in Profit or Loss	**(287)**	**(279)**

The effective tax rate is mainly influenced by the fact that the parent Group does not charge, for reasons of prudence, a deferred tax asset.

14.2. Income tax recognised in other comprehensive income

(CZK million)	2018	2017
Revaluation of financial instruments recognised as cash-flow hedges	(23)	(13)
Total income tax recognised in other comprehensive income	**(23)**	**(13)**

14.3. Deferred Tax

(CZK million)	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Derivatives	Other	Total
Balance at 1 Jan 2017 – calculated	**27**	**(1,250)**	**180**	**(442)**	**23**	**(4)**	**110**	**(1,356)**
- of which liability	*27*	*(1,262)*	*173*	*(456)*	*21*	*(4)*	*117*	*(1,384)*
- of which receivable	-	*12*	*7*	*14*	*2*	-	*(7)*	*28*
Deferred tax reported in Profit or Loss:	(27)	(28)	(21)	(68)	(1)	-	-	(145)
- of which current changes	*(39)*	*23*	*(60)*	*(105)*	*(11)*	-	*(15)*	*(207)*
*- of which impairment *)*	*12*	*(51)*	*39*	*37*	*10*	-	*15*	*62*
Deferred tax recognised in other comprehensive income	-	-	-	-	-	(13)	-	(13)
- of which current changes	-	-	*2*	-	-	*(223)*	-	*(221)*
*- of which impairment *)*	-	-	*(2)*	-	-	*210*	-	*208*
Overestimation	-	-	-	-	-	-	1	1
Deferred tax related to business combination	-	(42)	-	-	-	-	-	(42)
Balance at 31 Dec 2017 – calculated	**-**	**(1,320)**	**159**	**(510)**	**22**	**(17)**	**111**	**(1,555)**
- of which liability	-	*(1,335)*	*146*	*(516)*	*21*	*(17)*	*120*	*(1,581)*
- of which receivable	-	*15*	*13*	*6*	*1*	-	*(9)*	*26*
Deferred tax reported in Profit or Loss:	-	(36)	(10)	(72)	-	-	(5)	(123)
- of which current changes	*(196)*	*42*	*(31)*	*(102)*	*5*	-	*(4)*	*(286)*
*- of which impairment *)*	*196*	*(78)*	*21*	*30*	*(5)*	-	*(1)*	*163*
Deferred tax recognised in other comprehensive income	-	-	-	-	-	23	-	23
- of which current changes	-	*(21)*	*(3)*	-	-	*23*	*2*	*1*
*- of which impairment *)*	-	*21*	*3*	-	-	-	*(2)*	*22*
Overestimation	-	-	-	-	-	-	1	1
Balance at 31 Dec 2018 – calculated	**-**	**(1,356)**	**149**	**(582)**	**22**	**6**	**107**	**(1,654)**
- of which liability	-	*(1,375)*	*135*	*(585)*	*21*	*6*	*115*	*(1,683)*
- of which receivable	-	*19*	*14*	*3*	*1*	-	*(8)*	*29*

*) Reduction of deferred tax asset in the balance sheet (directly or indirectly as items decreasing deferred tax liabilities) to its recoverable value

Unrecognised deferred tax assets as at 31 December 2018 amounted to CZK 723 million; as at 31 December 2017 in the amount of CZK 908 million; and as at 1 January 2017 in the amount of CZK 1,182 million.

According to the preliminary corporate income tax return for 2018, the parent Company records an exercisable tax loss for the tax year 2013, in the total amount of CZK 422 million. The tax loss can be utilised in 5 taxation periods immediately following the period in which the relevant loss was incurred, i.e. in the period 2014-2018, the remaining loss for 2013 can no longer be applied in the future. With regards to the low expected future taxable profits of the parent Company, realisation of deferred tax assets is uncertain. Therefore, when the calculated net position of the deferred tax as at balance sheet date results in a deferred tax asset, the parent Company reduces this asset to zero.

15. Property, Plant and Equipment

(CZK million)

Cost	Balance at 1 Jan 2017	Additions	Disposals	Acquisition	Reclassi-fication	Balance at 31 Dec 2017	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2018
Land	5,778	10	28	-	1	5,761	77	139	(2)	5,697
Constructions	14,367	225	95	4	30	14,531	258	150	47	14,686
Individual movable assets	128,243	3,626	3,684	4	191	128,380	5,893	7,153	173	127,293
- Machinery, equipment, and furniture and fixtures	*4,054*	*145*	*163*	*3*	*97*	*4,136*	*317*	*83*	*37*	*4,407*
*- Vehicles *)*	*122,702*	*3,407*	*3,480*	*1*	*858*	*123,488*	*5,547*	*7,050*	*142*	*122,127*
- Vehicles acquired under finance leases	*1,369*	*62*	*32*	*-*	*(764)*	*635*	*20*	*12*	*(5)*	*638*
- Other	*118*	*12*	*9*	*-*	*-*	*121*	*9*	*8*	*(1)*	*121*
Other assets	88	25	10	-	45	148	36	16	-	168
Assets under construction	1,501	806	42	-	(446)	1,819	1,090	171	(683)	2,055
Prepayments	10	431	316	-	-	125	344	247	-	222
Total	**149,987**	**5,123**	**4,175**	**8**	**(179)**	**150,764**	**7,698**	**7,876**	**(465)**	**150,121**

(CZK million)

Accumulated depreciation	Balance at 1 Jan 2017	Additions	Disposals	Acquisition	Reclassi-fication	Balance at 31 Dec 2017	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2018
Constructions	7,443	393	89	-	(29)	7,718	383	128	(69)	7,904
Individual movable assets	69,150	5,498	3,578	-	4	71,074	5,640	7,136	1	69,579
- Machinery, equipment, and furniture and fixtures	*3,063*	*181*	*151*	*-*	*5*	*3,098*	*202*	*89*	*2*	*3,213*
*- Vehicles *)*	*65,222*	*5,274*	*3,381*	*-*	*303*	*67 418*	*5,394*	*7,027*	*2*	*65,787*
- Vehicles acquired under finance leases	*766*	*33*	*37*	*-*	*(304)*	*458*	*33*	*12*	*(3)*	*476*
- Other	*99*	*10*	*9*	*-*	*-*	*100*	*11*	*8*	*-*	*103*
Other assets	53	16	10	-	-	59	30	20	-	69
Total	**76,646**	**5,907**	**3,677**	**-**	**(25)**	**78,851**	**6,053**	**7,284**	**(68)**	**77,552**

(CZK million)

Impairment	Balance at 1 Jan 2017	Additions	Disposals	Acquisition	Reclassi-fication	Balance at 31 Dec 2017	Additions	Release	Reclassi-fication	Balance at 31 Dec 2018
Land	68	-	-	-	-	68	-	1	-	67
Constructions	68	-	1	-	-	67	119	8	-	178
Individual movable assets	1,688	416	530	-	-	1,574	312	523	-	1,363
- Machinery, equipment, and furniture and fixtures	-	-	-	-	-	-	-	-	-	-
*- Vehicles *)*	*1,688*	*416*	*530*	-	-	*1,574*	*312*	*523*	-	*1,363*
- Vehicles acquired under finance leases	-	-	-	-	-	-	-	-	-	-
Other assets	2	5	2	-	-	5	8	5	-	8
Assets under construction	193	287	1	-	-	479	6	5	(36)	444
Total	**2,019**	**708**	**534**	**-**	**-**	**2,193**	**445**	**542**	**(36)**	**2,060**

*) Vehicles purchased under leaseback agreements are disclosed within „Vehicles". Their net book value is CZK 5,317 million as at 31 December 2017, CZK 4,617 million as at 31 December 2018. Outstanding liability related to these leaseback agreements is disclosed in the Note 26.2. Group's obligations related to leaseback agreements are pledged by ownership rights for the leased assets. Under IFRS these assets are not classified as financial lease, nevertheless, according to the legal substance of the agreements these assets are leased.

Reclassifications predominantly include transfers of asset items between individual Groups (IAS 16, IAS 40).

(CZK million)

Net book value	Balance at 1 Jan 2017	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Land	5,710	5,693	5,630
Constructions	6,856	6,746	6,604
Individual movable assets	57,405	55,732	56,351
- Machinery, equipment, and furniture and fixtures	*991*	*1,038*	*1,194*
- Vehicles	*55,792*	*54,496*	*54,977*
- Vehicles acquired under finance leases	*603*	*177*	*162*
- Other	*19*	*21*	*18*
Other assets	33	84	91
Assets under construction	1,308	1,340	1,611
Prepayments	10	125	222
Total	**71,322**	**69,720**	**70,509**

For calculation of depreciation following lifetimes were used:

	Number of years
Constructions	20 – 50
Buildings	20 – 50
Locomotives	20 – 30
Passenger cars	20 – 30
Freight wagons (without components)	30
Machinery and equipment	8 – 20
Components	2 – 15
Optical fibres	25

Among the most significant additions from 1 January 2017 to 31 December 2018 are the acquisition of railway vehicles in the renewal of the fleet of the Parent Company. Due to the long-term nature of putting these types of asset into operation, significant balances are included in assets under construction. In 2017, the Parent Company provided an advance payment of CZK 214 million for the modernisation of 79 personal vehicles.

In 2018, the increase in movable tangible assets at ČD Cargo, a.s. was caused mainly by revision repairs (components) of freight wagons in the amount of CZK 927 million; type R and D repairs (components) of the drive rail vehicles in the amount of CZK 457 million. In addition, during the accounting period, the following items were acquired by the

ČD Cargo Group: 86 new freight wagons Series Sggrrs - innowagon 80 ft (Innofreight technology) of CZK 265 million, two drive rail vehicles Series 383 (Vectron) of CZK 201 million, wheelset (components) freight wagons of CZK 179 million and advances for other new drive rail vehicles Series Vectron and Traxx in the amount of CZK 270 million.

In 2018, the Parent Company received a “Subsidy decision” in the amount of CZK 857 million for the renewal of the fleet for the Pilsen Region. The balance of assets under construction was decreased by this amount as at 31 December 2018. In 2017, the Parent Company received no subsidies for long-term assets.

During 2018, ČD Cargo, a.s., received another part of the subsidy in the amount of CZK 68 million and, at the same time, paid a partial advance in the amount of CZK 18 million for the acquisition of the first drive railway vehicle prototype. According to current assumptions, the remaining funds should be used to supply prototypes for selected series of locomotives in 2019. For this reason, the remaining part of the received subsidy in the amount of CZK 330 million was recognised as short term.

15.1. Impairment Loses Recognised in the Reporting Period

Vehicles are predominantly defined as railway vehicles (locomotives, passenger coaches, other railway vehicles) used for operating passenger railway transportation. Pursuant to the stock count and analyses, the Group identified asset items for which there is significant doubt about their future usability. The Group recognised an impairment loss for these items in the amount of the difference between the net book value and the estimated recoverable amount. The recoverable amount is usually determined as net proceeds from the sale less cost to sell.

The principal impairment loss is the loss on the 680 series tilting trains (Pendolino) amounting to CZK 471 million (as at 31 December 2018), CZK 572 million (as at 31 December 2017) and CZK 709 million (as at 1 January 2017). In 2013, the impairment was determined on the basis of an independent expert’s assessment reflecting the market value net of the costs of sale. In 2017, the independent expert’s assessment did not indicate any decline in the value and, since the circumstances have not changed since 2017, we do not expect any change in impairment for 2018 either. In 2015, the level of the allowance was significantly affected by the inoperability of train no. 3 due to an accident. Other significant impairment losses are for the locomotive Series 380. As at 31 December 2018, the impairment loss was CZK 566 million, as at 31 December 2017 CZK 589 million.

Since 2010, in the field of acquisition and modernisation in accordance with Regional Operational Programs (ROP) ČD completed in particular regions 19 grant projects to purchase 79 new and 11 modernised vehicles for regional transportation in the amount more than CZK 7.6 billion. As of 31 December 2018, based on the finding of the audit unit of Ministry of Finance and its quantified correction, the Group increases cost of equipment (vehicles) by CZK 379 million, but in the same time the Group accounts for impairment of CZK 379 million.

Impairment losses are included in other operating expenses and losses in the statements of profit or loss.

15.2. Pledged assets

As at 31 December 2018, the Parent Company does not hold any assets to which a lien would be created.

Pledge of the property is granted in the case of CD Cargo Poland, for 3 drive rail vehicles acquired on loan with the value of CZK 31 million as at 31 December 2018 and CZK 38 million as at 31 December 2017, respectively.

15.3. Unused Immovable Assets

In the property, plant and equipment class, the Group reports assets of CZK 326 million which are currently not used. These are primarily vacant buildings. The Group anticipates selling the assets in the future but it has not classified these assets as assets held for sale, as they have not yet complied with the criteria set out in IFRS 5.

16. Investment Property

The value of investments in real estate:

(CZK million)	2018	2017
Balance at the beginning of the year	666	715
Additions from subsequent capitalised expenses	1	1
Disposals	(34)	(19)
Disposals, annual depreciation	(23)	(24)
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	48	11
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	(45)	(21)
Impairment	(2)	3
Balance at the end of the year	**611**	**666**

(CZK million)	Balance at 31 Dec 2018	Balance at 31 Dec 2017	Balance at 1 Jan 2017
Cost	1,313	1,287	1 324
Accumulated depreciation and impairment	(702)	(621)	(609)
Net book value	**611**	**666**	**715**

As part of its property investment, the Group holds in its assets real estate where at least 50% of its useful area is leased to an external lessee.

The property is located around the railway route, in train stations and depots of rail vehicles. The Group applies market approach to determine the fair value of its investment property. Respective valuation model is set up in the SAP application which works in several stages, according to the type of property.

For buildings, the fair value calculation is based on the size of a specific property, occupancy by the particular type of premises, external annual rent in accordance to individual type of premises. Furthermore, the costs incurred for a given property and the capitalisation rate for a given location (yield) is taken into account to determine the final value of the property. Yield is updated annually based on the expert's opinion and then entered into the application. Yield is calculated based on the market data as the sum of net earned revenues (net rent) divided by the sum of sales prices for comparable property. To determine the fair value of real estates as at 31 December 2018, taking into account the type of real estate and its location, yield used was in the range of 6-10%.

In respect of land, the fair value is calculated by multiplying the market price for m2 for the specific locality and the area of the land. The market price for m2 is determined each year by the expert based on the latest land price maps.

The estimate of the fair value as of 31 December 2018, 31 December 2017 and 1 January 2017 is CZK 4,052 million, CZK 4,353 million and CZK 3,926 million, respectively. In terms of the method used to arrive at the fair value, investment property has been included in level 3.

The Group determines the depreciation method and useful life of investment property on the same basis as for property included in the buildings group (see Note 15.).

17. Intangible Assets

(CZK million)

Cost	Balance at 1 Jan 2017	Additions	Disposals	Acquisition	Reclassi-fication	Balance at 31 Dec 2017	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2018
Development costs	2	-	-	-	-	2	-	2	-	-
Software	2,046	161	1	14	61	2,281	188	85	136	2,520
Software licences	731	9	7	-	(2)	731	6	-	37	774
Other property	3	-	-	-	-	3	-	-	-	3
Assets under development	56	193	4	-	(65)	180	168	-	(194)	154
Advances	-	3	-	-	-	3	-	3	-	-
Customer contracts	-	-	-	146	-	146	-	18	-	128
Customer relationship	-	-	-	40	-	40	21	-	-	61
Know-how	-	-	-	7	-	7	-	1	-	6
Trademarks	-	-	-	10	-	10	-	5	-	5
Total	**2,838**	**366**	**12**	**217**	**(6)**	**3,403**	**383**	**114**	**(21)**	**3,651**

(CZK million)

Accumulated amortisation	Balance at 1 Jan 2017	Additions	Disposals	Acquisition	Reclassi-fication	Balance at 31 Dec 2017	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2018
Development costs	2	-	-	-	-	2	-	2	-	-
Software	1,631	172	1	-	-	1,802	194	85	-	1,911
Software licences	657	31	7	-	-	681	28	-	-	709
Other property	1	-	-	-	-	1	-	-	-	1
Customer contracts	-	-	-	-	-	-	26	-	-	26
Customer relationship	-	-	-	-	-	-	13	-	-	13
Know-how	-	-	-	-	-	-	1	-	-	1
Trademarks	-	-	-	-	-	-	1	-	-	1
Total	**2,291**	**203**	**8**	**-**	**-**	**2,486**	**263**	**87**	**-**	**2,662**

(CZK million)

Net book value	Balance at 1 Jan 2017	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Development costs	-	-	-
Software	415	479	609
Software licences	74	50	65
Other property	2	2	2
Assets under construction	56	180	154
Advances	-	3	-
Customer contracts	-	146	102
Customer relationship	-	40	48
Know-how	-	7	5
Trademarks	-	10	4
Total	**547**	**917**	**989**

(CZK million)

	Balance at 1 Jan 2017	Additions	Disposals	Acquisition	Reclassification	Balance at 31 Dec 2017	Additions	Disposals	Reclassification	Balance at 31 Dec 2018
Goodwill	-	-	-	141	-	141	-	-	-	141
Allowance	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**141**	**-**	**141**	**-**	**-**	**-**	**141**

The costs of amortisation were reported in the line 'Depreciation and amortisation' in the statements of profit or loss. The Group used the useful lives presented in the table below in calculating amortisation:

	Number of years
Software	3-10
Software licences	6-10
Customer contracts	5
Customer relationship	5
Know-how	10
Trademarks	10

Intangible fixed assets include software used in business activities entitled DISOD, PARIS, APS, In-karta, POP, UNIPOK, IS OPT and KASO.

Intangible assets of ČD Cargo, a.s., include the SAP system and operational business information system - PROBIS. Furthermore, intangible assets creating the information system supporting the activities of freight carrier, the development of SAP, Microsoft Enterprise Agreement license, information system OPT systems to support the agendas of office and other systems used in the Group ČD Cargo, a.s.

Software licences of ČD Cargo, a.s., include licences from a total net book value of CZK 28 million as at 31 December 2018. The most significant items are SAP licences in the amount of CZK 11 million, Altworx licence of CZK 8 million, Microsoft EA licence, Exchange, Sharepoint in the amount of CZK 4 million and the Virusfree licence in the amount of CZK 4 million. In 2018, licences were capitalised in the total amount of CZK 22 million.

In 2018, IS SAP adjustments in the amount of 33 million, development of operating information systems in the amount of CZK 32 million, development of the BI solution in the amount of CZK 30 million, development of the IS PRIS in the amount of 21 million all continued. The remaining part is other economic or operational tasks.

ČD Cargo, a.s., software additions in the year 2018 consist mostly of alterations and upgrades of the Company's current systems: dispatching information system under the computerised train calculation project in the amount of CZK 28 million, software Altworx made for tracking and using of the Company's basic capacity (operating staff, passenger cars and freight wagons) in the amount of CZK 23 million, electronisation of drivers in the amount of CZK 17 million and development of SAP system and tasks.

18. Subsidiaries

18.1. Details on Co-owned Subsidiaries with Significant Non-Controlling Interests

Subsidiary	Equity investment held by non-controlling interests*)		Profit attributable to non-controlling interests in CZK million		Accumulated non-controlling interests in CZK million	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
ČD – Telematika a.s.	29.04 %	30.82 %	17	15	573	609

*) The share in equity is identical to the share in voting rights held by non-controlling interests.

(CZK million)

ČD – Telematika a.s.	31 December 2018	31 December 2017
Fixed assets	1,467	1,624
Current assets	1,277	1,327
Long-term payables	105	129
Short-term payables	665	845
Total of equity	1,974	1,977
Equity attributable to owners of the Group	1,401	1,368
Non-controlling interests	573	609

(CZK million)	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Income	1,678	1,391
Expenses	(1,620)	(1,342)
Profit for the period	**58**	**49**
Profit attributable to owners of the Group	41	34
Profit attributable to non-controlling interests	17	15
Total profit	**58**	**49**
Total comprehensive income attributable to owners of the Group	41	34
Total comprehensive income attributable to non-controlling interests	17	15
Total comprehensive income	**58**	**49**
Net cash flows from operating activities	192	63
Net cash flows from investments activities	(99)	(49)
Net cash flows from financing	(53)	(10)
Total cash flow	**40**	**4**

19. Investments in Joint Ventures and Associates

(CZK million)

Entity		Value of investment at 31 Dec 2018	Ownership percentage at 31 Dec 2018	Value of investment at 31 Dec 2017	Ownership percentage at 31 Dec 2017
RAILLEX, a.s.	Associate	9	50%	12	50%
BOHEMIAKOMBI, spol. s r.o.	Associate	0	30%	3	30%
Ostravská dopravní společnost, a.s.	Associate	23	50%	21	50%
Ostravská dopravní společnost - Cargo, a.s.	Associate	28	20%	22	20%
JLV, a.s.	Associate	138	38,79%	134	38,79%
Masaryk Station Development, a.s.	Associatet	2	34%	2	34%
Total – associates		**200**		**194**	
Smíchov Station Development, a.s.	Joint venture	-	51%	-	51%
Žižkov Station Development, a.s.	Joint venture	-	51%	-	51%
Total – joint ventures		**-**		**-**	
Total – investments in joint ventures and associates		**200**		**194**	

Summary of financial information on associates

(CZK million)	31 Dec 2018	31 Dec 2017
Total assets	968	928
Of which: long-term assets	*370*	*376*
short-term assets	*598*	*552*
Total liabilities	399	388
Of which: long-term liabilities	*77*	*97*
short-term liabilities	*322*	*291*
Net assets	569	540
Share of the Group in associates' net assets	**200**	**194**

(CZK million)	2018	2017
Total income	1,893	1,819
Profit for the period	60	62
Share of the Group in associates' profit for the period	**19**	**20**

Summary of financial information on joint ventures:

(CZK million)	**31 Dec 2018**	**31 Dec 2017**
Total assets	125	106
Of which: long-term assets	*121*	*103*
short-term assets	*4*	*3*
Total liabilities	155	131
Of which: long-term liabilities	*141*	*120*
short-term liabilities	*14*	*11*
Net assets	(30)	(25)
The Group's share of net assets	**(15)**	**(13)**

(CZK million)	**2018**	**2017**
Total income	7	-
Profit (loss) for the period	(4)	(5)
The Group's share of profit (loss)	**(2)**	**(2)**

20. Inventories

(CZK million)	**31 Dec 2018**	**31 Dec 2017**
Spare parts for machinery and equipment	85	79
Spare parts and other components for rail vehicles and locomotives	1,197	1,127
Other machinery, tools and equipment and their spare parts	160	152
Fuels, lubricants and other oil products	40	32
Work clothes, work shoes, protective devices	112	96
Other	156	141
Total cost	**1,750**	**1,627**
Write-down of inventories to their net realisable value*)	(93)	(89)
Total net book value	**1,657**	**1,538**

*) Amount of the inventories for which the impairment was accounted for is CZK 362 million as at 31 December 2018 and CZK 392 million as at 31 December 2017.

The Parent Group's inventories are kept in the Supply Centre in Česká Třebová .

21. Trade Receivables

Trade receivables consist of following items:

(CZK million)	**31 Dec 2018**	**31 Dec 2017**
Trade receivables – long-term	1	-
Trade receivables – short-term	3,611	3,270
Total	**3,612**	**3,270**

21.1. Aging of Trade Receivables

(CZK million)	Category	Not due	1 - 30 days	Past due date (days) 31 - 90	91–180	181-365	365 and more	Total past due date	Total
31 Dec 2018	Gross	3,422	231	64	9	10	201	515	3,937
	Allowances	(87)	(13)	(15)	(4)	(6)	(200)	(238)	(325)
	Net	**3,335**	**218**	**49**	**5**	**4**	**1**	**277**	**3,612**
31 Dec 2017	Gross	2,867	250	149	48	19	225	691	3 558
	Allowances	(38)	-	(4)	(5)	(16)	(225)	(250)	(288)
	Net	**2,829**	**250**	**145**	**43**	**3**	**-**	**441**	**3,270**

Information on receivables are disclosed in Note 36.9. Credit risk management.

21.2. Movements in allowances for doubtful receivables

(CZK million)	2018	2017
Allowances as at 1 January	288	368
Adjustments to opening balance of the retained earnings	55	-
Allowances as at 1 January 2018 – according to IFRS 9	**343**	**368**
Creation of allowances – trade receivables	68	58
Use of allowances – trade receivables	(86)	(138)
Allowances as at 31 December	**325**	**288**

22. Other Financial Assets

(CZK million)	31 Dec 2018	31 Dec 2017
Financial assets available for sale	-	336
Financial assets in fair value through other comprehensive income	446	-
Receivables from finance leases	79	76
Hedging derivatives *)	14	91
Restricted cash	94	315
Other	-	127
Total non-current financial assets	**633**	**945**
Hedging derivatives *)	149	78
Other financial derivatives	-	-
Claims for damages and losses	33	55
Restricted cash	445	45
Other	173	48
Total current financial assets	**800**	**226**
Total	**1,433**	**1,171**

*) Hedging derivatives and financial assets in fair value though other comprehensive income are measured at fair value; other financial assets are measured at amortised cost .

Other Financial assets with the fair value through other comprehensive income of CZK 440 million represent Eurofima investment as at 31 December 2018. As at 31 December 2017, this investment in the amount of CZK 330 million was included in Financial assets available for sale.

In the item Other financial assets, the prepaid purchase price of leased assets is accounted for in CD Cargo Poland, Sp. z o.o. (deposit is paid in periodic payments). Balance of the deposit as at 31 December 2018 in the current Financial assets is of CZK 153 million (in 2017, the prepaid purchase price was CZK 136 million, out of which CZK 124 million was a non-current part).

Movement in allowances for other financial assets:

(CZK million)	**2018**	**2017**
Allowances as at 1 January	58	57
Adjustments to opening balance of the retained earnings	1	-
Allowances as at 1 January 2018 – according to IFRS 9	**59**	**57**
Creation of allowances – other financial assets	-	4
Use of allowances – other financial assets	(18)	(3)
Allowances as at 31 December	**41**	**58**

22.1. Receivables from Finance Leases

The Parent Company has leased the station buildings at Main Railway Station – Brno.

	Minimum lease payments		**Present value of minimum lease payments**	
(CZK million)	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Up to 1 year	18	18	-	-
1 to 5 years	77	73	-	-
Over 5 years	475	473	79	76
Total	**570**	**564**	**79**	**76**
Less: unrealised financial income	(491)	(488)	-	-
Present value of receivables of minimum lease payments	**79**	**76**	**79**	**76**
In the statements of financial position as:				
Other current financial assets			-	-
Other non-current financial assets			79	76
Total			**79**	**76**

Present value of minimum lease payments is zero because payments cover just the interest.

23. Other Assets

(CZK million)	31 Dec 2018	31 Dec 2017
Prepayments	4	6
Other	1	2
Total non-current assets	**5**	**8**
Prepayments	164	173
Tax receivables - VAT	830	501
Tax receivable – other (except for taxes on corporate income)	6	18
Prepaid expenses	179	144
Subsidies	1,003	8
Other	24	55
Total current assets	**2,206**	**899**
Total	**2,211**	**907**

24. Equity

24.1. Share capital

The Parent Company's share capital is composed of the investment made by the Czech Republic as the sole shareholder, represented by the Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government. All the shares are fully paid.

24.2. Reserves and other funds

(CZK million)	31 Dec 2018	31 Dec 2017	1 Jan 2017
Share premium	16,440	16,440	16,440
Statutory reserve fund	443	380	337
Cash flow hedging reserve	493	338	(821)
Hedging expenses	(264)	-	-
Fund from measurement of financial assets at fair value through other comprehensive income	110	-	-
Foreign currency translation reserve	(1)	2	2
Other	20	40	30
Total	**17,241**	**17,200**	**15,988**

The allocations to the statutory reserve fund are in accordance with the statutes of the individual companies.

24.2.1. Cash flow hedging reserve

(CZK million)	2018	2017
Balance at the beginning of the year	338	(821)
Impact of changes according to IFRS 9	302	-
Balance at the beginning of the year according to IFRS 9	**640**	**(821)**
Revaluation gain / (loss)	(119)	1,140
Settled deferred derivatives	-	34
Reclassification to profit or loss	(51)	(2)
Total change in the cash flow hedging reserve	**(170)**	**1,172**
Relating income tax	23	(13)
Balance at the year-end	**493**	**338**

The cash-flow hedging reserve includes accumulated gains and losses from the effective hedging of cash flows. The accumulated accrued profit or loss from hedging derivatives is reclassified to the profit or loss only if the hedging transaction impacts the profit or loss or is included as an adjustment to the base in the hedged non-financial item in accordance with relevant accounting principles.

Gains and losses reclassified during the year from equity are included in the statements of profit or loss lines 'Revenue from principal operations', 'Purchased consumables and services' and Financial expenses.

Reclassifications from cash-flow hedging reserve to profit or loss for each of the risk exposures:

(CZK million)

Cross currency interest rate swaps – bond funding in EUR with fix-rate hedging	**2018**	**2017**
Balance at the beginning of the year	247	(770)
Impact of changes according to IFRS 9	302	-
Balance at the beginning of the year according to IFRS 9	**549**	**(770)**
Change in fair value of hedging derivatives	(55)	997
Reclassification to profit or loss	35	20
Balance at the year-end	**529**	**247**

(CZK million)

Currency forwards and swaps - securing future earnings in foreign currencies	**2018**	**2017**
Balance at the beginning of the year	66	1
Change in fair value of hedging derivatives	(38)	82
Reclassification to profit or loss	(66)	(3)
Related income tax - change	20	(14)
Balance at the year-end	**(18)**	**66**

(CZK million)

Interest rate swaps – bonds and lease contracts with a variable rate hedging	**2018**	**2017**
Balance at the beginning of the year	(24)	(89)
Interest rate swaps – bonds and lease contracts with a variable rate hedging	(11)	59
Reclassification to profit or loss	13	8
Related income tax – change	(1)	(2)
Balance at the year-end	**(23)**	**(24)**

(CZK million)

Commodity options – oil price hedging	**2018**	**2017**
Balance at the beginning of the year	-	(2)
Change in fair value of hedging derivatives	(15)	-
Reclassification to financial expenses and income	-	2
Balance at the year-end	**(15)**	**-**

(CZK million)

Commodity forwards – traction electricity price hedging	**2018**	**2017**
Balance at the beginning of the year	49	39
Change in fair value of hedging derivatives	-	2
Settled derivatives are accrued	-	34
Reclassification to profit or loss	(33)	(29)
Related income tax - change	4	3
Balance at the year-end	**20**	**49**

24.2.2. Hedging costs

Hedging costs include accumulated gains and losses from changes in fair value excluded from the hedging derivatives related to the currency base margin of cross currency interest rate swaps and time value of commodity options.

(CZK million)	31 Dec 2018	31 Dec 2017
Balance at the beginning of the year	-	-
Impact of changes according to IFRS 9	(300)	-
Balance at the beginning of the year according to IFRS 9	**(300)**	**-**
Hedging expenses	36	-
Balance at the year-end	**(264)**	**-**

24.2.3. Foreign Currency Translation Fund

(CZK million)	31 Dec 2018	31 Dec 2017
Balance at the beginning of the year	2	2
Foreign exchange rate gains or losses arising from translation of foreign operations	(3)	-
Balance at the year-end	**(1)**	**2**

Foreign exchange rate gains or losses relating to the translation of the results and net assets of foreign operations of the Group from their functional currencies to the presentation currency of the Group (i.e. CZK) are reported directly in other comprehensive income and are accumulated in the foreign currency translation fund.

24.2.4. Fund from measurement of financial assets at fair value through other comprehensive income

Fund from the measurement of financial assets at fair value through other comprehensive income includes the accumulated net change in fair value of financial instruments remeasured through other comprehensive income.

(CZK million)	31 Dec 2018	31 Dec 2017
Balance at the beginning of the year	-	-
Impact of changes according to IFRS 9	93	-
Balance at the beginning of the year according to IFRS 9	**93**	**-**
Revaluation	17	-
Balance at the year-end	**110**	**-**

25. Loans and Borrowings

(CZK million)	31 Dec 2018	31 Dec 2017
Payables from finance leases	962	907
Overdraft accounts	11	-
Payable to EUROFIMA	-	-
Issued bonds	8,052	4,355
Other received short-term loans and borrowings	26	70
Total short-term	**9,051**	**5,332**
Payables from finance leases	1,613	2,387
Payable to EUROFIMA	-	-
Issued bonds	20,748	27,254
Other received short-term loans and borrowings	57	31
Total long-term	**22,418**	**29,672**
Total	**31,469**	**35,004**

Borrowings are initially recognised at fair value less transaction costs. In the following periods borrowings are recognised at amortised cost applying the effective interest rate method. All differences between consideration less transaction costs and the amount of payments are recognised in consolidated profit or loss over the borrowing period, unless they are capitalised as a result of acquisition of qualifying assets (see Note 12.).

Portions of long-term loans and borrowings that are repayable in a period shorter than one year from the financial statements date are presented as short-term loans and borrowings.

25.1. Issued Bonds

Date of issue	Nominal value	Maturity in years	Publicly traded	Coupon	Book value at 31 December 2018 in CZK million	Book value at 31 December 2017 in CZK million
23 July 2012	EUR 300 million	7	Yes	4.125%	7,849	7,787
25 July 2013	CZK 4,000 million	5	Yes	6M PRIBOR+ 1.7%	-	4,034
5 November 2014	EUR 30 million	10	No	2.875%	769	763
5 November 2014	EUR 150 million	15	No	3.50%	3,850	3,820
3 June 2015	EUR 37.7 million	7	No	1.89%	981	974
3 June 2015	EUR 77.5 million	20	No	3.00%	2,021	2,006
25 May 2016	EUR 400 million	7	Yes	1.875%	10,319	10,224
26 November 2015	CZK 1,000 million	5	No	1.40%	998	1,000
17 June 2016	CZK 500 million	5	No	1.28%	503	501
29 December 2016	CZK 500 million	7	Yes	1.26%	499	500
20 July 2018	CZK 1,000 million	7	Yes	2.55%	1,011	-
Total					**28,800**	**31,609**
- of which short term					*8,052*	*4,355*
- of which long-term					*20,748*	*27,254*

The Group did not violate any of the conditions of the loan agreements in the reporting period.

25.2. Finance Lease Payables

The finance lease applies to railway vehicles, vehicles and equipment for computers and servers. The value of finance leases is as follows:

(CZK million)	Minimum lease payments 31 Dec 2018	Minimum lease payments 31 Dec 2017	Present value of minimum lease payments 31 Dec 2018	Present value of minimum lease payments 31 Dec 2017
Less than 1 year	1,060	1,030	962	907
From 1 to 5 years	1,572	2,348	1,455	2,164
5 years and more	162	228	158	222
Total	**2,794**	**3,606**	**2,575**	**3,293**
Less future finance expenses	(219)	(313)		
Present value of minimum lease payments	**2,575**	**3,293**	**2,575**	**3,293**
In the statements of financial position as:				
short-term loans			*962*	*907*
long-term loans			*1,613*	*2,387*
Total			**2,575**	**3,294**

Fair value of finance lease liabilities disclosed in Note 36.4.

In the cash-flow statement, the acquisition of fixed assets under finance leases was recognised as non-cash transactions. Repayments of obligations under finance leases are recognised as cash flows from financing activities.

26. Provisions

(CZK million)

	Balance at 1 Jan 2017	Creation	Use	Acquisition	Release of unused parts	Balance at 31 Dec 2017	Creation	Use	Release of unused parts	Balance at 31 Dec 2018
Provision for discounts and refunds – short term *)	24	27	19	-	8	24	-	-	-	-
Provision for legal disputes	565	213	4	1	129	646	25	67	154	450
of which: long-term part	-					-				-
Provisions for employees benefits	385	166	137	-	1	413	167	155	-	425
of which: long-term part	*242*					*250*				*258*
Provisions for business risks	24	-	-	-	24	-	5	-	-	5
of which: long-term part	-					-				-
Provisions for restructuring	109	-	42	-	18	49	-	38	-	11
of which: long-term part	-					-				-
Provisions for loss-making transactions	524	25	69	-	-	480	-	52	-	428
of which: long-term part	*465*					*409*				*350*
Other provisions	173	25	56	5	17	130	49	35	5	139
of which: long-term part	*1*					*1*				-
Total provisions	**1,804**	**456**	**327**	**6**	**197**	**1,742**	**246**	**347**	**159**	**1,458**
long-term	*708*					*660*				607
short-term	*1,096*					*1,082*				851

*) The provision for sales and complaints is classified as „Reimbursement payables" as at 1 January 2018 - see Note 29. Other payables and contingent payables.

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate anniversaries, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. In calculating the provision, the Company used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees of 5%, anticipated increase in salaries of 2%, anticipated inflation level of 2%, likelihood of death or disablement according to the data of the Czech Statistical Office. A change in the amount of the provision due to the change in these parameters is reported as actuarial gains (losses) in the statement of profit or loss. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

The Group recognises a provision for legal disputes according to the anticipated results of all ongoing legal disputes and the relating cash outflows of the Group. Information about the legal claims is disclosed in Note 35.1.

ČD Cargo, a.s., creates a provision for onerous contracts. The amount is the difference between the expected discounted net present value of income and discounted net present value of expected expense. A 7% discount rate was used in the calculation. When discounting expenses, the Group used the pre-tax discount rate for the cost of long-term borrowings. The total amount of the provision as of 31 December 2017 amounted to CZK 462 million. At the end of 2018, it was CZK 409 million.

27. Trade Payables

(CZK million)				Past due date (days)					
Year	Category	Before due date	1 - 30 days	31 - 90	91–180	181-365	365 and more	Total past due date	Total
31 Dec 2018	Short-term	5,658	158	5	19	31	15	228	**5,886**
31 Dec 2017	Short-term	4,710	87	7	3	22	6	125	**4,835**

28. Other Financial Liabilities

(CZK million)	31 Dec 2018	31 Dec 2017
Finance derivatives *)	363	350
Liability arising from supplier loans	5	24
Other	151	160
Total long-term	**519**	**534**
Finance derivatives *)	52	100
Liability arising from supplier loans	39	121
Other	187	212
Total short-term	**278**	**433**
Total	**797**	**967**

*) Finance derivatives are stated at fair value, other financial liabilites are stated at amortised cost.

The items "Other" include, in particular, the liabilities of ČD Cargo, a.s., concerning the judicial conciliation in the dispute over the price of traction energy collected from SŽDC and relating to the settlement of the damage due to SŽDC's traffic closures pursuant to a court judgment.

29. Other Liabilities and Contract Liabilities

(CZK million)	31 Dec 2018	31 Dec 2017
Other	116	395
Total long-term	**116**	**395**
Prepayments received	4	65
Payables to employees	1,309	1,213
Liabilities for social security and health insurance	470	434
Tax liabilities - tax withheld employees	151	137
Tax liabilities - VAT	26	106
Deferred revenues from passenger transport in domestic transportation	*)	195
Repayment of the subsidies under ROP projects	8	7
Contract liabilities	483	-
Refund liabilities	64	-
Other	837	675
Total short-term	**3,352**	**2,832**
Total	**3,468**	**3,227**

*) In 2018, item was recognised within the contract liabilities according to implementation of IFRS 15

In 2016 ČD Cargo, a.s., received subsidy in the amount of CZK 292 million under the grant project for the equipment of the traction vehicles with the on-board part of ETCS European safety system.

Other current liabilities are represented mainly by rent received in advance, deferred revenue, consisting of security and other liabilities.

The Group carries no payables to taxation authorities, social security authorities or health insurers past their due dates.

30. Changes in Liabilities from Financing

Changes in liabilities from financing, namely changes not only from cash flows but also non-monetary changes, are as follows.

(CZK million)	Liabilities to Eurofima – short-term	Liabilities from financial lease – short-term	Liabilities from financial lease – long-term	Issued bonds – short-term	Issued bonds – long-terms	Overdraft accounts	Other	Total
Note	25	25	25	25	25	25	25	25
Liabilities from financing as at 1 January 2017	**811**	**867**	**3,030**	**381**	**32,689**	**-**	**45**	**37,823**
Cash-flows from financing, including:	(811)	(836)	-	-	-	-	57	(1,590)
Proceeds from loans and borrowings	-	-	-	-	-	-	70	70
Repayments of loans and borrowings	(811)	(836)	-	-	-	-	(13)	(1,660)
Non-monetary flows:								
Consequences of changes in exchange rates	-	-	-	(25)	(1,473)	-	-	(1,498)
Reclassification **)	-	876	(876)	4,000	(4,000)	-	-	-
Other non-monetary movements	-	-	233	(1)	38	-	(1)	269
Liabilities from financing as at 31 December 2017	**-**	**907**	**2,387**	**4,355**	**27,254**	**-**	**101**	**35,004**
Cash-flows from financing, including:	-	(738)	-	(4,000)	998	11	(17)	(3,746)
Proceeds from loans and borrowings	-	195	-	-	998	11	35	1 239
Repayments of loans and borrowings	-	(933)	-	(4 000)	-	-	(52)	(4 985)
Non-monetary flows:								
Consequences of changes in exchange rates	-	-	-	8	185	-	-	193
Reclassification **)	-	793	(793)	7,718	(7,718)	-	-	-
Other non-monetary movements	-	-	19	(29)	29	-	-1	18
Liabilities from financing as at 31 December 2018	**-**	**962**	**1,613**	**8,052**	**20,748**	**11**	**83**	**31,469**

*) Cash flows from financing include drawing on loans and borrowings, repayment of loans and borrowings, repayment of finance leases, and are reported in the cash-flow statement.
**) Credits and loans classified in the previous period as long term, which became short-term in the current period.

31. Related Party Transactions

Relations between the Group and entities stated in Notes 31.1. – 31.4. are described in Note 1.3.

31.1. Loans to Related Parties

The Group provided no loans to related parties as of 31 December 2018, 31 December 2017 and 1 January 2017.

31.2. Sales to related parties

(CZK million)

2018	Sale of services	Other income	Total
JLV, a.s.	1	1	2
RAILLEX, a.s.	26	-	26
BOHEMIAKOMBI, spol. s r.o.	5	-	5
Ostravská dopravní společnost, a.s.	54	-	54
Ostravská dopravní společnost - Cargo, a.s.	24	-	24
Total	**110**	**1**	**111**

(CZK million)

2017	Sale of services	Total
JLV, a.s.	2	2
RAILLEX, a.s.	22	22
BOHEMIAKOMBI, spol. s r.o.	10	10
Ostravská dopravní společnost, a.s.	54	54
Ostravská dopravní společnost - Cargo, a.s.	74	74
Total	**162**	**162**

31.3. Purchases from related parties

(CZK million)

2018	Services	Total
JLV, a.s.	161	161
RAILLEX, a.s.	9	9
Ostravská dopravní společnost - Cargo, a.s.	65	65
Total	**235**	**235**

(CZK million)

2017	Services	Total
JLV, a.s.	187	187
RAILLEX, a.s.	1	1
Ostravská dopravní společnost, a.s.	58	58
Total	**246**	**246**

31.4. Unsettled balances at the end of the period with related parties

(CZK million)

31.12.2018	Receivables	Payables
JLV, a.s.	-	47
RAILLEX, a.s.	2	1
Ostravská dopravní společnost, a.s.	17	-
Ostravská dopravní společnost - Cargo, a.s.	4	12
Total	**23**	**60**

(CZK million)

31.12.2017	Receivables	Payables
JLV, a.s.	-	54
RAILLEX, a.s.	4	-
BOHEMIAKOMBI, spol. s r.o.	1	-
Ostravská dopravní společnost, a.s.	17	-
Ostravská dopravní společnost - Cargo, a.s.	9	11
Total	**31**	**65**

Unsettled balances are not secured and will be settled by bank transfer. No warranties were granted or accepted. In the current and previous accounting periods no costs were incurred in connection to doubtful receivables from related parties.

31.5. Key Management Members Compensation

Key management of the Group includes management of the Parent Company and its subsidiaries.

Employee benefits during the year 2018 were paid to key management members, as follows:

(CZK million)	Board of Directors	Supervisory Board	Steering Committee
Remuneration of members of statutory bodies	65	18	-
Other short-term employee benefits	48	13	-
Total	**113**	**31**	**-**
Number of key management members	**46**	**74**	**7**

During the year 2017, these employee benefits were paid:

(CZK million)	Board of Directors	Supervisory Board	Steering Committee
Remuneration of members of statutory bodies	71	18	-
Other short-term employee benefits	43	15	-
Total	**114**	**33**	**-**
Number of key management members	**40**	**78**	**7**

The Group's management had the possibility to use benefit-in-kind remuneration in the form of the use of Company cars for private purposes.

31.6. Relationships with companies owned by the state

The Group České dráhy is wholly owned and controlled by the State of the Czech Republic. Accordingly, as allowed by IAS 24 Related Party Disclosures, the Group does not disclose quantitative information related to individually insignificant transactions with companies owned by the state. Listed below are significant related party transactions that the Group managed to identify: transport purchasers in the public service obligation (Region and the Ministry of Transport), the state organisation SŽDC and group ČEZ.

(CZK million)

Revenue, income and compensation	Counterparty	2018	2017
Income from rental property	SŽDC	21	24
Payment for rail replacement bus service	SŽDC	831	392
Payments from ordering the service – payments from the state budget	state - MD	4,723	4,599
Compensation of 75% discount fares	state - MD	732	-
Payment from ordering the service – payment from the regional budgets	regions	9,576	9,445
Revenues from Telecommunication Services	SŽDC	644	742
Revenues from freight transportation	ČEZ	241	308
Operation and maintenance of SW	SŽDC	54	47

(CZK million)

Expense	Counterparty	2018	2017
Use of railway route and allocated capacity of the railway – passenger transport	SŽDC	1,845	1,911
Use of railway route and allocated capacity of the railway – freight transport	SŽDC	1,002	1,244
Consumption of electric traction energy	SŽDC	641	621
Consumption of electric traction energy	ČEZ	615	543
Telecommunication services	SŽDC	44	79
Real Estate rental	SŽDC	48	48

(CZK million)

Receivables	Counterparty	31 December 2018	31 December 2017
Payment for replacement bus service	SŽDC	122	32
Public service obligation	state - MD	-	7
Compensation of 75% discount fares	state - MD	169	-
Public service obligation	regions	24	112
Telecommunications services	SŽDC	210	350
Revenues from freight transportation	ČEZ	40	30

(CZK million)

Liabilities	Counterparty	31 December 2018	31 December 2017
Use of railway route and allocated capacity of the railway – passenger transport	SŽDC	418	183
Use of railway route and allocated capacity of the railway – freight transport	SŽDC	226	240
Court settlement	SŽDC	89	-
Telecommunication services	SŽDC	29	72
Consumption of electric traction energy – passenger transport	SŽDC	141	71
Consumption of electric traction energy – passenger transport	ČEZ	225	69

State institutions, enterprises and other parties controlled by the state utilise the services provided by the Group under the conditions applicable to other customers. On the cost side, the Group buys some services and other supplies (water, electricity, etc.) from companies controlled by the state under the conditions applicable to other consumers.

32. Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position are measured at amortised cost and are tested for impairment according to IFRS 9. The Group considers estimated impairment of cash and cash equivalents immaterial due to high quality credit-ratings of cooperating banks confirmed by the external investment rating.

For cash-flow reporting purposes, cash and cash equivalents include cash on hand, cash at bank and investments in money market instruments after reflecting negative balances on overdraft accounts and restricted cash. Cash and cash equivalents at the end of the reporting period reported in the cash-flow statements can be reconciled to the relevant items in the statements of financial position, as follows:

(CZK million)	31 Dec 2018	31 Dec 2017
Cash on hand and cash in transit	87	90
Cash at bank *)	3,251	7,707
Depository promissory notes *)	100	4
Total)**	**3,438**	**7,801**

*) The Group's parties are banks with high credit ratings. (The investment grade is required.) The Company cooperates with these banks on the basis of long-term and stable relationships.
**) According to IFRS 9, impairment losses on cash and cash equivalents were considered immaterial by the Group.

33. Contracts for Operating Leases

33.1. The Group as a Lessee

Assets held under operating leases by the Parent Company which are reported off balance sheet and include a significant number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognised in expenses in the year 2018 amounted to CZK 267 million (in 2017: CZK 230 million).

The Group's payments presented among expenses arising from the leasing of railway wagons on the basis of an agreement on the use of wagons in international traffic were CZK 635 million in 2018 (in 2017: CZK 720 million). Other payments for operating leases of railway wagons in 2018 were CZK 601 million (in 2017: CZK 394 million).

In 2018 and in 2017, the Group as a lessee paid CZK 84 million for the rental of buildings and land in the Logistics Center in Lovosice.

Due to fact that contracts for opearting leases are not irrevocable, the Group does not present the value of minimal future lease payments as at 31 December 2018 and, since 1 January 2019, will account for such leases according to IFRS 16, as described in Note 3.3.

33.2. The Group as a Lessor

Operating leases applies to investment property and movable assets held by the Group with various lease periods.

In 2018 revenue from operating leases of Group's investment property amounts to CZK 247 million (in 2017: CZK 256 million).

Direct operating expenses relating to investment property for the period amounted to CZK 103 million

Revenues from operating leases of movable assets in 2018 was CZK 491 million (in 2017: CZK 442 million).

Future minimal lease payments from irrevocable operating leasing contracts as at 31.12.2018:

- up to one year in the amount of CZK 36 million
- up to five years in the amount of CZK 144 million
- more than five years in the amount of CZK 144 million

Future minimal lease payments from irrevocable operating leasing contracts as at 31.12.2017:

- up to one year in the amount of CZK 36 million
- up to five years in the amount of CZK 144 million
- more than five years in the amount of CZK 180 million

34. Contractual Obligations Relating to Expenses

As of the balance sheet date, the Group concluded contracts for the purchase of property, plant and equipment in the amount of CZK 12,022 million.

(CZK million)	**31 Dec 2018**
Supplies agreed for 2019	3,504
Supplies agreed for the following years	6,794
As of 31 Dec 2018 was paid	1,724
Total	**12,022**

A substantial part of the capital expenditure commitment (CZK 9,894 million) comprises investments in railway vehicles.

35. Contingent Liabilities and Contingent Assets

The Group holds a 1% equity investment in EUROFIMA. The shareholders of the entity are European national railway transporters and the purpose of this entity is to acquire funds for the funding of railway vehicle purchases. According to Article 5 of the Articles of Association, only 20% of the equity investment value has been paid and the remaining 80% can be required by EUROFIMA from its shareholders as needed pursuant to the resolution of the Administration Board. The nominal value of unpaid shares as of 31 December 2018 was CHF 20.8 million (CZK 475 million). The likelihood that the Group will be asked to pay the nominal value of the unpaid portion of the equity as at 31 December 2018 investment is considered to be low by the Group's management.

The aggregate costs of clean-ups was CZK 24 million in 2018 and CZK 25 million in 2017. The Group is not aware of any environmental burdens that would exceed legislative limits and represent harm to human health or the property of third parties. The provisions for clean-ups of other environmental burdens are not recognised as the Group is unable to estimate the scope of these burdens and its potential involvement in their removal. The Group has not prepared an overall strategy and clean-up plan according to which it could recognise the provisions.

List of active bank guarantees issued by the parent company, as at 31 December 2018:

On behalf of	Amount	Currency	Date of ending	Reason for a bank guarantee
Liberec Region	51,860,000,	CZK	14 December 2019	For the proper implementation of the public service Obligation Agreement in rail passenger transport in the public interest to ensure the basic transport services of a part of the territory of the Liberec Region to the defined performances of "Jizerskohorská železnice"
South-Moravian region	50,000,000	CZK	31 December 2019	For the proper implementation of the public passenger transport services in regional rail passenger transport
Pilsen Region	10,000,000	CZK	26 August 2019	For the proper implementation of the Agreement of the public passenger transport services in regional rail passenger transport on lines No. 190 Plzeň - České Budějovice and No. 170 Plzeň - Cheb on segments of these lines in the territorial activity of the Pilsen Region
Czech Republic - Ministry of Transport	30,000,000	CZK	20 September 2019	For the proper implementation of the Agreement of the public services in passenger transport on public rail passenger transport in order to ensure the transport service of the national transport trains on line R14A Pardubice - Liberec
Czech Republic - Ministry of Transport	10,000,000	CZK	14 December 2019	For the proper implementation of the Agreement of the public passenger transport services by public rail passenger transport in order to ensure the transport service of the national transport on the line R13 Brno - Břeclav - Olomouc
Czech Republic - Ministry of Transport	30,000,000	CZK	8 February 2019	For the offer in tender procedure of Assure of public services in transport in public passenger rail transport on lines Ex2 Prague - Olomouc - (Slovakia) and R18 Prague - Olomouc - Luhacovice for the period from the beginning of the timetable 2019/2020 until the end of the timetable 2027 / 2028
Czech Republic - Ministry of Transport	20,000,000	CZK	8 February 2019	For the offer in tender procedure of Assure of public services in transport in public passenger rail transport on line R8 Brno-Ostrava-Bohumín for the period from the beginning of the timetable 2019/2020 until the end of the timetable 2027 / 2028
Czech Republic - Ministry of Transport	30,000,000	CZK	8 February 2019	For the offer in tender procedure of Assure of public services in transport in public passenger rail transport on lines R21, R22, R24 a R26 for the period from the beginning of the timetable 2019/2020 until the end of the timetable 2027 / 2028

List of active bank guarantees received by the Parent Company, as at 31 December 2018:

Bank Guarantee issued by the Company	Type of insurance	Amount	Currency	Date of ending	Reason for a bank guarantee
ČEZ Prodej, a.s., Praha 4, Duhová 1/425, PSČ 140 53	Unicredit Bank Czech Republik and Slovakia, a.s.	100,000,000	CZK	31 December 2018	Fulfilment of the obligations of the electricity supply contract
Pars nova, a.s., Žerotínova 1833/56, 787 01 Šumperk	Československá obchodní banka, a.s.	55,361,402	CZK	21 January 2019	Fulfilment of the obligations of the modernization of 22 railway rolling stock contract
Pars nova, a.s., Žerotínova 1833/56, 787 01 Šumperk	Československá obchodní banka, a.s.	10,198,223	CZK	14 March 2019	Fulfilment of the obligations of the modernization of railway rolling stock contract
ŠKODA VAGONKA a.s., 1.máje 3176/102, Moravská Ostrava, 703 00 Ostrava	Československá obchodní banka, a.s.	100,755,000	CZK	31 March 2019	Fulfilment of the obligations of the of 9 pcs of EMU 160 units supply
Pars nova, a.s., Žerotínova 1833/56, 787 01 Šumperk	Československá obchodní banka, a.s.	49,130,779	CZK	19 April 2019	Fulfilment of the obligations of the modernization of 71 railway rolling stock contract
Pars nova, a.s., Žerotínova 1833/56, 787 01 Šumperk	Československá obchodní banka, a.s.	7,913,945	CZK	9 June 2019	Fulfilment of the obligations of the modernization of railway rolling stock contract
CZ LOKO, a.s., Semanínská 580, 560 02 Česká Třebová	Československá obchodní banka, a.s.	23,898,000	CZK	15 June 2019	Fulfilment of the obligations of the delivery of locomotives for shifting contract
Zlínstav a.s., Bartošova 5532, 760 01 Zlín	Komerční banka, a.s.	2,516,492	CZK	31 October 2021	Fulfilment of the obligations of the contract of work - Třinec Transfer Terminal

List of active bank guarantees issued by ČD Cargo, a.s., as at 31 December 2018:

On behalf of	Type of insurance	Amount	Currency	Date of ending	Reason for a bank guarantee
WestInvest Waterfront Towers s.r.o., Jankovcova 1569/2c, 170 00 Praha 7, Holešovice	Warranty for rent	227,267	EUR	20 September 2019	Bank guarantee to meet all liabilities and obligations of tenant-based rental agreement with West Invest Waterfront Towers Ltd. - Lighthouse.
HYPARKOS, s.r.o., Rohanské nábřeží 678/25,186 00 Praha 8	Warranty for rent	16,517,056	CZK	30 June 2019	Bank guarantee in the event that ČD Cargo, a.s., does not comply with the obligations laid down in the agreement on the rental of buildings and land in the Logistics Center in Lovosice.
Celní úřad pro Jihočeský kraj, Kasárenská 6, 370 21 České Budějovice	customs guarantee	2,000,000	CZK	19 September 2019	Warranty Deed - operations other than transit (comprehensive guarantee), Reg. No. 1401798029 to ensure customs and tax debt, which means the obligation to pay duties, taxes and charges levied on imports, including their accessories, with the exception of fines.
Celní úřad pro Jihočeský kraj, Kasárenská 6, 370 21 České Budějovice	customs guarantee	500,000	CZK	19 September 2019	Liability guarantor- comprehensive guarantee. Reg. number of warranty deed 1808250029 granted to the Customs Authority for the South Bohemian Region for securing a customs debt and other fees
Celní úřad pro Jihočeský kraj, Kasárenská 6, 370 21 České Budějovice	customs guarantee	3,500,000	CZK	19 September 2019	Warranty Deed for the purpose of ensuring collateral, the customs agent acting on the basis of direct representation. Reg. number of warranty deed 1808231029 Certificate of Guarantee issued to the South Bohemian Customs Office

List of active bank guarantees received by ČD Cargo, a.s., as at 31 December 2018:

Bank Guarantee issued by the Company	Type of insurance	Amount	Currency	Date of ending	Reason for a bank guarantee
Siemens, s.r.o., Praha 13, Siemensova 1, PSČ 155 00	Unicredit Bank Czech Republic and Slovakia, a.s.	1,997,500	EUR	28 February 2019	Providing supplies of interoperable driving railway vehicles for the needs of ČD Cargo, a.s. and operability under warranty
Siemens, s.r.o., Praha 13, Siemensova 1, PSČ 155 00	Unicredit Bank Czech Republic and Slovakia, a.s.	1,191,000	EUR	31 July 2020	Providing supplies of interoperable driving railway vehicles for the needs of ČD Cargo, a.s. and operability under warranty
Siemens, s.r.o., Praha 13, Siemensova 1, PSČ 155 00	Unicredit Bank Czech Republik and Slovakia, a.s.	1,438,000	EUR	30 April 2021	Providing supplies of interoperable driving railway vehicles for the needs of ČD Cargo, a.s. and operability under warranty
Wagony Swidnica SP. O.Z.O., Strzelinska 35; 50-100 Swidnica, Poland	Citibank Europe plc, organizační složka	2,408,000	EUR	31 May 2021	Providing supplies of 500 new railway freight wagons of EANOS series.
CZ Loko, a.s., Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	42,727,500	CZK	24 May 2019	Providing supplies of new dieasel locomotives for taxi and rail service for ČD Cargo, a.s.
CZ Loko, a.s., Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	17,670,000	CZK	28 August 2019	Providing modernisation of new locomotive (prototype) from the public procurement "Modernisation of 50 locomotives of serires 742".
CZ Loko, a.s., Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	592,500	EUR	20 November 2020	Providing duty during phase Switch-off for selected locomotive (prototype) from public procurement "Modernisation of 50 locomotives of serires 742".
SMK, s.r.o., Dukelskych hrdinov 10/143; 960 01 Zvolen; Slovakia	Raiffeisenbank a.s.	8,000,000	CZK	30 May 2019	Providing cash based transfer of freight vehicles fleet of series Eas.
TATRAVAGÓNKA, a.s., Štefánikova 887/53; 05801 Poprad; Slovakia	Commerzbank Aktiengesellschaft, pobočka Prague	592,800	EUR	31 July 2019	Providing supplies of 80 new tank freight vehicles series Zacns.
Bombardier Transportation Gmbh, Eichhomstrasse 3; 10785 Berlin; Germany; ID: DE	Commerzbank Aktiengesellschaft, pobočka Prague	3,558,000	EUR	31 December 2021	Providing up to 50 locomotives Traxx MS3 (guaranty relates to the first 10 locomotives).

35.1. Legal disputes

35.1.1. Railway Freight Transportation Market

Office for the Protection of Competition (OPC) imposed a fine on ČD, a.s. for abusing its position on the market in the area of freight transportation of significant amounts of natural resources and raw materials of approximately CZK 250 million. Based on ČD's defence, the case was passed to the Administrative Court. The Supreme Administrative Court dismissed the OPC's appeal in December 2017. The case is finally resolved at the level of the administrative courts in ČD, a.s.'s favour and returned to the OPC, back to the first instance. In June 2018, the OPC issued a new first instance decision, which significantly reduced the scope of sanctioned proceedings against ČD and imposed a significantly lower fine of approximately CZK 15.6 million. In July 2018, ČD appealed against this decision. The chairman of OPC dismissed the appeal and the fine in amount of approximately CZK 15.6 million became final. ČD, a.s. disagrees with the mentioned fine and will appeal against it. However, due to the fact that the decision was final and' apparently, the court would not grant the suspensive effect, the fine was paid within the due date. If the administrative court accepts the appeal, the amount will be recovered.

35.1.2. Legal Action by LEO Express against ČD, a.s. for the compensation of damage

In July 2014, LEO Express filed a legal action for compensation of damage amounting to approximately CZK 419 million which was allegedly caused to LEO Express by ČD, a.s. and its pricing policy. The first-instance court rejected LEO Express's legal action. LEO Express partially withdrew the legal action, against which ČD applied the legal remedy, but the court accepted the partial withdrawal, while Leo Express appealed against the decision of the Court of First Instance of dismissing the application to the extent of which there was no withdrawal. At the end of December 2016, Leo Express filed a new legal action against ČD for the approximate amount of CZK 434 million with accessories and for a similar reason. The second legal action mostly overlaps part of the legal action which was withdrawn by Leo Express after the failure in the first instance in the Municipal Court in Prague. In March 2018, the High Court in Prague cancelled the judgment dismissing the first LEO Express claim for damages and returned the case to the Municipal Court in Prague for further proceedings. Both of the above-mentioned proceedings (the first action, LEO Express claims, after partial withdrawal, payment of approximately CZK 34 million and the second action for payment of approximately CZK 434 million) are now being handled before the Municipal Court in Prague as a court of first instance.

35.1.3. RegioJet Legal Action for the Return of Allegedly Prohibited Public Support (the defendants Being ČD, a.s., SŽDC, s.o., and the Czech Republic Represented by the Czech Ministry of Transportation)

In April 2015, RegioJet filed a legal action for the return of approximately CZK 7 billion and default interest due to allegedly prohibited public support. The assets involving the 'assets required to maintain rails and their operability' ("mrtvá dopravní cesta" in Czech), which were transferred by ČD to SŽDC in 2008 for CZK 12 billion, were allegedly overstated by this amount. On 6 February 2019, the Court of First Instance dismissed the RegioJet legal action in its entirety.

35.1.4. RegioJet's Call for the Payment of Compensation for Detriment

RegioJet sent a pre-trial call to ČD, a.s. for the payment of the compensation for the damages dated 10 April 2015 in which it seeks payment of cca. CZK 717 million. The alleged damages were caused by ČD's sanction activities in operating the Prague – Ostrava line, involving the application of dumping prices. ČD refused to pay for the damages. RegioJet filed a legal action seeking the payment of compensation of approximately CZK 717 million with accrued interest and charges that resulted in legal proceedings being initiated in the matter. During the course of a judicial proceeding in the first instance, the trial was interrupted until the European Commission decision on the Falcon case (investigating whether ČD applied the dumping prices on the Prague – Ostrava line see 35.1.7).

35.1.5. Legal Action by Grandi Stazioni Česká republika, s.r.o. against SŽDC a ČD for the transfer of Prague Main Railway Station

The Company Grandi Stazioni Česká republika, s.r.o. (GS) filed three legal actions against the state organisation Railway Infrastructure Administration (SŽDC) and against ČD. GS is seeking payment of compensation of CZK 776.5 million, increased by a fine for delayed payment and default interest from SŽDC or ČD, depending on the court decision as to who the owner of Prague Main Railway Station – Praha hlavní nádraží (Fanta's building and passenger terminal) is. SŽDC and ČD agree that the owner of Prague Main Station is SŽDC, so that ČD should not be a party in the payment dispute. This position was held by ČD during all legal procedures. In the matter of determining the ownership of Fanta's building, GS›s action was dismissed: the applicant GS filed an appeal which was dismissed by a court of second instance. Ownership of the passenger terminal is subject to further appeal procedures. SŽDC commissioned an expert opinion to assess the amounts claimed by GS in the application for payment and, based on the expert opinion, SŽDC paid the amount of CZK 565.7 million to GS. As at the end of 2018, the payment dispute was extended by CZK 37 million applied by GS due to VAT payment.

35.1.6. Legal Action by Grandi Stazioni Česká republika, s.r.o. against SŽDC and ČD compensation of pre-contractual obligation

In August 2017, Grandi Stazioni Czech Republic, s.r.o. (GS) filed a lawsuit with the District Court in Prague 1, in which it seeks payment of CZK 1,255.6 million from Railway Infrastructure Administration (SŽDC) and ČD for the payment of compensation of a pre-contractual obligation. The alleged damage was caused by the failure to apply Amendment No.5 to the lease agreement regarding the lease and revitalisation of Prague - Main Railway Station - Praha hlavní nádraží.

35.1.7. Proceedings in the matter of alleged abuse of a dominant position on the Prague – Ostrava line

In January 2012, the OPC initiated proceedings against ČD, a.s. regarding the alleged abuse of ČD, a.s.'s dominant position on the Prague – Ostrava line in the form of inadequately low (predatory) prices in response to the entry of a new competitive railway transporter. In November 2016 in reference to this case the formal investigation was initiated by the European Commission. The OPC has suspended the investigation due to the initiation of a European Commission investigation. The matter has not been decided yet, the proceedings are ongoing. ČD has filed legal action with the Court of Justice of the EU against execution of the local European Commission investigation in the seat of ČD. The Court of Justice partially upheld the action (the legal action was considered partly unlawful), ČD appealed against that decision.

35.1.8. Proceedings in the matter of Italia Express train at the Office for the Protection of Competition

In Autumn 2016, the Office for the Protection of Competition initiated proceedings with ČD and ČD Cargo, a.s. in the matter of a possible violation of the Law on the Protection of Competition and the Treaty of the European Union. ČD and ČD Cargo have allegedly committed a violation by providing transport and mail services with the help of railway vehicles including related transport and forwarding services for the transport of goods to the loading station and transport of goods to the destination. This violation occurred in a period greater than ten years ago according to the OPC. By the decision taken on 19 June 2017 by OPC, proceedings against ČD Cargo have been discontinued, but ČD, as the parent company, is still part of the administrative proceedings. The reason is that, according to the law on the "protection of economic competition of the sole competitor", it is appropriate to involve only one company in administrative proceedings. On 21 September 2018, ČD received OPC's decision on the imposition of a fine of CZK 48 million. The fine was paid by ČD within the due date.

35.1.9. Proceedings in the matter of a possible abuse of the dominant position on the routes Pardubice - Liberec and Plzeň – Most

In April 2016, the Office for the Protection of Competition (OPC) initiated administrative proceedings. The alleged violation of competition rules were charged against ČD for the reason that, during the tender held in 2005 concerning the railway transport and provision of public services on the route Pardubice-Liberec-Plzeň-Most for the duration of the 2006/2007 timetable, they presented a price offer which did not cover the costs of service provision on the routes in question. In accordance with the agreement, CD provided the service on the stated routes until the end of the 2013/2014 timetable. OPC imposed a fine of CZK 368 million on 14 December 2017. ČD applied a legal remedy as the decision is not final.

35.1.10. Audits of Subsidies Used from the Regional Operational Programme (ROP) for the Acquisition of Railway Vehicles

Since early 2014, the Audit Body of the Czech Ministry of Finance (the "Audit Body") has been conducting a due audit of operations at ČD, a.s. in terms of Section 7 (2) and Section 13a of Act No. 320/2001 Coll., on Financial Auditing in Public Administration and Changes to Certain Acts (the "Financial Auditing Act"), as amended, and Article 62 (1) (b) of Council Regulation (EC) No. 1083/2006. Following the audits carried out by the Audit Body, individual Regional Councils of the Cohesion Region issued payment demands in total anticipated amount of CZK 549 million. ČD disagrees with the mentioned conclusions and appealed against them to the Ministry of Finance. In June 2018, on the basis of the Ministry of Finance's decision regarding one case, a CZK 272 million payment was reduced to CZK 68 million. ČD lodged an administrative action against this decision with a suspensive effect. The remaining appeal proceedings before the Ministry of Finance are still ongoing and payment demands are not valid yet. ČD is not obliged to pay them.

35.1.11. Alleged cartel agreement between CD, ZSSK and OBB for the sale of the disposed railway vehicles

In June 2016, the European commission („EC") performed a local investigation in the headquarters of ČD for the suspision of the cartel agreement made for the mutual sale of railway vehicles. EC investigates if ČD, ZSSK and OBB have concluded an agreement that limitates the sale of the disposed railway vehicles for the purposes of restricting the entrance of new transporters to the market. ČD filed a complaint to the Court of Justice of the EU against EC's local investigation in the headquarters of ČD. ČD finds the local investigation unreasonable when there is no information about such an agreement made in the past (allegedly in 2010/2011). ČD denies that it entered into a cartel agreement. Currently, no official proceedings have started against ČD: the case is in the investigation and information gathering phase. No official proceeding has started, however, the investigation is not finished.

36. Financial Instruments

36.1. Capital Risk Management

Group's main objective in capital risk management is to maintain the rating at the investment grade and maintain a balanced ratio between equity and debt. The Group uses issues of bonds as a principal source of long-term funding.

The Group's capital structure consists of net debt (borrowings including finance lease liabilities less cash and cash equivalents) and the Group's equity (includes share capital, reserves and other funds, retained earnings).

(CZK million)		31 Dec 2018	31 Dec 2017
Net debt			
Loans and borrowings	25	31,469	35,004
Less: Cash and cash equivalent	32	3,438	7,801
Total net debt		**28,031**	**27,203**
Equity			
Share capital	24	20,000	20,000
Reserves and other fund	24	17,241	17,200
Retained earnings / Unallocated loss	24	2,183	1,121
Total Equity		**39,424**	**38,321**
Total Managed equity		**67,455**	**65,524**

The Group does not have any capital requirements set by external entities.

The Board of Directors and the Supervisory Board are regularly informed about the development of the debt. Any additional debt is subject to their consent.

36.2. Significant Accounting Policies

Details of the significant accounting policies and methods adopted for each class of financial asset, financial liability and equity instrument are disclosed in Note 2.

36.3. Financial Instruments Classification

(CZK million)

Category of financial assets IFRS 9	Category of financial assets IAS 39	Class of financial assets		31 Dec 2018	31 Dec 2017
Financial assets measured at amortised cost	Loans and receivables	Trade receivables	21	3,612	3,270
		Cash and cash equivalents	32	3,438	7,801
		Receivables from financial leases	22	79	76
		Other	22	745	590
Financial assets measured at fair value through profit or loss	Financial assets at fair value through profit or loss	Financial derivatives used in hedge accounting	22	163	169
Financial assets measured at fair value through other comprehensive income	Available for sale financial assets	Financial assets measured at fair value through other comprehensive income	22	446	336
Total				**8 ,483**	**12,242**

(CZK million)

Category of financial liability IFRS 9	Category of financial liability IAS 39	Class of financial assets		31 Dec 2018	31 Dec 2017
Financial liabilities measured at fair value through profit or loss	Financial liabilities at fair value through profit or loss	Financial derivatives used in hedge accounting	28	415	450
		Other financial derivatives	28	-	-
Financial liabilities measured at amortised cost	Financial liabilities at amortised cost	Loans and borrowings	25	31,469	35,004
		Trade payables	27	5,886	4,835
		Liabilities arising from supplier loans	28	44	145
		Other	28	338	372
Total				**38 ,152**	**40,806**

In 2018, according to IFRS 9, investments in equity instruments that are not traded on an active market and their fair value is determined at the Level 2 of the fair value hierarchy, are measured at fair value through other comprehensive income.

In 2017, according to IAS 39, available-for-sale financial assets included investments in equity instruments that were not traded on an active market and were measured at cost.

Income from individual categories of financial assets is as follows:

(CZK million)

Category of financial assets	2018	2017	Reported in the statement of profit or loss line
Interest on cash and cash equivalents	13	5	Financial income
Interest on leasing receivables	16	17	Financial income
Dividends from available-for-sale financial assets	-	-	Other operating income
Total	**29**	**22**	

Impairment losses on financial assets are disclosed in Note 21, 'Trade receivables' and 36.9 'Credit risk management'. Other classes of financial assets were not significantly impaired.

36.4. Fair Value of Financial Instruments

Financial assets measured at fair value

(CZK million)

Financial assets	Level	Fair value as of 31 Dec 2018	Carrying value as of 31 Dec 2018	Fair value as of 31 Dec 2017	Carrying value as of 31 Dec 2017
Measured at fair value		**703**	**703**	**610**	**946**
Derivative instruments in designated hedge accounting relationships	Level 2	163	163	169	169
Financial assets at fair value through other comprehensive income	Level 2	446	446	*)	336
Other financial derivatives – long term	Level 2	94	94	441	441
Measured at amortised cost					
Financial lease receivables	Level 2	79	79	76	76
Total		**782**	**782**	**686**	**1,022**

*) The fair value is not reliably determinable.

Financial liabilities (CZK million)	Level	Fair value as of 31 Dec 2018	Carrying value as of 31 Dec 2018	Fair value as of 31 Dec 2017	Carrying value as of 31 Dec 2017
Derivative instruments in designated hedge accounting relationships	Level 2	415	415	450	450
Measured at amortised cost	**Level 2**	**32,397**	**31,587**	**36,209**	**35,118**
Liabilities from financial lease	*Level 2*	*2,656*	*2,575*	*3,419*	*3,294*
Issued bonds	*Level 2*	*10,719*	*10,632*	*9,748*	*9,564*
Issued bonds (traded)	*Level 1*	*18,808*	*18,168*	*22,827*	*22,045*
Other financial liabilities	*Level 2*	*214*	*212*	*215*	*215*
Total		**32,812**	**32,002**	**36,659**	**35,568**

Cash and cash equivalents, trade receivables, other current financial assets and other short-term financial liabilities are not shown in the table because their fair value is equal to the carrying value due to their short-term maturity.

Determining the fair value of financial derivatives is carried out using the Group's own pricing models, discounted cash flows using observable market assumptions. The fair value of financial derivatives are classified as Level 2 in the fair value hierarchy.

During the year 2017 and 2018, there were no transfers of Financial instruments between levels.

36.4.1. Valuation procedures used to determine fair value

Fair values of financial assets and financial liabilities are determined as follows:

- fair values of financial assets and financial liabilities with standard relationships and terms that are traded on an active liquid market are determined on the basis of quoted market prices,
- fair values of other financial assets and financial liabilities (excluding financial derivatives) are determined in accordance with generally accepted valuation models based on discounted cash-flow analysis using the inputs from observable current market operations and market prices for similar instruments, or an appropriate yield curves with the corresponding duration,
- fair values of financial derivatives are calculated using quoted prices. If these prices are not available, linear derivatives are valued using discounted cash flows based on quoted exchange rates, quoted commodity prices, and appropriate yield curves corresponding to the maturity of the contracts. Valuation models for options are used for derivative options.

36.4.2. Fair value measurement recognised in the statement of financial position

Financial instruments measured at fair value are allocated to levels 1 to 3 according to the extent to which the fair value can be ascertained or verified:

- fair value measurements at level 1 are valuations, which are determined based on unadjusted quoted prices of the same assets or liabilities in active markets,
- the fair value measurement at level 2 are valuations, which are determined based on inputs other than quoted prices used at level 1; this information can be obtained from the asset or liability directly (i.e. prices) or indirectly (i.e. data derived from prices),
- fair value measurement at level 3 are valuations based on valuation techniques that use asset or liability information that is not derived from observable market data (unverifiable inputs).

All financial instruments measured at fair value as at 31 December 2018 and 31 December 2017 are included in level 2.

36.5. Financial Risk Management Objectives

The Group manages financial risks through internal risk reports which include risk analysis based on their significance. Financial risks include market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

36.6. Currency Risk Management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. These transactions predominantly include income from international transportation, received loans and issued bonds. In line with the approved Risk Management Strategy, the Parent Company hedges anticipated payments in a foreign currency such that the size of the open risk position not exceeding the limit defined for the period by the Risk Management Committee and approved by the Parent Company's Board of Directors.

The carrying amounts of the Group's foreign-currency-denominated financial assets and financial liabilities, net of the impact of currency hedging, at the end of the reporting period are as follows:

(CZK million)

31 Dec 2018	EUR	USD	Other	Total
Financial assets	3,454	10	48	3,512
Financial liabilities	(28,686)	(14)	(38)	(28,738)
Total	**(25,232)**	**(4)**	**10**	**(25,226)**

(CZK million)

31 Dec 2017	EUR	USD	Other	Total
Financial assets	2,216	30	34	2,280
Financial liabilities	(27,768)	(10)	(40)	(27,818)
Total	**(25,552)**	**20**	**(6)**	**(25,538)**

36.6.1. Foreign Currency Sensitivity Analysis

The exposure to currency risks is measured by a sensitivity analysis. The Group is exposed to the currency risk due to:

- changes in the value of cash items denominated in foreign currencies
- changes in the fair value of concluded financial derivatives

The following table shows the impact that the strengthening of the Czech currency by one crown in respect of Euro would have on the profit and other comprehensive income. A positive number indicates an increase in the profit and other comprehensive income, a negative number indicates the decrease in the profit and other comprehensive income:

(CZK million)	2018	2017
Translation of items denominated in foreign currencies at the end of the period	981	1,000
Change in the fair value of derivatives at the end of the period	(555)	(558)
Total impact on the profit for the period	**426**	**442**
Change in the fair value of derivatives at the end of the period	31	4
Total impact on other comprehensive income	**31**	**4**

36.6.2. Currency Forwards and Options

In accordance with the management risk strategy, the Group concludes currency forwards and options to cover future receivable payments denominated in foreign currencies with a predetermined hedge ratio of 1:1. The hedge ratio is determined by comparing the amount of the hedged item and the hedging instrument which was used. The calculation is based on a currency of a forward contract that reduces the currency risk resulting from the exchange rate fluctuation of the national currencies and the planned positive balance in EUR, which the Group generates. The hedging ratio is regularly monitored in the context of risk management objectives.

At the same time, the Group does not separate the hedging costs, as it assumes that they are insignificant at the moment. Possible changes are regularly monitored.

As the characteristics of the hedging instrument fully correspond to the characteristics of the hedged item, the management of ČD Cargo expects a high level of efficiency in the hedging.

The nominal value of the hedge is lower than the future expected cash flows in EUR. The Group never hedged more than 80% of the expected EUR cash flows. A CZK / EUR exchange rate is hedged, which then converts foreign currency earnings (EUR) into the functional currency (CZK). The maximum hedging volumes are set in the Financial Risk Management Strategy of the Group and then:

- For 2019, a maximum of 80% of the underlying asset (estimated EUR balance)
- For 2020, a maximum of 65% of the underlying asset (estimated EUR balance)
- For 2021, a maximum of 50% of the underlying asset (estimated EUR balance)

Monetary hedge is negotiated under market conditions (without premium payments), the fair value of derivatives on the day of the deal is nil. Based on the above-mentioned facts, the Group assumes that the hedging relation will be effective over its lifetime. The result of the transaction is a predictable (fixed) CZK / EUR exchange rate to be used to sell the positive Group's EUR balance.

As credit risk is not part of the hedged risk, credit risk affects only changes in the value of the hedging instrument. Credit risk arises from the credit rating of the Group and banks as counterparties to the currency forwards. Credit risk associated with the banks and the Group is considered to be minimal and will be reconsidered when there is a significant change in circumstances at one of the parties.

Potential causes of the possible inefficiencies may arise from a basis spread. Another factor may be a time mismatch. The Group does not provide specific transactions, but only the volume of the planned balance and a possible significant decline in the counterparty's creditworthiness. The Group considers the above-mentioned factors to be insignificant or highly improbable and therefore deems the currency hedging to be effective.

The table presents open foreign currency forwards and options on foreign currency sales at:

Sales	Average exchange rate	Foreign currency	Nominal value in EUR million	Fair value in CZK million
31 Dec 2018	25.969	EUR	96	(37)
31 Dec 2017	26.641	EUR	84	86

Expected realisation of hedged items by currency derivatives
The following table presents expected hedged future cash flows in EUR (in nominal value):

(CZK million)

31 Dec 2018	Up to 1 month	1 - 3 months	3 months up to 1 year	1 - 5 years	Over 5 years	Total
Secure of future sales in EUR	129	257	1,158	926	-	2,470

(CZK million)

31 Dec 2017	Up to 1 month	1 - 3 months	3 months up to 1 year	1 - 5 years	Over 5 years	Total
Secure of future sales in EUR	128	255	1,149	613	-	2,145

36.6.3. Cross currency interest rate swaps

In accordance with the currency risk management requirements, the Group has entered into a cross-currency interest rate swap which reduces the risk of the bond funding in EUR using the hedge ratio of 1:1.

The economic relationship between the hedging instrument and the hedged item is described according to the following parameters:

- Swaps' nominal values are equal to the nominal values of the volume of the bond.
- Both transactions are contracted in the same currencies.
- Maturity of interest rate swaps payment and interest bond payment are equal.
- Swaps were contracted at market prices (without premium payment), the fair value of derivatives is nil as of the contract date.
- Swaps do not include any arrangements on agreed interest rate restriction (embedded interest rate options)
- The Company does not expect the early bond repayment.

Sources of hedge relationship ineffectiveness are recognised as follows:

- timing of payments on the hedged item,
- termination of the cross currency interest rate swap by the counterparty,
- significant decrease in the Group's or the counterparty's creditworthiness.

The table shows the terms of contracts for cross-currency interest rate swaps that were opened at the end of the reporting period.

31 Dec 2018	Nominal value (EUR million)	Average collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) CZK million
Up to 1 year	542	3.45%	(14,412)	3.63%	116
1 to 5 years	292	2.90%	(8,062)	2.99%	157
Over 5 years	195	3.36%	(5,404)	3.52%	(484)
Total					**(211)**

31 Dec 2017	Nominal value (EUR million)	Average collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) CZK million
Up to 1 year	542	3.45%	(14 412)	3.63%	(50)
1 to 5 years	542	3.09%	(14 412)	3.20%	189
Over 5 years	255	3.01%	(7 027)	3.11%	(469)
Total					**(330)**

The exchanges of payments under the cross-currency interest rate swaps and coupon payments from issued bonds occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the coupon payments from the issued bonds affect the profit or loss.

Expected realisation of items hedged by cross currency interest rate swaps

Expected cash flows of hedged foreign currency bonds are listed in Note 36.10.1. in tables with remaining contractual maturities of financial liabilities in line-fixed interest rate Instruments.

36.7. Interest Rate Risk Management

The Group manages interest rate risk by maintaining an appropriate mix between fixed and floating rate financing, and, for this purpose, the Group concludes contracts for interest rate swaps so that the amount of the open risk position does not exceed the limit set for the period by the Risk Management Committee and approved by the Board of Directors of the Parent Company.

36.7.1. Interest Rate Sensitivity Analysis

The exposure to changes in interest rates is measured by the sensitivity analysis. The Group is exposed to the interest rate risk due to:

- changes in interest expenses from loans and lease with a variable rate
- change in the fair value of concluded financial derivatives

The following table shows the impact that an increase in interest rates of 100 basis points would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates the decrease in the profit and other comprehensive income:

(CZK million)	2018	2017
Interest from loans and lease with variable rate for the period	(14)	(66)
Change in the fair value of derivatives at the end of the period	-	1
Total impact on the profit for the period	**(14)**	**(65)**
Change in the fair value of derivatives at the end of the period	19	50
Total impact on other comprehensive income	**19**	**50**

36.7.2. Interest Rate Swap Contracts

In accordance with currency risk management requirements, the Group has entered into interest rate swap contracts which reduces the risk of lease contracts and bonds with variable interest rates.

The hedge ratio is determined at 1:1.

The economic relationship between the hedging instrument and the hedged item is described according to the following parameters:

- Swaps' nominal values are equal to the nominal values of the nominal values of the volume of leaseback loans and variable interest rate bonds
- Both transactions are contracted in the same currencies
- Maturity of interest rate swaps payments and interest leaseback loan and bond payments are equal
- Swaps were contracted at market prices (without premium payment), the fair value of derivatives is nil as of the contract date
- Swaps do not include any arrangements on agreed interest rate restriction (embedded interest rate options)
- The Group does not expect the early leaseback loan or bond repayment

Sources of hedge relationship ineffectiveness are recognised as follows:

- early repayment of the remaining value of the leaseback or bonds,
- termination of the interest rate swap by the counterparty,
- significant decrease in the Group's or the counterparty's creditworthiness.

The following table details the terms of interest rate swap contracts outstanding at the end of the reporting period.

31 Dec 2018	**Hedging of interest rate from**	**Average contracted fixed interest rate**	**Principal**	**Fair value in CZK million**
Up to 1 year	Float interest bonds Leases	1.52%	CZK 576 million	-
1 to 5 years	Leases	1.32%	CZK 220 million	**3**
Total				**3**

31 Dec 2017	**Hedging interest payments from**	**Average contracted fixed interest rate**	**Principal**	**Fair value in CZK million**
Up to 1 year	Float interest bonds Leases	1.61% 1.52%	CZK 4,000 million CZK 785 million	(40) (8) (48)
1 to 5 years	Leases	1,72%	CZK 398 million	1 1
Total				**(47)**

The Group settles the difference between fixed and floating interest rates on a net basis. The interest rate swaps and the interest payments on the debt occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating interest rates on debt affect the profit or loss. Gains and losses reclassified during the year from the equity are included in "Other interest expense" which is part of "Financial expenses" in profit or loss.

36.7.3. Interest Rate Options
In accordance with the interest rate risk management requirements, in 2011, the Group entered into an interest rate hedging agreement for 3 floating-rate leasing transactions. The hedging took the form of a collar, in three individual tranches. The hedging is effective from 2013 to 2019.

	Hedged range	Principal in CZK million	Fair value of assets (liabilities) in CZK million at 31 Dec 2018
Up to 1 year	1.13% - 3.13%	177	-
1 to 5 years	1.13% - 3.13%	-	-
Total			**-**

	Hedged range	Principal in CZK million	Fair value of assets (liabilities) in CZK million at 31 Dec 2017
Up to 1 year	1.13% - 3.13%	107	(1)
1 to 5 years	1.13% - 3.13%	178	-
Total			**(1)**

36.7.4. Expected realisations of hedged item interest rate swaps and interest rate options
The expected hedged cash flows from interest on variable-rate debt are listed in Note 36.10.1. in tables with remaining contractual maturities of financial liabilities in rows Finance lease liabilities and instruments with a variable interest rate.

36.8. Commodity Risk Management
The Group is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically oil and electricity, are significant cost items of the Group. The Group manages this risk so that the size of the open risk position does not exceed the limit defined for the period by the Risk Management Committee and approved by the Parent Company's Board of Directors. The risk is managed by the Group using the combination of several instruments as follows:

– conclusion of hedging derivatives for oil purchase and traction electricity
– negotiating a fixed price of electricity always for the following calendar year

Except for those mentioned above, in case of an increase in the price of the commodities, the Group has the option of asking the regions and the state for increased payments for transportation.

36.8.1. Analysis of Sensitivity to Changes in Commodity Prices
The exposure to the change in the price of commodities is measured by sensitivity analysis. The Group is exposed to the risk of changes in commodity prices due to changes in the fair value of concluded financial derivatives.

The following table shows the impact that a 10% increase in the price of oil would have on profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates a decrease in the profit and other comprehensive income:

(CZK million)	2018	2017
Change in the fair value of derivatives at the end of the period	-	6
Total impact on the profit for the period	**-**	**6**
Change in the fair value of derivatives at the end of the period	13	13
Total impact on other comprehensive income	**13**	**13**

36.8.2. Commodity Derivatives
In accordance with the commodity risk management requirements, the Group has entered into contracts hedging traction diesel pricing stability. The hedging was carried out by the Commodity collar, which is to restrict the maximum (cap) price and the minimum (floor) price.

The hedge ratio is determined at 1:1.

The economic relationship between the hedging instrument and the hedged item is described according to the following parameters:

– Commodity collar nominal values are equal to nominal values of expected hedged fuel consumption
– Treasury indexes of both transactions are the same (Ultra Low Sulphur Diesel 10ppm FOB Barges Rotterdam)
– Both transactions/indexes are contracted in the same currencies
– Commodity collar's maturities are set in line with the expected purchases of fuel
– Commodity collars were contracted at market prices (without premium payment) , the fair value of derivatives is nil as of the contract date
– The Group does not expect the overcollateralization, that if the price of the physical supply is fixed before the commodity collar's maturity, the commodity collars will be early terminated

Sources of hedge relationship ineffectiveness are recognised as follows:

– Risk components were not separated from the hedging instrument (i.e. various surcharges, impact of biodiesel price, excise tax, trader's margin, etc.)
– termination of commodity collar by the counterparty
– significant decrease in the counterparty's creditworthiness.

The table below presents outstanding commodity contracts for the fuel and electricity purchases as of:

Purchase of diesel	Hedged value	Volume of contracts (mt)	Fair value (CZK million)
31 Dec 2018	19,920 CZK/mt	7,200	8
	10,450 - 16,670 CZK/mt	7,200	(15)
31 Dec 2017	11,118 CZK/mt	9,600	11
	7,260 – 16,000 CZK/mt	14,400	1

Expected realizations of hedged items of commodity derivatives
The following table shows the expected cash flows of the hedged purchases of fuel and electricity:

(CZK million)

31 Dec 2018	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Secured future purchases of fuel	14	28	122	-	-	164
Secured future purchases of electricity	-	-	-	-	-	-

(CZK million)

31 Dec 2018	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Secured future purchases of fuel	23	47	208	31	-	309
Secured future purchases of electricity	10	20	92	-	-	122

36.9. Credit Risk Management
The Group is exposed to credit risk, which is that one party of the financial instrument will cause financial losses to the other party by failing to meet its obligations. Credit risk arises as a result of the Group's business operations (trade receivables) and financial market activities. The Group's credit risk quantification is based on a number of primary criteria, where the threat of counterparty default during a transaction is the main determinant due to possible negative impact on the Group's economic result and cash flow. The Group analyses the counterparties using both internal departments and external information services. Any Counterparty insolvency may result in imminent losses with an adverse impact on the Group's business.

Sources of credit risks related to threat of a counterparty default during a transaction were recognised by the Group as follows:

- suppliers who receive advances from the Group,
- financial institutions,
- employees or tenants – natural persons to whom the receivable arises,
- corporate customers,
- the state and regions as public service payers.

Hence, the approval of business operations with new counterparties is a subject to standardized approval procedures by designated departments. The credit risk management does not include assets and receivables management, as standard financial instruments, such as prepayments and bank guarantees are used in order to reduce the risk.

Financial assets that the Group exposes to potential credit risk include cash and cash equivalents, trade receivables and financial derivative contracts. The Group's cash is deposited in prestigious domestic financial institutions. The Group is mainly exposed to the following credit risk categories due to its business activities:

- direct credit risk,
- credit equivalent risk.

Most frequently, the direct credit risk arises from receivables from ongoing trading relationships, particularly from supplier loans granted. The quality credit-ratings of the customer are assessed individually, based on the financial position, previous experiences and other factors.

To measure expected credit losses using the simplified approach, current receivables are classified according to common features relating to credit risk and and appropriate maturities. On this basis, the Group assesses expected credit loss rates for trade receivables.

Expected credit losses are determined based on the payment profile and sales over the 5-year period preceding 1 December 2018 and 31 December 2018, respectively, on the historical actual credit losses basis. The Group analysed the number of macroeconomic variables (gross domestic product, industrial production indexes, etc.) together with the possible correlation with the customers' solvency. However, since no correlation was recognised, the Group considers the customers' individual creditworthiness.

The following table states the impairment of current receivables:

(CZK million)				Past due date (days)			
As at 31 December 2018	**Before due date**	**1 - 30**	**31 - 90**	**91 - 180**	**181 - 365**	**Over 365**	**Total**
Expected credit loss rate	3%	6%	21%	29%	60%	100%	
Current trade receivables before taxation	3,408	233	71	14	10	201	3,937
Expected credit loss	**87**	**14**	**15**	**4**	**6**	**201**	**327**

(CZK million)				Past due date (days)			
As at 1 January 2018	**Before due date**	**1 - 30**	**31 - 90**	**91 - 180**	**181 - 365**	**Over 365**	**Total**
Expected credit loss rate	1%	-%	3%	10%	84%	100%	
Current trade receivables before taxation	2,867	250	149	48	19	225	3,558
Expected credit loss	**38**	**-**	**4**	**5**	**16**	**225**	**288**

The concentration of the Group's credit risk is low as a significant portion of the Group's revenues (passenger transportation fare) is collected in cash. In the case of payments from public services customers from the state budget or regional budgets, the risk is low due to the state's high credit rating (see Note 31.6.). In other transactions, the Group seeks to deal only with creditworthy counterparties whom the Group reviews individually on an ongoing basis using publicly available information. The group's exposure and the credit ratings of its counterparties are continuously monitored.

Financial assets:

(CZK million)

As at 31 December 2018		Before due date, not impaired	Before due date, impaired	Past due date, not impaired	Past due date, impaired	Impairment	Total
Trade receivables *)	21	3,321	88	290	238	(325)	3,612
Cash and cash equivalents	32	3,438	-	-	-	-	3,438
Receivables from finance leases	22	79	-	-	-	-	79
Restricted cash	22	539	-	-	-	-	539
Other	22	206	-	-	41	(41)	206
Financial derivatives used in hedge accounting	22	163	-	-	-	-	163
Other financial derivatives	22	-	-	-	-	-	-
Total		**7,746**	**88**	**290**	**279**	**(366)**	**8,037**

(CZK million)

As at 31 December 2017		Before due date, not impaired	Past due date, not impaired	Past due date, impaired	Impairment	Total
Trade receivables *)	21	2,834	436	288	(288)	3,270
Cash and cash equivalents	32	7,801	-	-	-	7,801
Receivables from finance leases	22	76	-	-	-	76
Restricted cash	22	360	-	-	-	360
Other	22	230	-	50	(50)	230
Financial derivatives used in hedge accounting	22	169	-	-	-	169
Other financial derivatives	22	-	-	-	-	-
Total		**11,470**	**436**	**338**	**(338)**	**11,906**

*) The age structure of trade receivables is described in the chapter 21.1.

Various combinations of standard instruments (deposits, payment terms, customer tracking, internal tools, etc.) are used by ČD Cargo, a.s., for additional security of potentially risky receivables. To improve the Group's liquidity, a policy of net settlement of receivables and payables is actively used. At the same time, the Group ČD Cargo, a.s., applied continuous monitoring of receivables by individual companies and default periods with special attention to receivables more than 15 days overdue. Past due receivables are continuously monitored by senior staff that are the individuals responsible and ultimately by the Commission claims.

The credit risk on liquid funds and derivative financial instruments are limited as the counterparties are banks with credit-ratings assigned on the investment grade. Due to that fact, the impact of impairment of cash is considered immaterial.

(CZK miliion)

Bank	Rating	Bank balances as at 31 Dec 2018	Bills deposits as at 31 Dec 2018	Bank balances as at 31 Dec 2017	Bills deposits as at 31 Dec 2017
Komerční banka	A1	585	100	1,655	4
ČSOB	A2	1,959	-	3,585	-
Citibank	A1	87	-	668	-
ING bank	Aa3	86	-	439	-
Česká spořitelna	A1	4	-	603	-
Equa bank		1	-	4	-
UniCredit Bank	A3	170	-	234	-
Raiffeisenbank	Baa1	126	-	251	-
Sberbank CZ *)	BB+	122	-	103	-
J&T Banka		-	-	5	-
Všeobecná úvěrová banka	A2	61	-	46	-
Millenium bank	Baa2	2	-	7	-
Deutsche Bank	A3	-	-	11	-
Frankfurter Sparkasse *)	F1+	27	-	4	-
Bank Austria	Baa1	12	-	8	-
Slovenská sporiteľňa *)	A2	-	-	80	-
Tatra banka	A3	9	-	4	-
Fio banka *)	A-	1	-	-	-
Total		**3,251**	**100**	**7,707**	**4**

*) Moody's financial rating is stated in the table above as at year end, except for marked items, for which the Fitch rating is stated.

The carrying amount of financial assets recognised in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The credit quality of receivables that are not past their due dates and are not impaired in any other way, is good and corresponds to the carrying value.

The Group does not recognise any pledged assets as at 31 December 2018.

36.10. Liquidity Risk Management

The Group manages its liquidity risk through a process of planning future cash flows and provision of short-term funding with reputable financial institutions (promissory notes programme and agreed overdraft and revolving loans), with the minimum period of 12 months. To ensure sufficient short-term liquidity, the Group has concluded these binding credit facilities so that its available resources exceed its current liabilities. The liquidity is continuously monitored by the rating agency Moody's.

36.10.1. Liquidity and Interest Rate Risk Tables

The following tables details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that instruments carry the floating interest, the undiscounted amount is derived from interest rate curves at the end of the reporting period and may change, if interest rates differ from the determined estimates.

(CZK million)

31 Dec 2018	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	2,972	2,333	822	116	37	6,280
Derivatives	2	5	44	183	536	770
Incoming cash flows	-	-	187	1,698	5,987	7,872
Outgoing cash flows	2	5	231	1,881	6,523	8,642
Finance lease liabilities	191	134	735	1,572	162	2,794
Float interest rate instruments	11	1	6	26	-	44
Fixed interest rate instruments	1	8	8,517	15,137	9,215	32,878
Total	**3,177**	**2,481**	**10,124**	**17,034**	**9,950**	**42,766**

(CZK million)

31 Dec 2017	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	2,553	1,916	645	194	22	5,330
Derivatives	27	2	45	170	692	936
Incoming cash flows	-	-	214	1,819	7,672	9,705
Outgoing cash flows	27	2	259	1,989	8,364	10,641
Finance lease liabilities	99	174	757	2,348	228	3,606
Float interest rate instruments	85	16	4,111	7	-	4,219
Fixed interest rate instruments	-	-	773	12,213	19,245	32,231
Total	**2,764**	**2,108**	**6,331**	**14,932**	**20,187**	**46,322**

The following tables present the Group's expected maturity for its financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets reflecting the anticipated maturity period. The table includes cash flows from the interest and principal.

(CZK million)

31 Dec 2018	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	5,641	1,587	700	55	447	8,430
Derivatives	2	3	68	(73)	-	-
Incoming cash flows	2	3	6,730	1,662	-	8,397
Outgoing cash flows	-	-	6,662	1,735	-	8,397
Finance lease liabilities	3	-	15	77	475	570
Total	**5,646**	**1,590**	**783**	**59**	**922**	**9,000**

(CZK million)

31 Dec 2017	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	9,576	1,096	545	442	336	11,995
Derivatives	7	13	36	38	-	94
Incoming cash flows	7	13	320	6,672	-	7,012
Outgoing cash flows	-	-	284	6,634	-	6,918
Finance lease liabilities	4	-	14	73	473	564
Total	**9,587**	**1,109**	**595**	**553**	**809**	**12,653**

36.10.2. Financing facilities

The Group has access to the following credit lines:

(CZK million)

Bank overdraft	ČSOB	Citibank	ING	VUB	KB	Millenium Bank	SLPL	Total
Amount of the loan facility as at 1 January 2017	**1,110**	**200**	**200**	**400**	**1,600**	**-**	**-**	**3,510**
Amount unused as at 1 January 2017	**1,110**	**200**	**200**	**400**	**1,600**	**-**	**-**	**3,510**
Change of loan facility amount in 2017	-	-	-	-	-	-	-	-
Amount of the loan facility as at 31 December 2017	**1,110**	**200**	**200**	**400**	**1,600**	**-**	**-**	**3,510**
Amount unused as at 31 December 2017	**1,110**	**200**	**200**	**400**	**1,600**	**-**	**-**	**3,510**
Change of loan facility amount in 2018	-	-	-	-	-	77	13	90
Amount of the loan facility as at 31 December 2018	**1,110**	**200**	**200**	**400**	**1,600**	**77**	**13**	**3,600**
Amount unused as at31 December 2018	**1,110**	**200**	**200**	**400**	**1,600**	**67**	**12**	**3,589**

(CZK million)

Promissory notes program	ČSOB	Citibank	ING	KB	Deutsche Bank	Česká spořitelna	Total
Amount of the loan facility as at 1 January 2017	**500**	**1,000**	**2,000**	**1,000**	**-**	**1,000**	**5,500**
Amount unused as at 1 January 2017	**500**	**1,000**	**2,000**	**1,000**	**-**	1,000	**5,500**
Change of loan facility amount in 2017	-	-	-	-	-	-	-
Amount of the loan facility as at 31 December 2017	**500**	**1,000**	**2,000**	**1,000**	**-**	**1,000**	**5,500**
Amount unused as at 31 December 2017	**500**	**1,000**	**2,000**	**1,000**	**-**	**1,000**	**5,500**
Change of loan facility amount in 2018	1,700	(1,000)	1,000	1,450	-	1,250	4,400
Amount of the loan facility as at 31 December 2018	**2,200**	**-**	**3,000**	**2,450**	**-**	**2,250**	**9,900**
Amount unused as at 31 December 2018	**2,200**	**-**	**3,000**	**2,450**	**-**	**2,250**	**9,900**

(CZK million)

Revolving loan	Citibank	Total
Amount of the loan as at 1 Jan 2017	**-**	**-**
Unused amount as at 1 Jan 2017	**-**	**-**
Change in the amount of the loan in 2017	-	-
Amount of the loan as at 31 Dec 2017	**-**	**-**
Unused amount as at 31 Dec 2017	**-**	**-**
Change in the amount of the loan in 2018	2,000	2,000
Amount of the loan as at 31 Dec 2018	**2,000**	**2,000**
Unused amount as at 31 Dec 2018	**2,000**	**2,000**

37. Post Balance Sheet Events

As at 30 January 2019, the company ČD Logistics, a.s., changed its name to ČD Cargo Logistics, a.s.

As at 11 March 2019, the Company České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to remove Mr. Jiři Švachula from the ČD Cargo, a.s., Supervisory body effective on 11 March 2019.

Since 1 January 2019, changes to the Board of Directors and Supervisiory Boad occured. These changes are described in the chapter on Corporate governance of the Group's Annual Report.

No other significant events occurred between the balance sheet date and the date of the preparation of the consolidated financial statements .

38. Approval Of The Financial Statements

The financial statements were approved by the Board of Directors and authorised for issue on 8 April 2019.

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Separate Financial Statements
for the Year 2018 Prepared under IFRS as Adopted by the EU

Company name: **České dráhy, a.s.**
Registered office: **Nábřeží L. Svobody 1222, 110 15 Praha 1**
Legal form: **Joint Stock Company**
Corporate ID: **70994226**

Components of the Separate Financial Statements for the year 2018 prepared under IFRS as adopted by the EU:
Statement of Profit or Loss
Statement of Other Comprehensive Income
Statement on Financial Position (Balance Sheet)
Statement of Changes in Equity
Cash Flow Statement
Notes to the Financial Statements

Separate Financial Statements were prepared on 8 April 2019.
Statutory body of the reporting entity

Miroslav Kupec
Chairman of the Board of Directors
České dráhy, a.s.

Radek Dvořák
Member of the Board of Directors
České dráhy, a.s.

Statement of profit or loss for the year ended 31 December 2018

		Year ended 31 Dec 2018 CZK million	Year ended 31 Dec 2017 CZK million
CONTINUING OPERATIONS			
Revenues	5	23,892	22,110
Other operating income	6	1,564	2,303
Purchased consumables and services	7	(9,897)	(10,076)
Employee benefit costs	8	(9,080)	(8,408)
Depreciation and amortisation	9	(4,720)	(4,767)
Other operating costs	10	(322)	(538)
Profit from operating activities		**1,437**	**624**
Financial expenses	11	(1,245)	(1,108)
Financial income	12	265	794
Profit before tax		**457**	**310**
Profit for the period from continuing operations		**457**	**310**
Profit for the year		**457**	**310**

Statement of other comprehensive income for the year ended 31 December 2018

	Year ended 31 Dec 2018 CZK million	Year ended 31 Dec 2017 CZK million
Profit for the year	**457**	**310**
Actuarial gains on employee benefit liabilities	17	9
Fund from measurement of financial assets at fair value through other comprehensive income	17	-
Other comprehensive income for the year (items that are not subsequently reclassified to profit or loss)	**34**	**9**
Cash flow hedging	(48)	1,103
Hedge accounting expenses	36	-
Other comprehensive income for the year (items that may be reclassified to profit or loss)	**(12)**	**1,103**
Other comprehensive income for the year	**22**	**1,112**
Total comprehensive income for the year	**479**	**1,422**

Statement of financial position (balance sheet) as at 31 December 2018

		31 Dec 2018 CZK million	31 Dec 2017 CZK million
Property, plant and equipment	14	52,411	52,889
Investment property	15	611	666
Intangible assets	16	314	237
Investments in subsidiaries and associates and joint ventures	17	8,061	8,004
Other financial assets	20	1,238	1,249
Other assets	21	3	5
Total non-current assets		**62,683**	**63,050**
Inventories	18	1,260	1,128
Trade receivables	19	1,463	1,151
Other financial assets	20	499	257
Other assets	21	1,834	588
Cash and cash equivalents	29	1,837	6,332
Total current assets		**6,893**	**9,456**
TOTAL ASSETS		**69,531**	**72,506**
Share capital	22	20,000	20,000
Reserve and other funds	22	16,916	16,805
Accumulated losses		(1,009)	(1,437)
Total equity		**35 907**	**35 368**
Loans and borrowings	23	18,224	26,008
Provisions	24	136	152
Other financial liabilities	26	462	382
Total non-current liabilities		**18,822**	**26,542**
Trade payables	25	3,692	2,947
Loans and borrowings	23	8,373	4,783
Provisions	24	599	792
Other financial liabilities	26	73	129
Other liabilities and contract liabilities	27	2,065	1,945
Total current liabilities		**14,802**	**10,596**
TOTAL LIABILITIES		**69,531**	**72,506**

Statement of changes in equity for the year ended 31 December 2018

	Share capital CZK million	Reserve and other funds*) CZK million	Cash flow hedging reserve CZK million	Hedge accounting expenses CZK million	Remeasurement fund from assets at fair value through other comprehensive income CZK million	Retained earnings CZK million	Total equity CZK million
Balance as at 1 January 2017	**20,000**	**16,540**	**(838)**	**-**	**-**	**(1,756)**	**33,946**
Comprehensive income							
Profit for the period	-	-	-	-	-	310	310
Other comprehensive income for the year	-	-	1,103	-	-	9	1,112
Comprehensive income for the year - total	**-**	**-**	**1,103**	**-**	**-**	**319**	**1,422**
Balance as at 31 December 2017	**20,000**	**16,540**	**265**	**-**	**-**	**(1,437)**	**35,368**
Impact of IFRS 9 and IFRS 15 implementation	-	-	302	(300)	93	(35)	60
Balance as at 1 January 2018	**20,000**	**16,540**	**567**	**(300)**	**93**	**(1,472)**	**35,428**
Comprehensive income							
Profit for the period	-	-	-	-	-	457	457
Allocation to reserve fund	-	11	-	-	-	(11)	-
Other comprehensive income for the year	-	-	(48)	36	17	17	22
Comprehensive income for the year - total	**-**	**11**	**(48)**	**36**	**17**	**463**	**479**
Balance as at 31 December 2018	**20,000**	**16,551**	**519**	**(264)**	**110**	**(1,009)**	**35,907**

*) Reserve and other funds include Share premium of CZK 16,439 million (as at 1 January 2017, 31 December 2017 and 31 December 2018).

Cash flow statement for the year ended 31 December 2018

		Year ended 31 Dec 2018 CZK million	Year ended 31 Dec 2017 CZK million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax		**457**	**310**
Dividend income	6	(275)	(350)
Financial expenses - interest	11	919	1,019
Profit from the sale and disposal of non-current assets	6	(455)	(292)
Profit from sale joint venture	12	-	(40)
Depreciation and amortisation of non-current assets	9	4,720	4,767
(Reversal of impairment) / Impairment of property, plant and equipment, investment property and assets held for sale	6, 10	(335)	129
(Reversal of) / Impairment of trade receivables	6	4	(39)
Change in provisions	24	(210)	64
Foreign exchange rate gains (losses)		89	(668)
Other		(67)	(113)
Cash flows from operating activities before changes in working capital		**4,847**	**4,787**
Decrease (increase) in trade receivables and contractual assets	19	(523)	185
Iincrease in inventories	18	(138)	(64)
Iincrease in other assets	20,21	(335)	(116)
Increase in trade payables	25	473	544
Increase in other and contractual liabilities	26,27	239	94
Total changes in working capital		**(284)**	**643**
Cash flows from operating activities		**4,563**	**5,430**
Interests paid	11	(967)	(984)
Dividends received	6	275	350
Net cash flows from operating activities		**3,871**	**4,796**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment	14	(4,540)	(3,079)
Proceeds from disposal of property, plant and equipment	6	658	358
Payments for investment property	15	(1)	(2)
Costs of acquisition of intangible assets	16	(196)	(130)
Costs of acquisition of subsidiaries	17	(29)	-
Net cash flows from the sale of joint venture	17	-	59
Interest received	12	57	32
Loans and borrowings provided to related parties	28.6	(154)	(515)
Repayments of loans and borrowings from related parties	28.6	213	120
Net cash flows from investment activities		**(3,992)**	**(3,157)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of loans and borrowings	23	(4,000)	(946)
Payment of financial leasing	23	(374)	(380)
Net cash flows from financing activities		**(4,374)**	**(1,326)**
Net increase (decrease) in cash and cash equivalents		**(4,495)**	**313**
Cash and cash equivalents at the beginning of the reporting period		6,332	6,019
Cash and cash equivalents at the end of the reporting period	**29**	**1,837**	**6,332**

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1. General Information

České dráhy, a. s. (the "Company" or "ČD") was established on 31 March 2002 the basis of Act 77/2002 Coll. on the Joint Stock Company Czech Railways, the State Organisation Railway Route Administration and the Changes to the Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll. As amended. On 1 January 2003, the state organisation Czech Railways discontinued its activities and operations and the Company and the state organisation Railway Route Administration ("SŽDC") was formed as its legal successors. As of that date, the Company was recorded in the Commercial Register.

The sole shareholder of the Company is the Czech Republic. The Company's share capital is CZK 20,000 million. The Company's registered office is located at Nábř. L. Svobody 1222, Prague 1.

The Company is principally engaged in operating railway passenger transportation. In addition, the Company is engaged in other activities relating to its principal business activities.

The separate financial statements have been prepared as at and for the year ended 31 December 2018 (hereinafter "financial statement"). The reporting period is the calendar year from 1 January 2018 to 31 December 2018. The Company additionally prepares the consolidated financial statements under IFRS that will be approved as of the same date as the separate financial statements.

2. Significant Accounting Policies

2.1. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2.2. Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments.

Accounting policies used in reported period are consistent with the accounting policies used in previous periods.

Preparation of Financial Statement in accordance with IFRS approved by the EU requires use of certain critical accounting estimates. It also requires from management use of judgement in the process of applying accounting rules. Areas involving high degree of judgment or complexity, or areas including significant assumptions and estimates in relation to this financial statement are enclosed in Note 4.

2.3. Revenue recognition

2.3.1. Revenue from contracts with customers

In 2018, the Company adopted IFRS 15 – Revenue from Contracts with Customers. The retrospective modified method, which does not require the adjustment of comparative data was applied for its first adoption (year 2017 in this financial statements).

In the first phase, all contracts with customers are initially analysed with the purpose of identifying all performance obligations owed to customer. Subsequently, the transaction price is determined and, in the case of several identified performance obligations, allocated according to their relative standalone selling prices. Consequently, revenue is recognised at the appropriate amount for each performance obligation at a certain point in time or over time of the contract term performance (it may be recognised over several reporting periods). Revenue is reduced for estimated customer returns, rebates and other similar discounts.

Revenue from personal transportation is recognised as at the first day of the ticked validity.

Revenue from the sale of services is recognised at the time when the service was provided, or on linear basis throughout the period of time, if the services are provided by an undetermined number of actions during the determined period of time. The received payment is firstly recognised as a contract liability that is subsequently released to revenue as the service is provided to a customer.

Sales of services are recognised as at the date the services are rendered, where applicable, on a straight-line basis over the period, if the services are provided by an indefinite number of operations during a certain period. The received payment is initially recognised as a contractual liability and subsequently released to the revenue, depending on the time of benefits provision.

Revenue related to transportation services are recognised in the period in which the services are provided in reference to the stage of completion of the service (e.g. period of validity of long-term travel documents).

Information on revenues from passenger transportation are introduced into the accounting from passenger information system, which registers cash income, credit cards payments, incomes from e-shops and other incomes. Revenues accounting takes place at the moment of collection of revenue. Revenues from prepaid products are recognised over time. Prepaid products include for example: annual tickets, annual employee tickets, kilometric bank, loyalty program, etc.

In contrast with domestic transportation international transportation also includes the settlement process of receivables and liabilities to foreign cariers and sellers of international tickest. In some cases such settlement may be delayed by a few months. For this reason the revenue is accrued for as at the time the service is provided based on the information available to the Company.

In addition to selling tickets and similar documents, a significant part of revenue includes transportation form revenue from the usage of passenger cars in the RIC mode („Regolamento Internazionale delle Carrozze", based on the Convention for the reciprocal use of wagons in international traffic), where there is a settlement once a year. Therefore, in this case revenue is also recognised based on the estimate.

Payments from ordering parties such as the Ministry of Transportation and regions are key revenues and are included in passenger transportation. These revenues are accounted monthly in accordance with annually approved orders and the volume of services provided.

Traction price has both a fixed and variable consideration. The fixed part represents the transaction price without consideration of fees and penalty fees. If the price for services rendered by the Group is higher than the received payment for the service, a contract asset is booked. If the payment for the services is higher than the price of services provided, a contract liability is booked. A variable consideration exists in the form of fees and penalty fees connected with the failure of the Company to fulfil the customer contract i.e. breach of time schedule, , damages to the transported goods, etc. In the case of the variable consideration, revenue is recognised to the extent to which it is highly probable that the revenue will not be subject to its future reversal.

Subsequently, sales estimates are corrected for adjustments resulting from the source data for billing shipments in the Transit Sales Rebate (OPT) information system and the data is sent for billing to the SAP system. The source data includes, among other things, information about when the service is performed or delivered.

In 2017, revenues were measured at the fair value of asset's carrying amount or the sum of the consideration received and reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of services was recognised when the services were provided to the counterparty. Revenues related to transportation services were recognised in the period in which the services were provided in reference to the stage of completion of the service (e.g. period of validity of long-term travel documents). Accrued revenues were recognised linearly because the Group had no reliable information about services consumed. Due to the high number of customers using these services, management of the Group did not indicate significant variation between revenues recognised and actually consumed services.

2.3.2. Other income

Dividend income is recognised when the right to receive the payment is established and if the payment is probable.

Interest revenue is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

2.4. Leases

A lease is classified as a finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.4.1. The Company as a Lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2.4.2. The Company as a Lessee

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the financial position statements as a finance lease obligation.

Lease payments are apportioned between finance expenses and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

2.4.3. Sale and leaseback

A sale and leaseback involves the sale of an asset and the subsequent leaseback of the same asset. Lease payments and the sale prices are usually interdependent because they are negotiated upon in a single transaction. The accounting treatment a sale and leaseback transaction depends on the type of leasing, which is part of this transaction.

If the leaseback is a financial lease, the lessor provides cash to tenants with the leased asset as a security of the loan.

For this reason, excess proceeds from a sale where the sale price exeeds the asset's carrying amount is not considered as income. Company recognises recoveries as a financial liability (debt), which, together with interest, is amortised by lease payments.

If the sale operation and leaseback leads to an operating lease and it is evident that the operation was established at fair value, all profits and losses are to be recognized immediately. The exception is when the loss is compensated by future lease payments set out below market price.

In this case the loss must be postponed and compensated in relation to the lease payments over the intended use of the asset.

2.5. Foreign currencies

Given the economic substance of transactions and the environment in which the Company operates, the functional and presentation currency used is the Czech crown (CZK).

Transactions denominated in foreign currencies are recorded at the fixed exchange rate announced by the Czech National Bank. If the exchange rate does not significantly change over time, the Company uses the foreign exchange rate promulgated as of the first day of the period for a longer period of time – usually one month. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the exchange rate of the Czech National Bank as of that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss except for exchange differences on transactions entered into in order to hedge certain foreign currency risks. Such foreign exchange rate differences are recognised directly in equity and reclassified to profit or loss when the hedged underlying item is settled.

2.6. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.7. Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets, are recognised in the statements of financial position as a reduction of the cost of those non-current assets.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company without future related costs are recognised in profit or loss in the period in which they become receivable.

2.8. Employee benefit costs

Employee benefit costs predominantly include payroll costs, payments by the employer deductions for statutory health insurance, social security, pension insurance and the costs of other employee benefits resulting from the collective agreement.

The employee benefit obligations and provisions reported in the statement of the financial position represent their present value as adjusted for unrecognised actuarial gains and losses. Additions to these obligations and provisions are reported as part of expenses after the employees render services for which they will have the right to such benefits.

Provision for long-term employee benefits is measured at the present value of the future cash outflows used to settle those obligations.The discount rate used is a market rate of return on government bonds at the balance sheet date, as there is no developed market for high quality corporate bonds denominated in Czech crowns. The currency and terms of such bonds are consistent with the currency and timing of those long-term benefits. The value of this provision is determined annually based on reports prepared by independent qualified actuaries. Gains or losses arising from changes in actuarial assumptions for post employment benefits at retirement are included in other comprehensive income, changes in the provision for other benefits are included in profit or loss.

2.9. Taxation

The income tax includes current tax payable and deferred tax.

2.9.1. Current tax

The current tax is based on taxable profit for the year. The taxable profit differs from the profit as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax payable is calculated using tax rates that have been enacted or substantively enacted by law or announced by the end of the reporting period.

2.9.2. Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used to calculate taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2.9.3. Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss.

2.10. Property, plant and equipment

Property, plant and equipment are recorded at a cost reduced by accumulated losses from impairment, and by accumulated depreciation in respect of property and equipment. Freehold land is not depreciated.

Assets under construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. If there is no sufficient certainty that the lessee will acquire the ownership of an asset at the end of the lease, this asset is depreciated over the lease period if it is shorter than the anticipated useful life.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The Company capitalises major (periodical) repairs of rail vehicles. The costs of repairs are recorded as a separate asset item (component) and are depreciated over the useful life of repairs. The depreciation period of the components is determined for the series of rail vehicles and type of the components (periodical repairs – major, significant and overhaul). The average period of depreciation is six years.

2.11. Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, the Company measures its investment property using the cost model; the carrying amounts are decreased by cumulative depreciation and impairment

2.12. Intangible assets

Intangible assets acquired separately are recorded at a cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, are measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2.13. Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset are estimated in order to determine the extent of the possible impairment losses. If it is not possible to determine the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are also allocated to individual cash-generating unit, if a reasonable and consistent basis can be determined for allocation. Otherwise, corporate assets are allocated to the smallest group of cash-generating units for which it is possible to determine a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is lower than its carrying amount, the carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

If the impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount. But the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.14. Investments in subsidiaries, associates and joint ventures
A subsidiary is an entity which is controlled by the Company, i.e. it has power over the investee, it is exposed to variable returns from its involvement with the investee or has the ability to use its power to affect its returns, and if it has power over the investee (i.e. holds existing rights based on which it is able govern the activities that significantly impact the revenues of this entity).

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over such entity. In such case, the company usually controls 20-50% of the voting rights.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement that exists when decisions about the relevant activities require unanimous consent of the parties sharing control.

In the separate financial statements, investments in subsidiaries and associates and joint ventures, which are not classified as held for sale, are reported at cost.

Investments in subsidiaries are tested for impairment at least on an annual basis by comparing the fair value and the carrying amount of the equity investment.

2.15. Inventories
Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined using the weighted arithmetic average method. The net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are mainly held for own use rather than for re-sale.

2.16. Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A provision can be used only for those expenditures for which it was originally created. A change in a provision is recognized in profit or loss for a specific expense category; the unused portion of the provision is recognized in Other operating income.

2.17. Financial instruments
Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

In 2018 the Company adopted IFRS 9 – Financial instruments. The modified retrospective method, which does not require the adjustment of comparative information was applied for IFRS 9 adoption. According to IFSR 9, financial assets are classified into the following three categories: financial assets measured at amortised cost, financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income. The classification depends on the Company's business model for managing financial assets and contractual cash flow characteristics of the financial assets.

In 2017, financial assets were classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), held-to-maturity investments, available-for-sale (AFS) financial assets and loans and receivables. The classification depended on the nature and purpose of the financial assets and is determined at the time of initial recognition.

According to IFRS 9, financial liabilities are classified as either financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortised cost.

In 2017, financial liabilities were classified according to IAS 39 as either financial liabilities at FVTPL or other financial liabilities.

As a result of the adoption of IFRS 9 as of 1 January 2018, the change in the financial instruments classification is as follows:

(CZK million)	Former classification (IAS 39)	New classification (IFRS 9)	Former net book value (IAS 39)	New net book value (IAS 39)	Difference
Non-current financial assets					
Other financial assets					
Financial assets measured at fair value through other comprehensive income	Financial assets – available for sale	Financial assets measured at fair value through other comprehensive income	330	423	93*)
Receivables from finance leases	Loans and receivables	At amortised cost	76	76	-
Hedging derivatives	Fair value – hedging instrument	Fair value – hedging instrument	69	69	-
Loans within the ČD Group	Loans and receivables	At amortised cost	752	752	-
Restricted cash	Loans and receivables	At amortised cost	19	19	-
Other financial assets	Loans and receivables	At amortised cost	3	3	-
Current financial assets					
Trade receivables and contractual assets	Loans and receivables	At amortised cost	1,151	1,119	(32)*)
Other financial assets					
Hedging derivatives	Fair value – hedging instrument	Fair value – hedging instrument	3	3	-
Receivables for deficits and damage	Loans and receivables	At amortised cost	40	39	(1)*)
Loans within the ČD Group and group cash-pooling	Loans and receivables	At amortised cost	174	174	-
Restricted cash	Loans and receivables	At amortised cost	15	15	-
Other	Loans and receivables	At amortised cost	25	25	-
Cash and cash equivalents	Loans and receivables	At amortised cost	6,332	6,332	-
Non-current financial liabilities					
Loans and borrowings	Other financial liabilities	At amortised cost	26,008	26,008	-
Other financial liabilities					
Hedging derivatives	Fair value – hedging instrument	Fair value – hedging instrument	348	348	-
Other	Other financial liabilities	At amortised cost	34	34	-
Current financial liabilities					
Loans and borrowings	Other financial liabilities	At amortised cost	4,783	4,783	-
Trade liabilities	Other financial liabilities	At amortised cost	2,947	2,947	-
Other financial liabilities					
Hedging derivatives	Fair value – hedging instrument	Fair value – hedging instrument	95	95	-
Other	Other financial liabilities	At amortised cost	34	34	-

*) Changes in the measurement are described in Note 3.1.

2.17.1. Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income/ expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash inflows/ outflows (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected duration of the debt instrument, to the net carrying amount on initial recognition.

Income and expenses are recognised on an effective interest rate basis for debt instruments other than those financial assets and liabilities classified as at fair value through profit or loss.

2.17.2. Financial assets measured at fair value through other comprehensive income

Since 2018, according to IFRS 9, financial assets measured at fair value through other comprehensive income include equity investments not held for trading. The Company holds equity investments that are not traded on an active market. Dividend income from equity investments is recognised in profit or loss when the Company's right to receive the dividends is established.

In 2017, according to IAS 39, such financial assets were classified as financial assets available–for-sale and defined as non-derivative financial assets that were either designated as available-for-sale or were not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. The Company held equity investments that were not traded on an active market, classified as financial assets available-for-sale and carried at cost less any impairment losses as their fair value could not be reliably determined.

2.17.3. Financial assets measured at amortised cost

Loans and receivables (including bank balances) are financial assets held within the business model whose objective is to collect contractual cash flows that are payments of the principal and interest on the principal outstanding. Hence, the Company measures these assets at amortised cost applying the effective interest method, less any impairment. These assets are recognised when the cash, goods or services are provided directly to the debtor by the Company with no intention of trading the receivable.

In 2017, the Company measured loans and receivables at amortised cost applying the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables for which the recognition of interest would be immaterial.

2.17.4. Impairment of financial assets

In 2018, financial assets, other than those at FVTPL, are assessed for indicators of expected credit losses as at the asset recognition.

Full model (3 stage impairment model): the financial asset is initially categorised within Stage 1, where credit loss allowance is recognised at an amount equal to 12-month expected credit losses. During the useful life of an asset, the Company considers whether there is no significant increase in credit risk. If the increased risk is recognised, the financial asset is reclassified to Stage 2, where the credit loss allowance is recognised at a lifetime expected credit loss. In the case of a counterparty default, such an asset is reclassified to Stage 3, where interest income on financial assets is recognised at amortised cost less impairment, applying the initial effective interest method.

For the measurement of expected credit losses of current trade receivables and financial lease receivables, the Company applies the IFRS 9 simplified approach, whereby credit losses are always determined for the whole lifetime of the financial asset.

The simplified model is applied for current trade receivables not containing a significant financing component. The Company recognises the allowances for receivables assessed on a portfolio basis based on the impairment matrix including historical inputs and reflecting future expectations.

For receivables assessed on an individual basis, the Company considers the following factors that affect the debtor's ability to meet his obligations:

- Future prospects
- Knowledge of the customer
- Payment ethics

The Company considers estimated to be impairment of cash and cash equivalents immaterial due to high- quality credit-ratings of cooperating banks confirmed by the external investment rating.

Based on historic experience, the Company uses the following criteria for determining the credit default of the counterparty:

- if information gathered from external sources indicates that debtor will not be able to pay its creditors in full (insolvency or bankruptcy declaration of debtor)
- if the financial asset is more than 180 days due and the Company has no evidence that the delay in payments is not sufficient criteria for default determination

In 2017, financial assets, other than those at FVTPL, were assessed for indicators of impairment at the end of each reporting period. Financial assets were considered to be impaired when there was objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The Company recorded impairment losses (allowances) based on an individual assessment of trade receivables as equal to 50% of the outstanding carrying amount of the receivables that are past due by more than 18 months and full allowances against receivables registered for recovery under insolvency proceedings. In addition, full allowances are recognised in respect of receivables that are past due by more than 12 months and whose carrying amount did not exceed CZK 30 thousand. The Company recognised no allowances against receivables from subsidiaries.

With the exception of the equity instruments, if, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss was reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment was reversed did not exceed what the amortised cost would have been had the impairment not been accounted for.

In respect of the equity securities, impairment losses previously recognised in profit or loss were not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss was recognised in other comprehensive income.

The following table presents comparison of prior period allowances measured on an incurred losses model basis in accordance with IAS 39 and new expected credit loss measured on an incurred losses model basis according to IFRS 9 as at 1 January 2018:

(CZK million) **Measurement categories for financial assets**	**Allowance before the change in the accounting policies as at 31 Dec 2017**	**Change in allowances due to adoption of IFRS 9**	**Expected credit loss in accordance with IFRS 9 as at 1 Jan 2018**
Non-current financial assets	**2**	**-**	**2**
Other financial assets	2	-	2
Other	2	-	2
Current financial assets	**149**	**33**	**182**
Trade receivables	113	32	145
Other financial assets	36	1	37
Receivables for deficits and damage	4	1	5
Other	32	-	32

2.17.5. Derecognition of financial assets
The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Upon derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

2.17.6. Financial liabilities measured at fair value through profit or loss
Financial liabilities are classified as financial liabilities measured at fair value through profit or loss when they are either available for sale or are designated as measured at fair value through profit or loss.

This category includes financial derivative instruments recognised under other financial liabilities.

2.17.7. Financial assets measured at amortised cost
Financial liabilities not classified as held-for-sale or designated as financial liabilities measured at fair value through profit or loss are subsequently measured as amortised cost applying the effective interest method.

In 2017, other financial liabilities were measured at amortised cost applying the effective interest method in accordance with IAS 39.

2.17.8. Derecognition of financial liabilities
The Company derecognises financial liabilities when and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.17.9. Derivative financial instruments
The Company enters into a variety of derivative financial instrument to manage its exposure to interest rate, currency and commodity risks.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured at their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives that do not meet the criteria for being recognised as hedging are treated by the Company as fair value through profit or loss.

2.17.10. Hedge accounting
The Company designates certain hedging instruments as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents and monitors whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. Since 2018, the Company monitors the hedge ratio, sources of ineffectiveness and credit risk impact. Hedge accounting corresponds to the Group's risk management strategy. The Company recognises the time value of a commodity option separately from basis spreads from cross-currency interest rate swaps as hedge expenses according to IFRS 9. In 2017, the Company complied with the hedge accounting criteria set out in IAS 39.

2.17.11. Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. Since 2018, the Company recognises hedge accounting expenses separately, where the criteria of expenses recognition through other comprehensive income are met. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of profit or loss as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued only when the hedging relationship no longer qualifies for hedge accounting (fully or partially), after taking into account any rebalancing of the hedging relationship or when the hedging instrument expires or is sold, terminated, or exercised. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedging reserve at that time remains in equity and is remeasured through profit or loss when the forecast transaction is recognised. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedging reserve is remeasured immediately through profit or loss.

3. Adoption of New and Revised International Financial Reporting Standards

3.1. Standards and interpretations effective for the annual period ended 31 December 2018

During the year ended 31 December 2018, the following standards, amendments and interpretations came into force:

Modifications, new and revised standards and interpretations	Effective for accounting periods beginning on or after the date
IFRS 9 – Financial instruments	1 January 2018
IFRS 15 – Revenue from Contracts with Customers	1 January 2018
IFRS 2 – Modifications of IFRS 2 – Classification and valuation of share-based payment transactions	1 January 2018
IFRS 4 – Modifications of IFRS 4 – using IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts	1 January 2018
IAS 40 – Modifications of IAS 40 – Transfers of Investment Property	1 January 2018
Annual improvements to IFRS – cycle 2014 – 2016	1 January 2018
IFRIC 22 – Foreign Currency Transactions and Advance Consideration	1 January 2018

The cumulative impact of changes made in the consolidated statement of financial position as at 1 January 2018 resulting from adoption of IFRS 15 and IFRS 9 was as follows:

(CZK million)	31 Dec 2017 (recognised)	Impact of IFRS 15	Impact of IFRS 9	1 Jan 2018
NON-CURRENT ASSETS				
Other financial assets	1,249	-	93	1,342
Other assets	5	-	-	5
CURRENT ASSETS				
Trade receivables	1,151	-	(32)	1,119
Other financial assets	257	-	(1)	256
Other assets	588	4	-	592
NON-CURRENT LIABILITIES				
Provisions	152	-	-	152
Other financial liabilities	382	-	-	382
CURRENT LIABILITIES				
Trade liabilities	2,947	-	-	2,947
Provisions	792	-	-	792
Other financial liabilities	129	-	-	129
Other liabilities and contractual liabilities	1,945	4	-	1,949
EQUITY				
Reserve and other funds	16,805	-	95	16,900
Retained earnings	(1,437)	-	(35)	(1,472)

Impact of adoption of IFRS 15 and IFRS 9 during the current accounting period

(CZK million)	2018 without adoption of new IFRS	Impact of IFRS 15	Impact of IFRS 9	2018 (recognised)
Revenues	23,907	(15)	0	23,892
Other operating income	2,403	(831)	(8)	1,564
Purchased consumables and services	(10,728)	831	0	(9,897)
Other operating expenses	(337)	15	0	(322)

(CZK million)	31 December 2018, without adoption of new IFRS	Impact of IFRS 15	Impact of IFRS 9	31 December 2018 (recognised)
Trade receivables - current	1,503	0	(40)	1,463
Other financial assets - current	389	0	110	499
Other assets - current	1,814	20		1,834
Other liabilities and contract liabilities	2,045	20	0	2,065
Reserve and other funds	16,803	0	113	16,916
Accumulated loss	(966)	0	(43)	(1,009)

In addition, the Company changed the presentation of following items in standalone statement of financial position and statement of profit or loss:

Changes in presentation related to contracts with customers:

- Sale of other services, Commission for mediation of the purchase of diesel and spare parts, Commission from ticket sales and other transactions at cash desks and Rental income (not related to contracts with customers) recognised in Income, in comparative period were initially recognised within Other operating income (31 December 2017: CZK 785 million). In 2018, the balance recognised is CZK 743 million.
- Rail replacement bus service recognised within Purchased consumables and services was reduced by payment for rail replacement bus service. In comparative period, payment for rail replacement bus service was initially recognised within Other operating income (31 December 2017: CZK 392 million). In 2018, the balance recognised is CZK 831 million.
- Income was reduced by costs of contractual fines and default interest representing the variable part of consideration for the liability from the provision of public service, which was initially recognised within Other operating expenses in comparative period (31 December 2017: CZK 10 million). In 2018, the balance recognised is CZK 15 million.
- In 2018, on the Balance sheet line Reserve and other funds are disclosed lines Reserve and other funds and Cash flow hedge fund. In 2017, these lines were disclosed separately in Balance sheet.

Changes in presentation related to financial instruments:

- Financial instruments are measured at fair value based on the Stage 2, in 2017 were measured at amortised cost. The impact of this revaluation change amounts to EUR 93 million.
- The Company create allowances for receivables before due date, according to the expected default rate. Change of creation of allowances for the comparative period amounted to CZK 33 million.
- The application of IFRS 9 for hedge accounting was prospective. During 2018, the hedge documentation and methodology of effectiveness assessments were amended and the time value of the options and the currency base margin from the hedging instrument recognised under Hedging expenses was separated.

The adoption of these standards, amendments and interpretations did not have a significant impact on the Company during the period.

3.2. Standards and interpretations used prior to the effective date

The Company used no standard or interpretation before the effective date.

3.3. Standards and interpretations issued but not yet used

At the date of the compilation of these financial statements, the following standards and interpretations not yet effective and not used by the company before their effective date were issued.

Modifications, new and revised standards and interpretations	Effective for accounting periods beginning on or after the date
IFRS 3 – Modification of IFRS 3 – Business Combinations	1 January 2020*)
IFRS 16 – Leases	1 January 2019
IFRS 17 – Insurance Contracts	1 January 2021*)
IFRS 9 – Modification of IFRS 9 – Prepayment Features with Negative Compensation	1 January 2019
IFRS 10, IAS 28 – Modification of IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date will be determined *)
IAS 1, IAS 8 – Modification of IAS 1 and IAS 8 – Definition of Material	1 January 2020*)
IAS 19 – Modification of IAS 19 – Plan Amendment, Curtailment or Settlement	1 January 2019*)
IAS 28 – Modification of IAS 28 – Long – term Interests in Associates and Joint Ventures	1 January 2019*)
Annual improvements to IFRS – cycle 2015 – 2017	1 January 2019*)
IFRIC 23 – Uncertainty over Income Tax Treatments	1 January 2019

*) Standards, modifications and interpretations not yet approved for use in the EU

For IFRS 16, the Company expects a need of recognition of a significant number of lease agreements in the Balance sheet. IFRS 16 will be adopted by the Company as at its mandatory date of 1 January 2019. The Company will use the exemption for short-term leases and low-value assets and will not apply IFRS 16 standard for these items. The Company assessed the impact of the new standard and the analysis shows that after the implementation of the modified retrospective method of IFRS 16, the Company's assets will increase by CZK 999.5 million and liabilities will increase by CZK 1,036 million (out of which current liabilities: CZK 176 million). The impact into retained earnings is CZK 36.5 million. Information about operating lease contracts is disclosed in Note 30.

The management of the Company expects that the adoption of other standards, amendments and interpretations will not have a significant impact on the Company in the following periods.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Company's accounting policies, which are described in Note 2., management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period: or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.1. Impairment of assets

The Company assesses the recoverable value of all asset components when there are indicators of their impairment (with the exception of intangible assets under construction, the recoverable value of which is assessed annually). This assessment is based on anticipated assumptions and may change in the future as the situation evolves and information is available. Impairment of property, plant and equipment is disclosed in Note 14.1.

4.2. Provisions for legal disputes and business risks

The Company is involved in a number of court and out-of-court commercial disputes. Where the criteria for the recognition of provisions are met, the Company creates provisions for these disputes on the basis of the best available information and estimates. However, the actual outcome of the disputes may differ from these estimates. The information on legal disputes is disclosed in Note 32.

4.3. Payments from orderers

The Company receives compensation from regional budgets and the Ministry of Transport's budget for railway transport and the provision of public services. The Company also receives compensation from the Ministry of Transport's budget for the provision of transport services at discounted prices for selected groups (students, pensioners). The Company recognizes the compensation as revenue from contracts with customers. This service is provided by the Company regardless of whether and how many people use their own personal transport service. The compensation is not a subsidy, because the contract for the provision of transport services is competed among a number of entities interested in providing that service. Only the company which wins the tender obtains the compensation.

A different set-up exists for preferential prices for different categories of customers (students, pensioners), this is a transaction where the customer uses the service (passenger transport provided by any transportation company) and pays only part of its price, while the balance of the market-based tarrif is paid by the third party (the state). It is not a subsidy because it is more about providing a discount to the population groups, not a motivating economic incentive to influence the behaviour of companies in a particular direction. The 75% discount for the elderly and students was introduced on 1 September 2018 and the amount of compensation recognised in 2018 was CZK 732 million.

5. Revenue

All of the below additional information on the statement of profit or loss relates to continuing operations.

5.1. Breakdown of revenue

(CZK million)	2018	2017
REVENUE FROM CONTRACTS WITH CUSTOMERS		
Revenue from passenger transportation - fare	8,851	8,066
Domestic passenger transportation	6,236	5,357
International passenger transportation	2,615	2,709
Revenue from passenger transportation - payments from public service orderers	14,299	14,044
Payment from the state budget	4,723	4,599
Payment from the regional budget	9,576	9,445
Sale of other services	394	*)
Sale of other services recognized over time	394	*)
Commission for mediation of the purchase of diesel and spare parts	32	*)
Commission from ticket sales and other transactions at cash desks	5	*)
Total revenue from contacts with customers	**23,581**	**22,110**
RENTAL INCOME		
Rental income	311	*)
Total income	**23,892**	**22,110**

*) in 2017, item was disclosed in Note 6. Other operating incom

Payments from public service orderers relate to regional and long-distance intranational passenger transportation.

The Company provides transport services in public railway transport for a stated (often rectified) price and assures transport services in the specified categories of passenger transport trains on the railway network of the Czech Republic. The scope of these services and the compensation (Company profits) are set in agreements between the State and regional authorities. A contract concerning the obligation to provide a public service for the period of 2010-2019 was signed on 2.12.2009.

The Czech Republic has aligned its legislation in the area of public transport with the EU requirements by adoptingAct no. 194/2010 Coll. Concerning public transport services and amendments of other laws. České dráhy, a.s. arranged public service obligation agreement for the period of ten years and more, and these agreements are governed by the legislation prior to the adoption of the above mentioned law.

Government resolution no. 1132/2009 from 31.8.2009 states the securing of additional funding of the regional railway transport by regional subsidies including the rules for increasing or reducing the scope of purchased railway transport and the increase of this special purpose subsidiary during the following years. In 2016, the Government of the Czech Republic adopted a resolution on the organisation and financing of regional railway transport after 2019. This resolution sets out the rules for financing regional transport for the period following the end of of the majority of the aforementioned public service contracts. This document is crucial when deciding on individual orderers concerning regional transport in the year 2019.

There are intensive discussions being held on the matter of amendments to the long-term contracts for the year 2019 to the date of the financial statements for the year 2018. Three amendments concerning regional transport for the year 2019 have already been concluded. Other amendments are in the process of being discussed at the appropriate regional level. The signing of all amendments is only a formality – they have already been discussed and agreed. In relation to the provision of public transport services, this does not constitute any restriction. Because of the long-term contracts no interruption of services or discontinuation of funding will occur. Advances for payments from regional budgets are sent at an appropriate amount – in the case of yet unsigned amendments for the year 2019.

Significant transactions with the main customers with state participation are stated in Note 28.8.

5.2. Contractual assets, contractual liabilities and refund liabilities

The Company recognises following contractual assets (see also Note 19.), contractual liabilities (see also Note 27.) a refund liabilities (see also Note 27) related to revenue from contracts with customers:

(CZK million)	31 Dec 2018	1 Jan 2018
Contractual liabilities related to revenue from contracts with customers		
Prepaid products – such as Kilometric Bank, annual ticket	188	188
Prepayments received	61	60
Revenues from intrastate passenger transportation over time	1	8
Other contractual liabilities	4	3
Total contractual liabilities	**254**	**259**

(CZK million)	31 Dec 2018	1 Jan 2018
Refund liabilities		
Other refund liabilities	21	10
Total refund liabilities	**21**	**10**

5.2.1. Revenues from contractual liabilities

(CZK million)	2018
Revenues included in the opening balance of the contractual liabilities	
Revenue from passenger transportation - fare	146
Sale of other services	52
Commission from ticket sales and other transactions at cash desks	5
Total	**203**

5.2.2. Remaining contractual liabilities

The Company does not recognise any other remaining contract obligations that should be presented according to IFRS 15 as at 31 December 2018, except for contract liabilities.

6. Other Operating Income

(CZK million)	2018	2017
Gain from sale of property, plant and equipment and investment property	455	292
Commission for mediation of the purchase of diesel and spare parts	*)	31
Disposal of redundant assets	38	44
Sales of other services	*)	355
Rental income	*)	344
Compensations for deficits and damage	38	83
Contractual penalties and default interest	52	62
Payments for rail replacement bus service	**)	392
Dividends received	275	350
Commission from ticket sales and other transactions at cash desks	*)	55
Foreign Exchange gains – operating	53	40
Released provisions	132	10
Release of allowance for accounts receivables	11	55
Release of allowance for property, plant and equipment	335	-
Reversal of write-off of inventory to net realisable value	6	53
Other	169	137
Total other operating income	**1,564**	**2,303**

*) in 2018 was disclosed in Note 5.1. Breakdown of revenue
**) in 2018, item was disclosed in Note 7. Purchased consumables and services, where the item is offset with cost for substitutional bus service

7. Purchased Consumables and Services

(CZK million)	2018	2017
Traction costs	(2,451)	(2,299)
Traction fuel (diesel)	*(1,230)*	*(1,156)*
Traction electricity	*(1,221)*	*(1,143)*
Payment for the use of railway route	(1,798)	(1,864)
Other purchased consumables and services	(5,648)	(5,913)
Consumed material	*(972)*	*(1,021)*
Consumed other energy	*(264)*	*(269)*
Consumed fuel	*(61)*	*(64)*
Repairs and maintenance	*(790)*	*(824)*
Travel costs	*(133)*	*(115)*
Telecommunication, data and postal services	*(116)*	*(108)*
Other rental	*(149)*	*(154)*
Rental for rail vehicles	*(550)*	*(504)*
Transportation charges	*(15)*	*(16)*
Rail replacement bus service	*(143)*	*(512)*
Services of dining and sleeping carriages	*(160)*	*(175)*
Services associated with the use of buildings	*(221)*	*(220)*
Operational cleaning of rail vehicles	*(342)*	*(324)*
Border area services	*(483)*	*(450)*
Advertising and promotion costs	*(232)*	*(174)*
Commission from ticket sales to other carriers and vendors	*(139)*	*(149)*
Infrastructure capacity allocation	*(56)*	*(53)*
Services related to IT	*(319)*	*(296)*
Fire brigade services	*(26)*	*(30)*
Services in the field of ecology	*(33)*	*(36)*
Other services	*(444)*	*(419)*
Total purchased consumables and services	**(9,897)**	**(10,076)**

Other services include mostly expenses related to education, health care, guidance, expertise and other services.

Other services include also audit and non-audit services provided by the PwC network. The total cost for these services:

(CZK million)	2018	2017
PwC Audit	(2)	(2)
Tax advisory	-	-
PwC ČR	(8)	(8)
Total	**(10)**	**(10)**

8. Employee Benefit Costs

(CZK million)	2018	2017
Payroll costs	(6,409)	(6,034)
Severance pay	(52)	(46)
Statutory social security and health insurance	(806)	(743)
Pension insurance	(1,372)	(1,273)
Contributions to the pension insurance and capital life insurance	(212)	(219)
Other social costs	(57)	(38)
Other employee benefit costs	(172)	(55)
Total employee benefit costs	**(9,080)**	**(8,408)**

Other social costs includes, in particular, meal allowances. Other employee benefit costs primarily include costs for stays in health resorts or remuneration to the members of statutory bodies.

9. Depreciation and Amortisation

(CZK million)	2018	2017
Depreciation of property, plant and equipment	(4,606)	(4,660)
Depreciation of investment property	(23)	(24)
Amortisation of intangible assets	(91)	(83)
Total depreciation and amortisation	**(4,720)**	**(4,767)**

10. Other Operating Expenses

(CZK million)	2018	2017
Impairment of property, plant and equipment, investment property and assets held for sale	-	(129)
Write-off of inventories to their net realisable value	(20)	(31)
Taxes and fees	(15)	(19)
Insurance	(75)	(83)
Foreign Exchange loses - operating	(48)	(31)
Shortages and damages	(11)	(23)
Expenses for uniforms and personal protective equipment	(41)	(47)
Provision for legal disputes related to other operating expenses	-	(77)
Lump sum payments to employees	(17)	(17)
Other operating expenses	(95)	(81)
Total other operating expenses	**(322)**	**(538)**

11. Financial Expenses

(CZK million)	**2018**	**2017**
Interest on issued bonds	(823)	(868)
Interest on finance lease payables	(41)	(45)
Other interests	(57)	(109)
Less: amounts capitalised as part of the costs of an eligible asset	8	3
Foreign Exchange loses– financial	(293)	(56)
Other financial costs	(39)	(33)
Total financial expenses	**(1,245)**	**(1,108)**

The capitalisation rate in the year 2018 is 2.92 % p. a. (2017: 2.87 % p. a.).

12. Financial Income

(CZK million)	**2018**	**2017**
Foreign exchange gains – financial	208	721
Received interest	57	32
Gain from sale of securities and shares	-	40
Other financial income	-	1
Total other financial income	**265**	**794**

13. Income Tax

13.1. Income tax reported in profit or loss

Reconciliation of the total tax charge for the period to the accounting profit:

(CZK million)	**2018**	**2017**
Profit (loss) for the period before tax	**457**	**310**
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected income tax expense	**(87)**	**(59)**
Adjustments:		
Effect of the unrecognised deferred tax asset	163	62
Effect of unused tax losses release	(134)	-
Revenues exempt	**52**	**66**
Tax non-deductible expenses – creation(-)/cancellation(+) provisions for penalty from the Competition Bureau	38	(26)
Tax non-deductible expenses - deficits and damage	(2)	(4)
Tax non-deductible payroll expenses	(24)	(22)
Other tax non-deductible items, net	(6)	(17)
Income tax reported in profit or loss	**-**	**-**

13.2. Deferred tax

(CZK million)	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Other	Total
Balance at 1 Jan 2017 – calculated	**208**	**1,369**	**79**	**(167)**	**26**	**204**	**1,719**
Balance at 1 Jan 2017 - recognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deferred tax recognised in profit or loss:	-	-	-	-	-	-	-
- of which current changes	*(12)*	*51*	*(39)*	*(37)*	*(10)*	*(15)*	*(62)*
*- of which impairment *)*	*12*	*(51)*	*39*	*37*	*10*	*15*	*62*
Deferred tax recognised in other comprehensive income	-	-	-	-	-	-	-
- of which current changes	-	-	*2*	-	-	*(210)*	*(208)*
*- of which impairment *)*	-	-	*(2)*	-	-	*210*	*208*
Balance at 31 Dec 2017 – calculated	**196**	**1,420**	**42**	**(204)**	**16**	**(21)**	**1,449**
Balance at 31 Dec 2017 – recognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deferred tax recognised in profit or loss	-	-	-	-	-	-	-
- of which current changes	*(196)*	*78*	*(21)*	*(30)*	*5*	*1*	*(163)*
*- of which impairment *)*	*196*	*(78)*	*21*	*30*	*(5)*	*(1)*	*163*
Deferred tax recognised in other comprehensive income	-	-	-	-	-	-	-
- of which current changes	-	*(21)*	*(3)*	-	-	*2*	*(22)*
*- of which impairment *)*	-	*21*	*3*	-	-	*(2)*	*22*
Balance at 31 Dec 2018 – calculated	**-**	**1,477**	**18**	**(234)**	**21**	**(18)**	**1,264**
Balance at 31 Dec 2018 - recognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**

*) Reduction of deferred tax asset recognised in the balance sheet (directly or indirectly as items decreasing deferred tax liabilities) to its recoverable value.

According to the preliminary due corporate income tax return for the 2018 taxation period, the Company records an utilisable tax loss for the 2013 taxation period in the total amount of CZK 422 million. The tax can be utilised 5 taxation periods immediately following the period in which the relevant loss was incurred, i.e. in the period 2014-2018, the remaining loss of 2013 can no longer be utilised in the future.

With regards to the low expected future taxable profits of the parent Company, realisation of deferred tax assets is uncertain. Therefore, when the calculated net position of the deferred tax as at balance sheet date results in a deferred tax asset, the parent Company reduces this asset to zero.

14. Property, Plant and Equipment

(CZK million)

Cost	Balance at 1 Jan 2017	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2017	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2018
Land	5,627	8	37	1	5,599	73	145	(2)	5,525
Constructions	9,537	66	157	29	9,475	203	176	44	9,546
Equipment	87,894	2,445	2,467	124	87,996	3,488	5,090	115	86,509
- Machinery, equipment, and furniture and fixtures	*2,075*	*70*	*136*	*90*	*2,099*	*127*	*53*	*35*	*2,208*
- Vehicles)*	*84,997*	*2,325*	*2,299*	*800*	*85,823*	*3,359*	*5,036*	*80*	*84,226*
- Vehicles acquired under finance leases	*791*	*50*	*31*	*(766)*	*44*	*2*	*-*	*-*	*46*
- Other	*31*	*-*	*1*	*-*	*30*	*-*	*1*	*-*	*29*
Other assets	13	-	-	-	13	-	-	-	13
Assets under construction	1,210	321	-	(141)	1,390	378	2	(199)	1,567
Prepayments	-	250	3	-	247	30	193	-	84
Total	**104,281**	**3,090**	**2,664**	**13**	**104,720**	**4,172**	**5,606**	**(42)**	**103,244**

(CZK million)

Accumulated depreciation	Balance at 1 Jan 2017	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2017	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2018
Constructions	5,140	191	103	(28)	5,200	192	110	(69)	5,213
Equipment	42,649	4,359	2,360	4	44,652	4,414	5,089	-	43,977
- Machinery, equipment, and furniture and fixtures	*1,701*	*81*	*130*	*4*	*1,656*	*90*	*51*	*-*	*1,695*
- Vehicles)*	*40,595*	*4,263*	*2,198*	*304*	*42,964*	*4,313*	*5,037*	*-*	*42,240*
- Vehicles acquired under finance leases	*323*	*15*	*31*	*(304)*	*3*	*11*	*-*	*-*	*14*
- Other	*30*	*-*	*1*	*-*	*29*	*-*	*1*	*-*	*28*
Total	**47,789**	**4,550**	**2,463**	**(24)**	**49,852**	**4,606**	**5,199**	**(69)**	**49,190**

(CZK million)

Impairment	Balance at 1 Jan 2017	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2017	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2018
Land	68	-	-	-	68	-	1	-	67
Constructions	63	-	1	-	62	-	7	-	55
Equipment	1,527	15	167	-	1,375	35	327	-	1,083
- Vehicles)*	*1,527*	*15*	*167*	-	*1,375*	35	327	-	*1,083*
Assets under construction	190	284	-	-	474	-	36	-	438
Total	**1,848**	**299**	**168**	**-**	**1,979**	**35**	**371**	**-**	**1,643**

*) Vehicles purchased under leaseback agreements are disclosed within „Vehicles". Their net book value is CZK 1,846 million as at 31 December 2017 and 1,432 million as at 31 December 2018.

Reclassifications predominantly include transfers of asset items between individual groups (IAS 16, IAS 40).

(CZK million)

Net book value	Balance at 1 Jan 2017	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Land	5,559	5,531	5,458
Constructions	4,334	4,213	4,278
Equipment	43,718	41,969	41,449
- Machinery, equipment, and furniture and fixtures	*374*	*443*	*513*
- Vehicles	*42,875*	*41,484*	*40,903*
- Vehicles acquired under finance leases	*468*	*41*	*32*
- Other	*1*	*1*	*1*
Other assets	13	13	13
Assets under construction	1,020	916	1,129
Prepayments	-	247	84
Total	**54,644**	**52,889**	**52,411**

The following useful lives were used in the calculation of depreciation:

	Number of years
Buildings	30 – 50
Constructions	20 – 50
Locomotives	20 – 30
Passenger cars	20 – 30
Wagons	25 – 33
Components	2 – 15
Machinery and equipment	8 – 20

The most significant additions from 1 January 2017 to 31 December 2018 are the acquisition and modernization of railway vehicles as part of the renewal of the Company's fleet of railway vehicles. Due to the long-term nature of the acquisition of this type of assets, significant balances are presented in assets under construction.

In 2018, the Company provided no significant prepayments. In 2017, the Company provided prepayment of CZK 214 million for modernization of 79 passenger cars.

In 2018 the Company obtained a decision to award a subsidies of CZK 857 million for renewal of the vehicle fleet in Plzeň Region. The balance of assets under construction was decreased by this amount as at 31 December 2018. The Company did not obtain subsidies for fixed assets in 2017.

14.1. Impairment loses recognised in the reporting period

Vehicles are predominantly defined railway vehicles (locomotives, passenger coaches, other railway vehicles) used for operating passenger railway transportation. Pursuant to the inventory count and analyses, the Company identified asset items of assets for which there is a significant doubt about their future usability. The Company recognised an impairment loss for these items in the amount of the difference between the net book value and the estimated recoverable value. The recoverable value is usually determined as net proceeds from the sale less cost to sell.

The principal impairment loss as of 31 December 2018, 2017 and 1 January 2017 is the loss on the 680 series tilting trains (Pendolino) amounting to CZK 471 million(as at 31 December 2018), CZK 572 million (as at 31 December 2017) and CZK 709 million (as at 1 January 2017). In 2013, the impairment was determined on the basis of an independent expert's assessment reflecting the market value net of the costs of sale. In 2017, the independent expert's assessment did not indicate any decline in the value and since the circumstances have not changed, the Company does not expect any change in impairment for 2018 either. In 2015, the level of the allowance was significantly affected by the inoperability of train no. 3 due to an accident. Other items with significant impairment are type 380 locomotives. As at 31 December 2018 the impairment loss was CZK 566 million, as at 31 December 2017 CZK 589 million.

Since 2010 in the field of acquisition and modernization in accordance with Regional Operational Programs (ROP) ČD completed in particular regions 19 grant project plans in amount more than CZK 7.6 billion. As of 31 December 2018 based on finding of audit unit of Ministry of Finance and its quantified correction, The Group increases cost of equipment (vehicles) of CZK 379 million and the same amount of impairment loss - CZK 379 million.

Impairment losses are included in other operating expenses and losses in the statement of profit or loss.

14.2. Pledged assets

The Company's does not have any pledged assets as at 31 December 2018.

14.3. Unused immovable assets

In the property, plant and equipment class, the Company reports assets of CZK 326 million which are currently not used. These are primarily vacant buildings. The Company anticipates selling the assets in the future but it did not report these assets as assets held for sale, as they have not yet complied with the criteria set out in IFRS 5.

15. Investment Property

(CZK million)	2018	2017
Balance at the beginning of the year	666	715
Additions from subsequent capitalised expenses	1	1
Disposals	(34)	(19)
Disposals, annual depreciation	(23)	(24)
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	48	11
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	(45)	(21)
Impairment	(2)	3
Balance at the end of the year	**611**	**666**

(CZK million)	Balance at 31 Dec 2018	Balance at 31 Dec 2017	Balance at 1 Jan 2017
Cost	1,313	1,287	1,324
Accumulated depreciation and impairment	(702)	(621)	(609)
Net book value	**611**	**666**	**715**

The Company includes in investment property real estate where at least 50% of its useful area is leased to an external lessee.

The property is located around the railway route, in train stations and depots of rail vehicles. The Group applies market approach to determine the fair value of its investment property. Respective valuation model is set up in the SAP application which works in several stages, according to the type of property.

For buildings, the fair value calculation is based on the size of a specific property, occupancy by the particular type of premises, external annual rent in accordance to individual type of premises. Furthermore, the costs incurred for a given property and the capitalisation rate for a given location (yield) is taken into account to determine the final value of the property. Yield is updated annually based on the expert's opinion and then entered into the application. Yield is calculated based on the market data as the sum of net earned revenues (net rent) divided by the sum of sales prices for comparable property. To determine the fair value of real estates as at 31 December 2018, taking into account the type of real estate and its location, yield used was in the range of 6-10%.

In respect of land, the fair value is calculated by multiplying the market price for m2 for the specific locality and the area of the land. The market price for m2 is determined each year by the expert based on the latest land price maps.

The fair value estimate as at 31 December 2018, 2017 and 1 January 2017 amounted to CZK 4,052 million, CZK 4,353 million, CZK 3,926 million, respectively. In terms of the method used to arrive at the fair value, investment property has been included in level 3.

The Company determines the depreciation method and useful lives of investment property on the same basis as for property included in buildings (see Note 14.).

16. Intangible Assets

(CZK million)

Cost	Balance at 1 Jan 2017	Additions	Disposals	Reclassification	Balance at 31 Dec 2017	Additions	Disposals	Reclassification	Balance at 31 Dec 2018
Development costs	2	-	-	-	2	-	2	-	-
Software	850	37	5	34	916	43	27	83	1,015
Software licences	618	8	-	7	633	1	-	21	655
Assets under construction	47	105	-	(41)	111	126	1	(104)	132
Total	**1,517**	**150**	**5**	**-**	**1,662**	**170**	**30**	**-**	**1,802**

(CZK million)

Accumulated amortisation	Balance at 1 Jan 2017	Additions	Disposals	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Development costs	2	-	-	2	-	2	-
Software	775	60	5	830	67	26	871
Software licences	570	23	-	593	24	-	617
Total	**1,347**	**83**	**5**	**1,425**	**91**	**28**	**1,488**

(CZK million)

Net book value	Balance at 1 Jan 2017	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Development costs	-	-	-
Software	75	86	144
Software licences	48	40	38
Assets under construction	47	111	132
Total	**170**	**237**	**314**

The costs of amortisation were reported in the line 'Depreciation and amortisation' in the statement of profit or loss. The Company used the useful lifes presented in the table below in calculating amortisation:

	Number of year
Software	3
Other royalties	6

Intangible fixed assets include software used in business activities entitled DISOD, PARIS, APS, In-karta, POP, UNIPOK, IS OPT and KASO.

17. Investments in Subsidiaries, Associates an Joint Ventures

17.1. Information on subsidiaries

(CZK million)

Name of the entity	Registered office	Value of investment as of 31 Dec 2018	Value of investment as of 31 Dec 2017
Výzkumný Ústav Železniční, a.s.	Prague	383	383
ČD – Telematika a.s.	Prague	1,089	1,060
DPOV, a.s.	Přerov	434	406
ČD Cargo, a.s.	Prague	5,908	5,908
ČD – Informační Systémy, a.s.	Prague	122	122
Dopravní vzdělávací institut, a.s.	Prague	6	6
ČD travel, s.r.o.	Prague	8	8
Total		**7,950**	**7,893**

Name of the entity	Principal activity	Ownership percentage as at 31 Dec 2018	Ownership percentage as at 31 Dec 2017
Výzkumný Ústav Železniční, a.s.	Research and development in rail vehicles	100%	100%
ČD – Telematika a.s.	Provision of ITC services	70.96%	69.18%
DPOV, a.s.	Repairs and renovations of rail vehicles	100%	100%
ČD Cargo, a.s.	Operations of railway freight transportation	100%	100%
ČD – Informační Systémy, a.s.	Provision of ITC services	100%	100%
Dopravní vzdělávací institut, a.s.	Provision of educational services	100%	100%
ČD travel, s.r.o.	Travel agency	51.72%	51.72%

In 2018, the Company purchased 36,328 shares, representing 1.78% share in ČD - Telematika a.s.

In 2018, the Company increased the DPOV, a.s. share capital by the in-kind contribution in total amount of CZK 28 million.

During the 2017 year, ČD, a.s., increased its shares in DPOV, a.s., by CZK 68 million out of which there was in-kind contribution of CZK 66 million and cash contribution of CZK 2 million, however the value of its shares did not change.

17.1.1. Details on Significant Co-owned Subsidiaries

Summary of financial information on ČD – Telematika a.s.:

(CZK million)	31 Dec 2018	31 Dec 2017
Fixed assets	1,467	1,624
Current assets	1,277	1,327
Long-term liabilities	105	129
Short-term liabilities	665	845
Equity	1,974	1,977
Equity attributable to the owners of the Company	1,401	1,368
Non-controlling interests	573	609

(CZK million)	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Income	1,678	1,391
Expenses	(1,620)	(1,342)
Profit for the period	**58**	**49**
Profit attributable to company owners	41	34
Other comprehensive income attributable to company owners	-	-
Total comprehensive income attributable to company owners	**41**	**34**
Profit attributable to non-controlling interests	17	15
Other total profit attributable to non-controlling interests	-	-
Total profit attributable to non-controlling interests	**17**	**15**
Net cash flows from operating activities	192	63
Net cash flows from investment activities	(99)	(49)
Net cash flows from financing activities	(53)	(10)
Net cash flow	**40**	**4**

17.2. Information on associates and joint ventures

(CZK million)

Name of the entity	Registered office	Investment as of 31 Dec 2018	Investment as of 31 Dec 2017
JLV, a.s.	Prague	110	110
Masaryk Station Development, a.s.	Prague	-	-
Smíchov Station Development, a.s.	Prague	-	-
Žižkov Station Development, a.s.	Prague	1	1
Total		**111**	**111**

Name of the entity	Principal activity	Ownership percentage as at 31 Dec 2018	Ownership percentage as at 31 Dec 2017
JLV, a.s.	Catering services	38.79%	38.79%
Masaryk Station Development, a.s.	Development of the Masaryk train station	34%	34%
Smíchov Station Development, a.s. *)	Development of the Smíchov train station	51%	51%
Žižkov Station Development, a.s. *)	Development of the Žižkov train station	51%	51%

*) In accordance with the Articles of Association of these entities, it is necessary to have at least 52% of all votes to adopt significant resolutions, so it is a Joint venture.

As at 21 December 2017 ČD, a.s., sold its 51% shares in RAILREKLAM, spol. s r.o. This way the previous shareholder - Expiria, a.s. became its sole shareholder. The income from the sale of CZK 59 million was received in cash.

Summary of financial information on associates and joint ventures:

(CZK million)

31 Dec 2018	Masaryk Station Development, a.s.	JLV, a.s.	Joint ventures	Total
Total assets	11	497	125	633
Of which: long-term assets	*2*	*306*	*121*	*429*
short-term assets	*9*	*191*	*4*	*204*
Total liabilities	4	144	155	303
Of which: long-term liabilities	*1*	*75*	*141*	*217*
short-term liabilities	*3*	*69*	*14*	*86*
Net assets	7	353	(30)	330
The Company's share of net assets	**2**	**137**	**(15)**	**124**
Total income	5	505	7	517
Profit (loss) for the period	1	17	(4)	14
The Company's share of profit	**-**	**7**	**(2)**	**5**

(CZK million)

31 Dec 2017	Masaryk Station Development, a.s.	JLV, a.s.	Joint ventures	Total
Total assets	17	507	106	630
Of which: long-term assets	*2*	*305*	*103*	*410*
short-term assets	*15*	*202*	*3*	*220*
Total liabilities	11	161	131	303
Of which: long-term liabilities	*5*	*91*	*120*	*216*
short-term liabilities	*6*	*70*	*11*	*87*
Net assets	6	347	(26)	327
The Company's share of net assets	**2**	**134**	**(13)**	**123**
Total income	16	503	-	519
Profit (loss) for the period	-	19	(5)	14
The Company's share of profit	**-**	**7**	**(2)**	**5**

18. Inventories

(CZK million)	31 Dec 2018	31 Dec 2017
Spare parts for machinery and equipment	82	78
Spare parts and other components for rail vehicles and locomotives	899	829
Other machinery, tools and equipment and their spare parts	101	77
Fuels, lubricants and other oil products	32	28
Work clothes, work shoes, protective devices	110	93
Other	92	85
Total cost	**1,316**	**1,190**
Impairment of inventories to their net realisable value*)	(56)	(62)
Total net book value	**1,260**	**1,128**

*) Amount of the inventories for which the impairment was accounted for is CZK 312 million as at 31 December 2018 and CZK 353 million as at 31 December 2017.

19. Trade Receivables

19.1. Aging of trade receivables

(CZK million)	Category	Before due date	1 - 30 days	Past due date (days) 31 - 90	91–180	181-365	Over 365	Total Past due date	Total
31 Dec 2018	Gross	1,458	31	16	2	3	105	157	1,615
	Allowances	(40)	(1)	(1)	(2)	(3)	(105)	(112)	(152)
	Net	**1,418**	**30**	**15**	**-**	**-**	**-**	**45**	**1,463**
31 Dec 2017	Gross	1,129	21	5	1	1	107	135	1,264
	Allowances	-	-	(5)	-	(1)	(107)	(113)	(113)
	Net	**1,129**	**21**	**-**	**1**	**-**	**-**	**22**	**1,151**

Information on receivables is disclosed in Note 33.8. Credit risk management.

19.2. Movements in allowances for doubtful receivables

(CZK million)	2018	2017
Allowances as at 1 January	113	172
Adjustments to opening balance of the retained earnings	32	-
Allowances as at 1 January 2018 – according to IFRS 9	**145**	**172**
Creation of allowances – trade receivables	21	18
Use of allowances – trade receivables	(14)	(77)
Allowances as at 31 December	**152**	**113**

20. Other Financial Assets

(CZK million)	31 Dec 2018	31 Dec 2017
Financial assets available for sale	-	330
Financial assets measured at fair value through other comprehensive income	440	-
Receivables from finance leases	79	76
Hedging derivatives *)	14	69
Loans within the ČD Group	641	752
Restricted cash	64	19
Other	-	3
Total non-current financial assets	**1,238**	**1,249**
Hedging derivatives *)	141	3
Group cash pooling	45	1
Receivables for deficits and damage	30	40
Loans within the ČD Group	183	173
Restricted cash	91	15
Other	9	25
Total current financial assets	**499**	**257**
Total	**1,737**	**1,506**

*) The Company uses fair value measurement for the hedging derivatives and other financial assets are valued at amortized cost.

Other Financial assets with the fair value through other comprehensive income of CZK 440 million represent Eurofima investment as at 31 December 2018. As at 31 December 2017 this investment in the amount of CZK 330 million was included in Financial assets available for sale.

Movement in allowances for other financial assets:

(CZK million)	2018	2017
Allowances as at 1 January	36	33
Adjustments to opening balance of the retained earnings	1	-
Allowances as at 1 January 2018 – according to IFRS 9	**37**	**33**
Recognition of allowances – other financial assets	-	5
Use of allowances – other financial assets	(18)	(2)
Allowances as at 31 December	**19**	**36**

20.1. Receivables from financial lease

The Company leased the station buildings at Main Railway Station - Brno.

(CZK million)	Minimum lease payments 31 Dec 2018	Minimum lease payments 31 Dec 2017	Present value of minimum lease payments 31 Dec 2018	Present value of minimum lease payments 31 Dec 2017
Up to 1 year	18	18	-	-
1 to 5 years	77	73	-	-
Over 5 years	475	473	79	76
Total	**570**	**564**	**79**	**76**
Less: unrealized finance gains	(491)	(488)	-	-
Present value of receivables of minimum lease payments	**79**	**76**	**79**	**76**
In the statement of financial position as:				
Other non-current financial assets			79	76
Total			**79**	**76**

Present value of minimum lease payments is zero because payments cover just the interest.

21. Other Assets

(CZK million)	31 Dec 2018	31 Dec 2017
Total non-current assets	**3**	**5**
Prepayments made	67	81
Tax receivables – VAT	689	440
Tax receivables – other (except for the corporate income tax)	6	16
Prepaid expenses	60	49
Subsidies (see Note 14.)	1 004	-
Other	8	2
Total current assets	**1,834**	**588**
Total	**1,837**	**593**

22. Equity

22.1. Share capital

The Company's share capital has been composed of the investment made by the Czech State as the sole shareholder, represented by the Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government. All the shares are fully paid.

22.2. Reserve and other funds

(CZK million)	31 Dec 2018	31 Dec 2017	1 Jan 2017
Share premium	16,439	16,439	16,439
Statutory reserve fund	112	101	101
Cash flow hedging reserve	519	265	(838)
Hedging expenses	(264)	-	-
Fund from measurement of financial assets at fair value through other comprehensive income	110	-	-
Total	**16,916**	**16,805**	**15,702**

The allocations to the statutory reserve fund are in accordance with the Company's Articles of Association.

22.2.1. Cash flow hedging reserve

(CZK million)	2018	2017
Balance at the beginning of the year	265	(838)
Impact of changes according to IFRS 9	302	-
Balance at the beginning of the year according to IFRS 9	**567**	**(838)**
Revaluation gain / (loss)	(68)	1,054
Settled deferred derivatives	-	35
Reclassification to profit or loss	20	14
Total change in the cash flow hedging reserve	**(48)**	**1,103**
Relating income tax	-	-
Balance at the year-end	**519**	**265**

The cash-flow hedging reserve includes accumulated gains and losses from the effective hedging of cash flows. The accumulated deferred profit or loss from hedging derivatives is reclassified to the profit or loss only if the hedging transaction impacts the profit or loss or is included as an adjustment to the basis in the hedged non-financial item in accordance with the relevant accounting policies.

Gains and losses reclassified during the year from equity are included under 'Purchased consumables and services' and 'Financial expenses' in the statement of profit or loss.

Reclassification of cash -low hedging reserve to profit or loss for each of risk exposures:

(CZK million)

Cross currency interest rate swaps – bond funding in EUR with fix-rate hedging	2018	2017
Balance at the beginning of the year	247	(770)
Impact of changes according to IFRS 9	302	-
Balance at the beginning of the year according to IFRS 9	**549**	**(770)**
Change in fair value of hedging derivatives	(55)	997
Reclassification to financial expenses and income	35	20
Balance at the year-end	**529**	**247**

(CZK million)

Interest rate swaps – bonds and lease contracts with a variable rate hedging	2018	2017
Balance at the beginning of the year	(17)	(102)
Change in fair value of hedging derivatives	2	57
Reclassification to financial expenses and income	20	28
Balance at the year-end	**5**	**(17)**

(CZK million)

Commodity options – oil price hedging	2018	2017
Balance at the beginning of the year	-	(2)
Change in fair value of hedging derivatives	(15)	-
Reclassification to financial expenses and income	-	2
Balance at the year-end	**(15)**	**-**

(CZK million)

Commodity forwards – traction electricity price hedging	2018	2017
Balance as at 1 January	35	37
Change in fair value of hedging derivatives	-	-
Settled deferred derivatives	-	35
Reclassification to financial expenses and income	(35)	(37)
Balance at the year-end	**-**	**35**

22.2.2. Hedging expenses

Hedging expenses include accumulated gains and losses from changes in fair value excluded from the hedging derivatives related to the currency base margin of cross currency interest rate swaps and time value of commodity options.

(CZK million)	31 Dec 2018	31 Dec 2017
Balance at the beginning of the year	-	-
Impact of changes according to IFRS 9	(300)	-
Balance at the beginning of the year according to IFRS 9	**(300)**	**-**
Hedging expenses	36	-
Balance at the year-end	**(264)**	**-**

22.2.3. Fund from measurement of financial assets at fair value through other comprehensive income

Fund from the measurement of financial assets at fair value through other comprehensive income includes the accumulated net change in fair value of financial instruments remeasured through other comprehensive income.

(CZK million)	31 Dec 2018	31 Dec 2017
Balance at the beginning of the year	-	-
Impact of changes according to IFRS 9	93	-
Balance at the beginning of the year according to IFRS 9	**93**	**-**
Revaluation	17	-
Balance at the year-end	**110**	**-**

23. Loans And Borrowings

(CZK million)	31 Dec 2018	31 Dec 2017
Payables from finance leases	280	375
Group cash pooling	57	57
Issued bonds	8,036	4,351
Total short-term	**8,373**	**4,783**
Payables from finance leases	472	751
Issued bonds	17,752	25,257
Total long-term	**18,224**	**26,008**
Total	**26,597**	**30,791**

Borrowings are initially recognised at fair value less transaction costs. In the following periods borrowings are recognised at amortised cost applying the effective interest rate method. All differences between consideration less transaction costs and the amount of payments are recognised in the profit or loss progressively over the borrowing period.

Portions of long-term loans and borrowings that are repayable in a period shorter than one year from the financial statements date are recognised as short-term loans and borrowings.

Issued bonds in book value of CZK 4,034 million with due date in July 2018 were disclosed as short-term loans and borrowings as at 31 December 2017.

Issued bonds in book value of CZK 7,849 million with due date in July 2019 were disclosed as short-term loans and borrowings as at 31 December 2018.

23.1. Issued bonds

Issue date	Nominal value	Maturity	Public traded	Coupon	Carrying value at 31 Dec 2018 CZK million	Carrying value at 31 Dec 2017 CZK million
23.7.2012	EUR 300 million	7	Yes	4.125%	7,849	7,787
25.7.2013	CZK 4,000 million	5	Yes	6M PRIBOR + 1.7%	-	4,034
5.11.2014	EUR 30 million	10	No	2.875%	769	763
5.11.2014	EUR 150 million	15	No	3.50%	3,850	3,820
3.6.2015	EUR 37.7 million	7	No	1.89%	981	974
3.6.2015	EUR 77.5 million	20	No	3.00%	2,021	2,006
25.5.2016	EUR 400 million	7	Yes	1.875%	10,319	10,224
Total					**25,789**	**29,608**
- of which current					*8,036*	*4,351*
- of which non-current					*17,752*	*25,257*

The Company did not violate any of the conditions of the loan agreements in the reporting period.

23.2. Financial lease payables

Finance leases relate to railway vehicles with the lease period of 10 and more years. In the year 2017, the lease agreement for 12 wagons ended and the Company renewed the car fleet, also under finance lease arrangement. Payables arising from finance leases are as follows:

(CZK million)	Minimal lease payments 31 Dec 2018	Minimal lease payments 31 Dec 2017	Present value of minimum lease payments 31 Dec 2018	Present value of minimum lease payments 31 Dec 2017
Up to 1 year	311	412	280	375
1 to 5 years	493	794	472	751
Over 5 years	-	-	-	-
Total	**804**	**1,206**	**752**	**1,126**
Less: future financial costs	(52)	(80)	-	-
Present value of minimum lease payments	**752**	**1,126**	**752**	**1,126**
In the statement of financial position as:				
short-term loans			*280*	*375*
long-term loans			*472*	*751*
Total			**752**	**1,126**

Fair value of finance lease liabilities disclosed in Note 33.4.

The acquisition of fixed assets under finance leases is recognized as a non-cash transaction in the statement of cash-flows. Repayment of finance lease liabilities is recognized as cash flows from financial activities.

23.3. Changes in financing liabilities

Changes in financing liabilities including changes cash flows and non-cash changes are disclosed in the following table:

(CZK million)	Payable to Eurofima – short-term	Financial lease payables – short-term	Financial lease payables – long-term	Group cash pooling	Issued bonds – short-term	Issued bonds – long-term	Total
Note	23	23	23	23	23	23	23
Financing liabilities as at 1 Jan 2017	**811**	**378**	**1,082**	**193**	**379**	**30,693**	**33,536**
Cash flows from financing activities *)	(811)	(380)	-	(135)	-	-	(1,326)
Repayments of loans and borrowings	(811)	-	-	(135)	-	-	(946)
Repayments of finance lease	-	(380)	-	-	-	-	(380)
Non-cash flows							
Effect of exchange rate changes	-	-	-	-	(25)	(1,473)	(1,498)
Reclassification **)	-	377	(377)	-	4,000	(4,000)	-
Other non-cash movements	-	-	46	(1)	(3)	37	79
Financing liabilities as at 31 Dec 2017	**-**	**375**	**751**	**57**	**4,351**	**25,257**	**30,791**
Cash flows from financing activities *)	-	(374)	-	-	(4,000)	-	(4,374)
Repayments of loans and borrowings	-	-	-	-	(4,000)	-	(4,000)
Repayments of finance lease	-	(374)	-	-	-	-	(374)
Non-cash flows							
Effect of exchange rate changes	-	-	-	-	8	184	192
Reclassification **)	-	279	(279)	-	7,718	(7,718)	-
Other non-cash movements	-	-	-	-	(41)	29	(12)
Financing liabilities as at 31 Dec 2018	**-**	**280**	**472**	**57**	**8,036**	**17,752**	**26,597**

*) Cash flows from financing activities includes proceeds from loans and borrowings, repayments of loans and borrowings, payment of financial leasing instalments and are disclosed in the cash flow statement.
**) Loans and borrowing classified as long-term in prior period which became short-term in current period.

24. Provisions

(CZK million)

	Balance at 1 Jan 2017	Creation	Use	Release of unused part	Balance at 31 Dec 2017	Creation	Use	Release of unused part	Balance at 31 Dec 2018
Provision for legal disputes	517	203	-	129	591	21	66	154	392
out ow which: long-term	-				-				-
Other provision	119	-	-	10	109	-	-	-	109
out ow which: long-term	-				-				-
Provisions for employees benefits	249	82	87	-	244	82	92	-	234
out ow which: long-term	*153*				*152*				*136*
Total provisions	**885**	**285**	**87**	**139**	**944**	**103**	**158**	**154**	**735**
long-term	*153*				*152*				136
short-term	*732*				*792*				599

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate anniversaries, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. In calculating the provision, the Company used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees of 5%, anticipated increase in salaries of 2%, anticipated inflation level of 2%, likelihood of death or disablement according to the data of the Czech Statistical Office. A change in the amount of the provision due to the change in these parameters is reported as actuarial gains (losses) in the statement of profit or loss. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

The Company recognises a provision for legal disputes according to the anticipated results of all ongoing legal disputes and the relating cash outflows of the Company. Information about the legal claims is disclosed in Note 32.1.

25. Trade Payables

(CZK million) Year	Category	Before due date	1 - 30 days	31 - 90	Past due date (days) 91–180	181-365	Over 365	Total past due date	Total
31 Dec 2018	Short-term	3,520	123	2	18	21	8	172	**3,692**
31 Dec 2017	Short-term	2,859	63	6	1	14	4	88	**2,947**

26. Other Financial Liabilities

(CZK million)	31 Dec 2018	31 Dec 2017
Financial derivatives *)	338	348
Other	124	34
Total long-term	**462**	**382**
Financial derivatives *)	39	95
Other	34	34
Total short-term	**73**	**129**
Total	**535**	**511**

*) The Company uses fair value measurement for the financial derivatives and other financial liabilities are valued in amortized cost.

27. Other Liabilities

(CZK million)	31 Dec 2018	31 Dec 2017
Prepayments received	4	64
Payables to employees	919	876
Liabilities for social security and health insurance	288	277
Tax liabilities - tax withheld from employees	92	89
Deferred revenues from passenger transport	*)	196
Repayment of part of subsidy within ROP project**)	379	379
Contract liabilities	254	-
Refund liabilities	21	-
Other	108	64
Total short-term	**2,065**	**1,945**

*) In 2018, item was recognises within the contractual liabilities according to implementation of IFRS 15
**) Detail for subsidy repayment is included in Note 14.1.

The Company has no payables to taxation authorities, social security authorities or health insurers past their due dates.

28. Related parties

28.1. Income generated from subsidiaries and associates

2018 (CZK million)	**Sale of inventories**	**Sale of services**	**Other income**	**Total**
ČD – Telematika a.s.	-	8	11	19
Výzkumný Ústav Železniční, a.s.	-	9	-	9
DPOV, a.s.	19	38	6*)	63
ČD Cargo, a.s.	9	184	4*)	197
ČD - Informační Systémy, a.s.	-	16	29*)	45
JLV, a.s.	-	1	1	2
Dopravní vzdělávací institut, a.s.	-	3	-	3
ČD travel, s.r.o.	-	7	1	8
Total	**28**	**266**	**52**	**346**

*) including financial income

2017 (CZK million)	**Sale of inventories**	**Sale of services**	**Other income**	**Total**
ČD – Telematika a.s.	-	42	-	42
Výzkumný Ústav Železniční, a.s.	-	7	-	7
DPOV, a.s.	13	47	3*)	63
ČD Cargo, a.s.	29	169	6*)	204
ČD - Informační Systémy, a.s.	-	16	7*)	23
JLV, a.s.	-	2	-	2
Dopravní vzdělávací institut, a.s.	-	2	-	2
ČD travel, s.r.o.	-	8	1	9
Total	**42**	**293**	**17**	**352**

*) including financial income

28.2. Purchases from subsidiaries and associates

(CZK million)

2018	Purchase of material	Services	Total
ČD – Telematika a.s.	10	55	65
Výzkumný Ústav Železniční, a s.	-	1	1
DPOV, a.s.	2	141	143
ČD Cargo, a.s.	-	20	20
ČD - Informační Systémy, a.s.	2	235	237
JLV, a.s.	-	160	160
Dopravní vzdělávací institut, a.s.	-	53	53
ODP-software, spol. s r.o.	13	10	23
ČD travel, s.r.o.	-	2	2
ČD relax, s.r.o.	-	28	28
CHAPS, spol. s r.o.	-	12	12
Total	**27**	**717**	**744**

(CZK million)

2017	Purchase of material	Services	Total
ČD - Telematika a.s.	10	45	55
Výzkumný Ústav Železniční, a.s.	-	1	1
DPOV, a.s.	32	99	131
ČD Cargo, a.s.	-	20	20
ČD - Informační Systémy, a.s.	11	208	219
JLV, a.s.	-	186	186
Dopravní vzdělávací institut, a.s.	-	52	52
ODP-software, spol. s r.o.	-	12	12
ČD travel, s.r.o.	-	2	2
ČD relax, s.r.o.	-	25	25
CHAPS, spol. s r.o.	-	3	3
Total	**53**	**653**	**706**

Subsidiaries and affiliates dispose of the services provided by the Company under the same conditions as for other customers. Based on the costs of the Company the Company purchased certain services, materials and energy from subsidiaries and affiliates under the same conditions as other consumers.

28.3. Purchases and sales of fixed assets and financial assets with subsidiaries and associates

Sales (CZK million)	**Tangible fixed assets 2018**		**Tangible fixed assets 2018**
ČD Cargo, a.s.	-	-	25
Total	**-**	**-**	**25**

Purchases (CZK million)	**Intangible fixed assets 2018**	**Tangible fixed assets 2018**	**Intangible fixed assets 2017**	**Tangible fixed assets 2017**
ČD - Telematika a.s.	-	2	-	-
DPOV, a.s.	-	1,692	-	1,089
ČD Cargo, a.s.	-	-	-	3
ODP-software, spol. s r.o.	-	13	5	55
ČD - Informační Systémy, a.s.	148	-	98	-
Dopravní vzdělávací institut, a.s.	-	10	-	-
CHAPS, spol. s r.o.	-	-	11	-
Total	**148**	**1,717**	**114**	**1,147**

Purchases of fixed assets from DPOV, a.s., include the purchases of railway vehicle components – major periodical repairs.

28.4. Outstanding balances at the end of the reporting period with subsidiaries and associates

(CZK million)

31 December 2018	Receivables	Liabilities
ČD - Telematika a.s.	-	23
Výzkumný Ústav Železniční, a.s.	6	-
DPOV, a.s.	49	315
ČD Cargo, a.s.	178	5
JLV, a.s.	-	47
ČD - Informační Systémy, a.s.	5	94
Dopravní vzdělávací institut, a.s.	-	5
ČD travel, s.r.o.	2	-
ODP-software, spol. s r.o.	-	6
ČD relax, s.r.o.	-	4
CHAPS, spol. s r.o.	-	4
Total	**240**	**503**

(CZK million)

31 December 2017	Receivables	Liabilities
ČD - Telematika a.s.	7	20
Výzkumný Ústav Železniční, a.s.	1	-
DPOV, a.s.	37	352
ČD Cargo, a.s.	181	4
JLV, a.s.	-	54
ČD - Informační Systémy, a.s.	4	87
Dopravní vzdělávací institut, a.s.	-	3
ČD travel, s.r.o.	2	-
ODP-software, spol. s r.o.	-	6
ČD relax, s.r.o.	-	4
CHAPS, spol. s r.o.	-	9
Total	**232**	**539**

Outstanding balances are not hedged and are paid by bank transfer. No guarantees were received or provided. In the current and previous accounting periods , the Company reported no expenses relating to bad or doubtful receivables from related parties.

28.5. Contractual obligations relating to expenses

As of the financial statements preparation date, the Company concluded contracts for the purchase of fixed assets, inventory and services with related parties:

(CZK million)	31 Dec 2018	31 Dec 2017
ČD - Telematika a.s.	2	-
DPOV, a.s.	800	1,301
ČD - Informační Systémy, a.s.	43	177
Total	**845**	**1,478**

28.6. Loans to related parties

(CZK million)

Counterparty	Loan amount	Date of supply	Maturity	Interest rate	Book value as at 31 Dec 2018	Book value as at 31 Dec 2017
ČD Cargo, a.s.	CZK 540 million	17.10.2016	Monthly payment to 17 October 2023	6M EURIBOR plus margin 1.00% p.a.	354	425
ČD - Informační Systémy, a.s.	CZK 400 million	27.9.2017	27.9.2027	3M Pribor + 5.4% p.a.	360	400
DPOV, a.s.	CZK 100 million	23.10.2017	23.4.2018	1.16% p.a.	-	100
ČD - Informační Systémy, a.s	CZK 30 million	29.10.2018	29.1.2019	2.3% p.a.	30	-
Výzkumný Ústav Železniční, a.s.	CZK 80 million	21.11.2018	20.5.2019	2.56% p.a.	80	-
Total					**824**	**925**

28.7. Key management members compensation

The members of key management received the following bonuses in 2018:

(CZK million)

2018	Board of Directors	Supervisory Board	Steering Committee
Wages and salaries to the Statutory Body	32	4	-
Other short-term employee benefits	5	2	-
Total	**37**	**6**	**-**
Number of key management members	**5**	**9**	**7**

(CZK million)

2017	Board of Directors	Supervisory Board	Steering Committee
Wages and salaries to the Statutory Body	27	2	-
Other short-term employee benefits	5	5	-
Total	**32**	**7**	**-**
Number of key management members	**5**	**9**	**7**

The Company's management had the possibility to use benefit-in-kind remuneration in the form of the use of Company cars for private purposes.

28.8. Transactions with companies owned by state

The Company is wholly owned by the state. In concordance with the exception stated in the IAS 24 standard - Related party disclosures. The Company does not disclose quantitative information concerning the individually insignificant transactions with companies owned by the state. Material transactions with related parties which were recognized by the Company are presented below: orderers of transport in public services (region and Ministry of Transportation), government organization SŽDC and the ČEZ group.

(CZK million)

Income	Counterparty	2018	2017
Income from rental property	SŽDC	21	24
Payment for rail replacement bus service	SŽDC	831	392
Payments from public services customers – payment from the state budget	state - Ministry of Transportation	4,723	4,599
Compensation of 75% discount fares	state - Ministry of Transportation	732	-
Payments from public services customers – payment from the region budget	regions	9,576	9,445

(CZK million)

Expenses	Counterparty	2018	2017
Use of railway route and allocated capacity of the railway	SŽDC	1,845	1,911
Consumption of traction energy	SŽDC	641	621
Consumption of traction energy	ČEZ	615	543
Rental estate	SŽDC	48	48

(CZK million)

Receivables	Counterparty	31 Dec 2018	31 Dec 2017
Payment for replacement bus service	SŽDC	122	37
Public service obligation	state - Ministry of Transportation	-	2
Compensation of 75% discount fares	state - Ministry of Transportation	169	-
Public service obligation	regions	24	112

(CZK million)

Liabilities	Counterparty	31 Dec 2018	31 Dec 2017
Use of railway route and allocated capacity of the railway	SŽDC	418	183
Consumption of traction energy	SŽDC	141	71
Consumption of traction energy	ČEZ	225	69

State institutions, companies and other parties controlled by the state dispose of the services provided by the Company under the same conditions as for other customers. Based on the costs, the Company purchased certain services and other supplies (water, electricity, etc.) from companies controlled by the state under the same conditions as other consumers.

29. Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position are measured at amortised cost and are tested for impairment according to IFRS 9. The Company considers estimated impairment of cash and cash equivalents immaterial due to high quality credit-ratings of cooperating banks confirmed by the external investment rating.

For cash-flow statement purposes, cash and cash equivalents include cash on hand, cash at bank, cash pooling and investments in money market instruments after reflecting negative balances on overdraft accounts. Cash and cash equivalents at the end of the reporting period reported in the cash-flows statement can be reconciled to the relevant items in the statement of financial position as follows:

(CZK million)	31 Dec 2018	31 Dec 2017
Cash on hand and cash in transit	82	83
Cash at banks *)	1,755	6,249
Total)	**1,837**	**6,332**

*) The parties are banks with high credit-ratings. (The investment grade is required). The Company cooperates with these banks on the basis of long-term and stable relationships.
**) According to IFRS 9, impairment losses on cash and cash equivalents were considered immaterial by the Company.

30. Contracts for Operating Leases

30.1. The company as lessee
Assets under operating leases which are reported off balance sheet include a number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognised in expenses in the year 2018 amounted to CZK 99 million (in 2017: CZK 99 million).

The Company's payments as accounted into costs for the purpose of the lease of railway vehicles, and on the basis of agreement of the usage of railway vehicles in international transport amounted to CZK 378 million in 2018 (in 2017: CZK 468 million). Other payments for the operating lease of railway vehicles amounted to CZK 172 million in 2018 (in 2017: CZK 36 million).

The Company as a lessee has not concluded any irrevocable lease contracts, contingent lease contracts or onerous contracts.

Due to fact that contracts for opearting leases are not irrevocable, the Company does not present value of minimal future lease payments as at 31 December 2018 and since 1 January 2019 will account for such leases according to IFRS 16, as described in Note 3.3.

30.2. The Company as a lessor
Operating leases applies to investment property and movable assets held by the Company with various lease periods.

Revenue from the lease of property that the Company acquired in 2018 from investment property based on the operating leases amounts to CZK 247 million (in 2017: CZK 256 million).

Direct operating expenses relating to investment property for the period amounted to CZK 103 million in 2018 (in 2017: CZK 92 million).

Income from operating leases of movable assets in 2018 amounts to CZK 64 million (in 2017: CZK 88 million).

Future minimal leasing payments from irrevocable operating leasing contracts as at 31 December 2018:

- up to one year in the amount of CZK 36 million
- up to five years in the amount of CZK 144 million
- more than five years in the amount of CZK 144 million.

Future minimal leasing payments from irrevocable operating leasing contracts as at 31 December 2017:

- up to one year in amount of CZK 36 million
- up to five years in amount of CZK 144 million
- more than five years in amount of CZK 180 million.

31. Contractual Obligations Relating to Expenses

As at the balance sheet date, the Company concluded contracts for the purchase of fixed assets in the amount of CZK 5,221 million.

(CZK million)	31 Dec 2018
Supplies agreed for 2019	900
Supplies agreed for the following years	3,419
As at 31 December 2018 was already paid	902
Total	**5,221**

Investments in railway vehicles represent a significant part of the obligations relating to expenses of CZK 4,028 million.

32. Contingent Liabilties and Contingent Assets

The Company holds a 1% equity investment in EUROFIMA. The shareholders of the entity are European national railway transporters and the purpose of this entity is to acquire funds for the funding of railway vehicle purchases. According to Article 5 of the Articles of Association, only 20% of the equity investment value has been paid and the remaining 80% can be required by EUROFIMA from its shareholders as needed pursuant to the resolution of the Administration Board. The nominal value of unpaid shares as of 31 December 2018 was CHF 20.8 million (CZK 475 mil. as at 31. 12. 2018). The likelihood that the Company will be asked to pay the nominal value of the unpaid portion of the equity investment is considered to be low by the Company's management.

The aggregate costs of clean-ups was CZK 24 million in 2018 and CZK 25 million in 2017. The Company is not aware of any environmental burdens that would exceed legislative limits and represent harm to human health or property of third parties. The provisions for clean-ups of other environmental burdens are not recognised as the Company is unable to estimate the scope of these burdens and its potential involvement in their removal. The Company has not prepared an overall strategy and plan of clean-ups according to which it could recognise the provisions.

List of active bank guarantees issued by the parent company, as at 31 December 2018:

On behalf of	Amount	Currency	Date of ending	Reason for a bank guarantee
Liberec Region	51,860,000	CZK	14 December 2019	For the proper implementation of the public service Obligation Agreement in rail passenger transport in the public interest to ensure the basic transport services of a part of the territory of the Liberec Region to the defined performances of "Jizerskohorská železnice"
South-Moravian region	50,000,000	CZK	31 December 2019	For the proper implementation of the public passenger transport services in regional rail passenger transport
Pilsen Region	10,000,000	CZK	26 August 2019	For the proper implementation of the Agreement of the public passenger transport services in regional rail passenger transport on lines No. 190 Plzeň - České Budějovice and No. 170 Plzeň - Cheb on segments of these lines in the territorial activity of the Pilsen Region
Czech Republic - Ministry of Transport	30,000,000	CZK	20 September 2019	For the proper implementation of the Agreement of the public services in passenger transport on public rail passenger transport in order to ensure the transport service of the national transport trains on line R14A Pardubice - Liberec
Czech Republic - Ministry of Transport	10,000,000	CZK	14 December 2019	For the proper implementation of the Agreement of the public passenger transport services by public rail passenger transport in order to ensure the transport service of the national transport on the line R13 Brno - Břeclav - Olomouc
Czech Republic - Ministry of Transport	30,000,000	CZK	8 February 2019	For the offer in tender procedure of Assure of public services in transport in public passenger rail transport on lines Ex2 Prague - Olomouc - (Slovakia) and R18 Prague - Olomouc - Luhačovice for the period from the beginning of the timetable 2019/2020 until the end of the timetable 2027 / 2028
Czech Republic - Ministry of Transport	20,000,000	CZK	8 February 2019	For the offer in tender procedure of Assure of public services in transport in public passenger rail transport on line R8 Brno-Ostrava-Bohumín for the period from the beginning of the timetable 2019/2020 until the end of the timetable 2027 / 2028
Czech Republic - Ministry of Transport	30,000,000	CZK	8 February 2019	For the offer in tender procedure of Assure of public services in transport in public passenger rail transport on lines R21, R22, R24 a R26 for the period from the beginning of the timetable 2019/2020 until the end of the timetable 2027 / 2028

List of active bank guarantees received by the Parent Company, as at 31 December 2018:

Bank Guarantee issued by the Company	Type of insurance	Amount	Currency	Date of ending	Reason for a bank guarantee
ČEZ Prodej, a.s., Praha 4, Duhová 1/425, PSČ 14053	Unicredit Bank Czech Republik and Slovakia, a.s.	100,000,000	CZK	31 December 2018	Fulfilment of the obligations of the electricity supply contract
Pars nova, a.s., Žerotínova 1833/56, 787 01 Šumperk	Československá obchodní banka, a.s.	55,361,402	CZK	21 January 2019	Fulfilment of the obligations of the modernization of 22 railway rolling stock contract
Pars nova, a.s., Žerotínova 1833/56, 787 01 Šumperk	Československá obchodní banka, a.s.	10,198,223	CZK	14 March 2019	Fulfilment of the obligations of the modernization of railway rolling stock contract
ŠKODA VAGONKA a.s., 1.máje 3176/102, Moravská Ostrava, 703 00 Ostrava	Československá obchodní banka, a.s.	100,755,000	CZK	31 March 2019	Fulfilment of the obligations of the of 9 pcs of EMU 160 units supply
Pars nova, a.s., Žerotínova 1833/56, 787 01 Šumperk	Československá obchodní banka, a.s.	49,130,779	CZK	19 April 2019	Fulfilment of the obligations of the modernisation of 71 railway rolling stock contract
Pars nova, a.s., Žerotínova 1833/56, 787 01 Šumperk	Československá obchodní banka, a.s.	7,913,945	CZK	9 June 2019	Fulfilment of the obligations of the modernisation of railway rolling stock contract
CZ LOKO, a.s., Semanínská 580, 560 02 Česká Třebová	Československá obchodní banka, a.s.	23,898,000	CZK	15 June 2019	Fulfilment of the obligations of the delivery of locomotives for shifting contract
Zlínstav a.s., Bartošova 5532, 760 01 Zlín	Komerční banka, a.s.	2,516,492	CZK	31 October 2021	Fulfilment of the obligations of the contract of work - Třinec Transfer Terminal

32.1. Legal disputes

32.1.1. Railway Freight Transportation Market

Office for the Protection of Competition (OPC) imposed a fine on ČD, a.s. for abusing its position on the market in the area of freight transportation of significant amounts of natural resources and raw materials of approximately CZK 250 million. Based on ČD's defence, the case was passed to the Administrative Court. The Supreme Administrative Court dismissed the OPC's appeal in December 2017. The case is finally resolved at the level of the administrative courts in ČD, a.s.'s favour and returned to the OPC, back to the first instance. In June 2018, the OPC issued a new first instance decision, which significantly reduced the scope of sanctioned proceedings against ČD and imposed a significantly lower fine of approximately CZK 15.6 million. In July 2018, ČD appealed against this decision. The chairman of OPC dismissed the appeal and the fine in amount of approximately CZK 15.6 million became final. ČD, a.s. disagrees with the mentioned fine and will appeal against it. However, due to the fact that the decision was final and' apparently, the court would not grant the suspensive effect, the fine was paid within the due date. If the administrative court accepts the appeal, the amount will be recovered.

32.1.2. Prague – Ostrava line

In January 2012, the OPC initiated proceedings against ČD, a.s. regarding the alleged abuse of ČD, a.s.'s dominant position on the Prague – Ostrava line in the form of inadequately low (predatory) prices in response to the entry of a new competitive railway transporter. In November 2016 in reference to this case the formal investigation was initiated by the European Commission. The OPC has suspended the investigation due to the initiation of a European Commission investigation. The matter has not been decided yet, the proceedings are ongoing. ČD has filed legal action with the Court of Justice of the EU against execution of the local European Commission investigation in the seat of ČD. The Court of Justice partially upheld the action (the legal action was considered partly unlawful), ČD appealed against that decision.

32.1.3. Legal Action by LEO Express against ČD, a.s. for the compensation of damage amounting to CZK 434 million

In July 2014, LEO Express filed a legal action for compensation of damage amounting to approximately CZK 419 million which was allegedly caused to LEO Express by ČD, a.s. and its pricing policy. The first-instance court rejected LEO Express's legal action. LEO Express partially withdrew the legal action, against which ČD applied the legal remedy, but the court accepted the partial withdrawal, while Leo Express appealed against the decision of the Court of First Instance of dismissing the application to the extent of which there was no withdrawal. At the end of December 2016, Leo Express filed a new legal action against ČD for the approximate amount of CZK 434 million with accessories and for a similar reason. The second legal action mostly overlaps part of the legal action which was withdrawn by Leo Express after the failure in the first instance in the Municipal Court in Prague. In March 2018, the High Court in Prague cancelled the judgment dismissing the first LEO Express claim for damages and returned the case to the Municipal Court in Prague for further proceedings. Both of the above-mentioned proceedings (the first action, LEO Express claims, after partial withdrawal, payment of approximately CZK 34 million and the second action for payment of approximately CZK 434 million) are now being handled before the Municipal Court in Prague as a court of first instance.

32.1.4. RegioJet Legal Action for the Return of Allegedly Prohibited Public Support (the Defendants Being ČD, a.s., SŽDC, s.o., and the Czech Republic Represented by the Czech Ministry of Transportation)

In April 2015, RegioJet filed a legal action for the return of approximately CZK 7 billion and default interest due to allegedly prohibited public support. The assets involving the 'assets required to maintain rails and their operability' ("mrtvá dopravní cesta" in Czech), which were transferred by ČD to SŽDC in 2008 for CZK 12 billion, were allegedly overstated by this amount. During the court proceedings, ČD stated that they considered the action to be unfounded. On 6 February 2019, the Court of First Instance dismissed the RegioJet legal action in its entirety.

32.1.5. RegioJet's Call for the Payment of Compensation for Detriment

RegioJet sent a pre-trial call to ČD, a.s. for the payment of the compensation for the damages dated 10 April 2015 in which it seeks payment of cca. CZK 717 million. The alleged damages were caused by ČD's sanction activities in operating the Prague – Ostrava line, involving the application of dumping prices. ČD refused to pay for the damages. RegioJet filed a legal action seeking the payment of compensation of approximately CZK 717 million with accrued interest and charges that resulted in legal proceedings being initiated in the matter. During the course of a judicial proceeding in the first instance, the trial was interrupted until the European Commission decision on the Falcon case (investigating whether ČD applied the dumping prices on the Prague – Ostrava line see 35.1.7).

32.1.6. Legal Action by Grandi Stazioni Česká republika, s.r.o. against SŽDC a ČD for the transfer of Prague Main Railway Station to SŽDC

The Company Grandi Stazioni Česká republika, s.r.o. (GS), filed three legal actions against the state organisation Railway Infrastructure Administration (SŽDC) and against ČD. GS is seeking payment of compensation of CZK 777 million, increased by a fine for delayed payment and default interest from SŽDC or ČD, depending on the court decision as to who the owner of Prague Main Railway Station – Praha hlavní nádraží (Fanta's building and passenger terminal) is. SŽDC and ČD agree that the owner of Prague Main Station is SŽDC, so that ČD should not be a party in the payment dispute. In accordance to this, ČD has the same position in legal procedures. In the matter of determining the ownership of Fanta's building, GS's action was dismissed: the applicant GS filed an appeal, which was dismissed by the court of second instance. Ownership of the passenger terminal is a subject to further appeal procedure. SŽDC commissioned an expert opinion to assess the amounts claimed by GS in the application for payment and, based on the expert opinion, SŽDC paid the amount of CZK 566 million to GS. As at the end of 2018, the payment dispute was extended by CZK 37 million applied by GS due to VAT payment.

32.1.7. Legal Action by Grandi Stazioni Česká republika, s.r.o. against SŽDC and ČD compensation of pre-contractual obligation

In August 2017, Grandi Stazioni Czech Republic, s.r.o. (GS) filed a lawsuit with the District Court in Prague 1, in which it seeks payment of CZK 1,256 million from Railway Infrastructure Administration (SŽDC) and ČD for the payment of compensation of a pre-contractual obligation. The alleged damage was caused by the failure to apply Amendment No.5 to the lease agreement regarding the lease and revitalisation of Prague - Main Railway Station - Praha hlavní nádraží.

32.1.8. Proceedings in the matter of a possible abuse of the dominant position on the routes Pardubice - Liberec and Plzeň - Most

In April 2016, the Office for the Protection of Competition (OPC) initiated administrative proceedings. The alleged violation of competition rules were charged against ČD for the reason that, during the tender held in 2005 concerning the railway transport and provision of public services on the route Pardubice-Liberec-Plzeň-Most for the duration of the 2006/2007 timetable, they presented a price offer which did not cover the costs of service provision on the routes in question. In accordance with the agreement, CD provided the service on the stated routes until the end of the 2013/2014 timetable. OPC imposed a fine of CZK 368 million on 14 December 2017. ČD applied a legal remedy as the decision is not final.

32.1.9. Proceedings in the matter of Italia Express train at the Office for the Protection of Competition

In Autumn 2016, the Office for the Protection of Competition initiated proceedings with ČD and ČD Cargo, a.s. in the matter of a possible violation of the Law on the Protection of Competition and the Treaty of the European Union. ČD and ČD Cargo have allegedly committed a violation by providing transport and mail services with the help of railway vehicles including related transport and forwarding services for the transport of goods to the loading station and transport of goods to the destination. This violation occurred in a period greater than ten years ago according to the OPC. By the decision taken on 19 June 2017 by OPC, proceedings against ČD Cargo have been discontinued, but ČD, as the parent company, is still part of the administrative proceedings. The reason is that, according to the law on the "protection of economic competition of the sole competitor", it is appropriate to involve only one company in administrative proceedings. On 21 September 2018, ČD received OPC's decision on the imposition of a fine of CZK 48 million. The fine was paid by ČD within the due date.

32.1.10. Audits of Subsidies Used from the Regional Operational Programme (ROP) for the Acquisition of Railway Vehicles

Since early 2014, the Audit Body of the Czech Ministry of Finance (the "Audit Body") has been conducting a due audit of operation at ČD, a.s. in terms of Section 7 (2) and Section 13a of Act No. 320/2001 Coll., on Financial Auditing in Public Administration and Changes to Certain Acts (the "Financial Auditing Act"), as amended, and Article 62 (1) (b) of Council Regulation (EC) No. 1083/2006. Following the audits carried out by the Audit Body, individual Regional Councils of the Cohesion Region issued payment demands in total anticipated amount of CZK 549 million. ČD, a.s. disagrees with the mentioned conclusions and appealed against them to the Ministry of Finance. In June 2018, on the basis of the Ministry of Finance's decision regarding one case, a CZK 272 million payment was reduced to CZK 68 million. ČD lodged an administrative action against this decision with a suspensive effect. The remaining appeal proceedings before the Ministry of Finance are still ongoing and payment demands are not valid yet. ČD is not obliged to pay them.

32.1.11. Alleged cartel agreement between CD, ZSSK and OBB for sale of the disposed railway vehicles

In June 2016 the European commission („EC") performed local investigation in the headquarters of the CD for the suspision of the cartel agreement made for the mutual sale of railway vehicles. EC investigates if CD, ZSSK and OBB have concluded agreement that limitates the sale of the disposed railway vehicles for the purposes of restriction of the entrance of new transporters to the market. CD filed complaint to Court of Justice of the EU against EC's local investigation in the headquarters of the CD. CD finds local investigation unreasonable when there is no information about such agreement made in the past (allegedly in 2010/2011). CD denies that it entered the cartel agreement. Currently, no official proceedings started against CD, the case is in the investigation and information gathering phase. No official proceeding has started, however, the investigation is not finished.

33. Financial Instruments

33.1. Capital risk management

Company's main objective in capital risk management is to maintain the rating at the investment grade and maintain a balanced ratio between equity and debt. The Company uses issues of bonds as a principal source of long-term funding.

The capital structure of the Company consists of net debt (borrowings including finance lease liabilities less cash and cash equivalents) and Company's equity (includes share capital, reserves and other funds, retained earnings).

(CZK million)

Net debt		**31 Dec 2018**	**31 Dec 2017**
Loans and borrowings	23	26,597	30,791
Less: Cash and cash equivalents	29	1,837	6,332
Total net debt		**24,760**	**24,459**
Equity		**31 Dec 2018**	**31 Dec 2017**
Share capital	22	20,000	20,000
Reserve and other funds	22	16,916	16,805
Retained earnings/(accumulated loss)	22	(1,009)	(1,437)
Total equity		**35,907**	**35,368**
Total managed equity		**11,147**	**10,909**

The Company is not subject to any externally imposed capital requirements.

The Board of Directors and the supervisory Board of the Company are regularly informed about the development of debt. Any additional debt is a subject to their approval.

33.2. Significant accounting policies

Details of the significant accounting policies and methods adopted for each class of financial asset, financial liability and equity instrument are disclosed in Note 2.

33.3. Categories of financial instruments

(CZK million)

Classification of financial assets IFRS 9	Classification of financial assets IAS 39	Class of financial assets		31 Dec 2018	31 Dec 2017
Financial assets measured at amortised cost	Loans and receivables	Trade receivables	19	1,463	1,151
		Cash and cash equivalents	29	1,837	6,332
		Receivables from financial leases	20	79	76
		Loans in the CD Group	20	869	925
		Other	20	194	103
Financial assets measured at fair value through profit or loss	Financial assets at fair value reported in the profits and losses	Financial derivatives used in hedge accounting	20	155	72
Financial assets measured at fair value through other comprehensive income	Realizable financial assets	Financial assets measured at fair value through other comprehensive income		440	330
Total				**5,037**	**8,989**

(CZK million)

Classification of financial liabilities IFRS 9	Classification of financial liabilities IAS 39	Class of financial liabilities		31 Dec 2018	31 Dec 2017
Financial liabilities measured at fair value through profit or loss	Financial liabilities at fair value reported in the profits and losses	Financial derivatives used in hedge accounting	26	377	443
Financial liabilities measured at amortised cost	Financial liabilities at amortised cost	Loans and borrowings	23	26,597	30,791
		Trade payables	25	3,692	2,947
		Other	26	158	68
		Total		**30,824**	**34,249**

In 2018, according to IFRS 9 investments in equity investments that are not traded on an active market and their fair value is determined according to Level 2 of the fair value hierarchy, are measured at fair value through other comprehensive income.

In 2017, according to IAS 39 available-for-sale financial assets included investments in equity investments that were not traded on an active market are were measured at cost.

Income from individual categories of financial assets is as follows:

(CZK million)

Category of financial assets	2018	2017	Reported in the statement of profit or loss line
Interest on cash and cash equivalents	11	4	Financial income
Interest on cash pooling and on loans granted	29	11	Financial income
Interest on leasing receivables	16	17	Financial income
Dividends from available-for-sale financial assets	-	-	Other operating income
Total	**56**	**32**	

Impairment losses on financial assets are disclosed in Note 19. 'Trade receivables and contractual assets' and 33.11. 'Credit risk management'. Other classes of financial assets were not significantly impaired.

33.4. Fair value of financial instruments

Financial assets (CZK million)	**Level**	**Fair value as of 31 Dec 2018**	**Carrying value as at 31 Dec 2018**	**Fair value as at 31 Dec 2017**	**Carrying value as at 31 Dec 2017**
Derivative instruments in hedge accounting	Level 2	155	155	72	72
Loans	Level 2	836	836	1,001	1,001
Financial assets at fair value through other comprehensive income	Level 2	440	330	*)	330
Other financial assets- long-term	Level 2	64	64	22	22
Total		**1,495**	**1,495**	**1,095**	**1,425**

*) The fair value was not reliably determinable

Financial liabilities (CZK million)	**Level**	**Fair value as of 31 Dec 2018**	**Carrying value as at 31 Dec 2018**	**Fair value as at 31 Dec 2017**	**Carrying value as at 31 Dec 2017**
Derivative instruments in hedge accounting	Level 2	377	377	443	443
Measured at amortised cost		**27,474**	**26,722**	**31,777**	**30,825**
Liabilities from financial lease	Level 2	*752*	*752*	*1,126*	*1,126*
Issued bonds	Level 2	*7,733*	*7,621*	*7,733*	*7,563*
Issued bonds (traded)	Level 1	*18,808*	*18,167*	*22,827*	*22,045*
Other financial liabilities	*Level 2*	*181*	*181*	*91*	*91*
Total		**27,851**	**27,098**	**32,220**	**31,268**

Cash and cash equivalents, trade receivables, other financial assets and other short-term financial liabilities are not stated in the table because their fair value is the same as the accounted amount due to its short-term maturity.

During the year 2017 and 2018, there were no transfers of Financial instruments between levels.

Determining the fair value of the financial derivatives are carried out using the Company's own pricing model of discounted cash flows using observable market assumptions. The fair value of the financial derivatives is classified as Level 2 in the hierarchy of fair values.

33.5. Valuation procedures used to determine fair value

Fair values of financial assets and financial liabilities are determined as follows:

- fair values of financial assets and financial liabilities with standard relationships and terms that are traded on an active liquid market are determined on the basis of quoted market prices,
- fair values of other financial assets and financial liabilities (excluding financial derivatives) are determined in accordance with generally accepted valuation models based on discounted cash-flow analysis using the prices of observable current market operations and market prices for similar instruments, or an appropriate yield curve with the appropriate duration,

– fair values of financial derivatives are calculated using quoted prices. If these prices are not available, linear derivatives are valued using discounted cash flows based on quoted exchange rates, quoted commodity prices, and appropriate yield curves corresponding to the maturity of the contracts. Valuation models for options are used for derivative options.

33.6. Fair value measurement recognized in the statement of financial position

Financial instruments measured at fair value are allocated to levels 1 to 3 according to the extent to which the fair value can be ascertained or verified:

- fair value measurements at level 1 are valuations, which are determined based on unadjusted quoted prices of the same assets or liabilities in active markets,
- the fair value measurement at level 2 are valuations, which are determined based on inputs other than quoted prices used at level 1; this information can be obtained from the asset or liability directly (i.e. prices) or indirectly (i.e. data derived from prices),
- fair value measurement at Level 3 are valuations based on valuation techniques that use asset or liability information that is not derived from observable market data (unverifiable inputs).

All financial instruments measured at fair value as at 31 December 2018 and 31 December 2017 are included in Level 2.

33.7. Financial risk management objectives

The Company manages financial risks through internal risk reports which include risk analysis based on their significance. Financial risks include market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

33.8. Currency risk management

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. These transactions predominantly include income from international transportation, received loans and issued bonds. In line with the approved Risk Management Strategy, the Company hedges anticipated payments in a foreign currency such that the size of the open risk position not exceeding the limit defined for the period by the Risk Management Committee and approved by the Company's Board of Directors.

The carrying amounts of the Company's foreign currency denominated financial assets and financial liabilities, net of the impact of currency hedging, at the end of the reporting period are as follows:

(CZK million)

31 December 2018	EUR	Other	Total
Financial assets	774	3	777
Financial liabilities	(26,906)	-	(26,906)
Total	**(26,132)**	**3**	**(26,129)**

(CZK million)

31 December 2017	EUR	Other	Total
Financial assets	782	3	785
Financial liabilities	(26,599)	-	(26,599)
Total	**(25,817)**	**3**	**(25,814)**

33.8.1. Foreign currency sensitivity analysis

The exposure to currency risks is measured by a sensitivity analysis. The Company is exposed to the currency risk due to:

- Changes in the value of cash items denominated in foreign currencies; and
- Changes in the fair value of concluded financial derivatives.

The following table shows the impact that the strengthening of the Czech currency by one crown in respect of Euro would have on the profit and other comprehensive income. A positive number indicates an increase in the profit and other comprehensive income, a negative number indicates the decrease in the profit and other comprehensive income:

(CZK million)	2018	2017
Translation of items denominated in foreign currencies at the end of the period	1,016	1,011
Change in the fair value of derivatives at the end of the period	(549)	(549)
Total impact on the profit for the period	**467**	**462**
Change in the fair value of derivatives at the end of the period	(63)	(75)
Total impact on other comprehensive income	**(63)**	**(75)**

33.8.2. Cross currency interest rate swaps

In accordance with the currency risk management requirements, the Company has entered into a cross-currency interest rate swap which reduces the risk of the bond funding in EUR using hedge ratio 1:1.

The economic relationship between the hedging instrument and the hedged item is described according to the following parameters:

- Swaps' nominal values are equal to the nominal values of volume of bond.
- Both transactions are contracted in the same currencies.
- Maturity of interest rate swaps payment and interest bond payment are equal.
- Swaps were contracted at market prices (without bonuses), the fair value of derivatives is nil as of the contract date.
- Swaps does not include any arrangements on agreed interest rate restriction (embedded interest rate options)
- The Company does not expect the early bond repayment.

Sources of hedge relationship ineffectiveness are recognised as follows:

- timing of payments on the hedged item,
- termination of the cross currency interest rate swap by the counterparty,
- significant decrease in the Company's or the counterparty's creditworthiness.

The table shows the terms of contracts for cross-currency interest rate swaps that were opened at the end of the reporting period:

31 Dec 2018	Nominal value (EUR million)	Collected interest rate (annual)	Nominal value (EUR million)	Average paid interest rate (annual)	Fair value of assets (liabilities) CZK million
Up to 1 year	542	3.45%	(14,412)	3.63%	116
1 to 5 years	292	2.90%	(8,062)	2.99%	157
Over 5 years	195	3.36%	(5,404)	3.52%	(484)
Total					**(211)**

31 Dec 2017	Nominal value (EUR million)	Collected interest rate (annual)	Nominal value (EUR million)	Average paid interest rate (annual)	Fair value of assets (liabilities) CZK million
Up to 1 year	542	3.45%	(14,412)	3.63%	(50)
1 to 5 years	542	3.09%	(14,412)	3.20%	189
Over 5 years	255	3.01%	(7,027)	3.11%	(469)
Total					**(330)**

The exchanges of payments under the cross-currency interest rate swaps and coupon payments from issued bonds occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the coupon payments from the issued bonds affect the profit or loss.

The expected realisation of hedged items by inter-currency interest rate swaps

The expected secured cash flow from foreign currency bonds are stated in Note 33.9.1. in tables with remaining contractual maturities in the row Tools with fixed interest rate.

33.9. Interest rate risk management

The Company manages interest rate risk by maintaining an appropriate mix between fixed and floating rate financing; for this purpose, the Company concludes contracts for interest rate swaps so that the size of the open risk position does not exceed the limit defined for the period by the Risk Management Committee and approved by the Company's Board of Directors.

33.9.1. Interest Rate Sensitivity Analysis

The exposure to changes in interest rates is measured by the sensitivity analysis. The Company is exposed to the interest rate risk due to:

- Changes in interest expenses from loans and lease with a variable rate;
- Change in the fair value of concluded financial derivatives

The following table shows the impact that an increase in interest rates of 100 basis points would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates the decrease in the profit and other comprehensive income:

(CZK million)	2018	2017
Interest from loans and lease with variable rate for the period	-	(44)
Total impact on the profit for the period	**-**	**(44)**
Change in the fair value of derivatives at the end of the period	19	49
Total impact on other comprehensive income	**19**	**49**

33.9.2. Interest Rate Swap Contracts

In accordance with currency risk management requirements, the Company has entered into interest rate swap contracts which reduces the risk of leaseback loans contracted variably and bonds with variable interest rates.

The hedge ratio is determined at 1:1.

The economic relationship between the hedging instrument and the hedged item is described according to the following parameters:

- Swaps' nominal values are equal to the nominal values of the nominal values of the volume of leaseback loans and variable interest rate bonds
- Both transactions are contracted in the same currencies
- Maturity of interest rate swaps payments and interest leaseback loans payments are equal
- Swaps were contracted at market prices (without bonuses), the fair value of derivatives is nil as of the contract date
- Swaps do not include any arrangements on agreed interest rate restriction (embedded interest rate options)
- The Company does not expect the early leaseback loan repayment

Sources of hedge relationship ineffectiveness are recognised as follows:

- early repayment of the remaining value of the leaseback,
- termination of the interest rate swap by the counterparty,
- significant decrease in the Company's or the counterparty's creditworthiness.

The following table details the terms of interest rate swap contracts outstanding at the end of the reporting period:

	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value in CZK million as at 31 Dec 2018
Up to 1 year	Leases	1.23%	CZK 494 million	1
1 to 5 years	Leases	1.23%	CZK 207 million	3
Total				**4**

	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value in CZK million as at 31 Dec 2017
Up to 1 year	Float interest bonds	1.61%	CZK 4,000 million	(40)
	Leases	1.23%	CZK 673 million	(4)
				(44)
1 to 5 years	Leases	1.23%	CZK 303 million	2
				2
Total				**(42)**

The Company settles the difference between fixed and floating interest rates on a net basis. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating interest rates on debt affect the profit or loss. Gains and losses reclassified during the year from the equity are included in "Other interest expense" which is part of "Financial expenses" in Profit or Loss.

The expected realization of the hedged items with interest rate swaps

The expected secured cash flows from interest on variable rate loans are stated in chapter 34.10.1. in the tables remaining contractual maturities of financial liabilities in the rows Financial lease liabilities and Tolls with a variable interest rate.

33.10. Commodity risk management

The Company is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically oil and electricity, are significant cost items of the Company. The Company manages this risk so that the size of the open risk position does not exceed the limit defined for the period by the Risk Management Committee and approved by the Company's Board of Directors. The risk is managed by the Company using the combination of several instruments as follows:

- Conclusion of hedging derivatives for oil purchase and traction electricity;
- Negotiating a fixed price of electricity always for the following calendar year.

Except for those mentioned above, in case of an increase in the price of the commodities, the Company has the possibility of asking the regions and the state for increased payments for transportation.

33.10.1. Analysis of Sensitivity to Changes in Commodity Prices

The exposure to the change in the price of commodities is measured by the sensitivity analysis. The Company is exposed to the risk of changes in commodities prices due to change in the fair value of concluded financial derivatives.

The following table shows a 10% increase in the price of oil would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates a decrease in the profit and other comprehensive income:

(CZK million)	2018	2017
Change in the fair value of derivatives at the end of the period	-	6
Total impact on the profit for the period	**-**	**6**
Change in the fair value of derivatives at the end of the period	5	1
Total impact on other comprehensive income	**5**	**1**

33.10.2. Commodity derivatives

In accordance with the currency risk management requirements, the Company has entered into contracts hedging traction diesel pricing stability. The hedging was carried out by the Commodity collar, which is to restrict the maximum (cap) price and the minimum (floor) price.

The hedge ratio is determined at 1:1.

The economic relationship between the hedging instrument and the hedged item is described according to the following parameters:

- Commodity collar nominal values are equal to nominal values of hedged fuel consumption
- Treasury indexes of both transactions are the same (Ultra Low Sulphur Diesel 10ppm FOB Barges Rotterdam)
- Both transactions/indexes are contracted in the same currencies
- Commodity collar's maturities are set in line with the expected purchases of diesel
- Commodity collars were contracted at market prices (without bonuses), the fair value of derivatives is nil as of the contract date
- The Company does not expect the overcollateralization, that if the price of the physical supply is fixed before the commodity collar's maturity, the commodity collars will be early terminated

Sources of hedge relationship ineffectiveness are recognised as follows:

- Risk components were not separated from hedging instrument (i.e. various surcharges, impact of biodiesel price, excise tax, trader's margin, etc.)
- termination of commodity collar by the counterparty
- significant decrease in the counterparty's creditworthiness.

The table presents outstanding commodity contracts for the oil and electricity purchases as of:

Purchase of diesel	Hedged value	Volume of contracts (mt)	Fair value (CZK million)
31 Dec 2018	10,450 – 16,670 CZK/MT	7,200	(15)
31 Dec 2017	7,200 – 16,000 CZK/mt	14,400	1

Expected realization of hedged items in commodity derivatives
The following table states the expected secured cash flows from the purchasing of fuel and electricity:

(CZK million)

31 Dec 2018	Up to 1 month	1 - 3 months	3 months up to 1 year	1 - 5 years	Over 5 years	Total
Secured future purchases of fuel	7	14	61	-	-	82

(CZK million)

31 Dec 2017	Up to 1 month	1 - 3 months	3 months up to 1 year	1 - 5 years	Over 5 years	Total
Secured future purchases of fuel	15	31	138	-	-	184
Secured future purchases of electricity	10	20	92	-	-	122

33.11. Credit risk management

The Company is exposed to credit risk, which is that one party of the financial instrument will cause financial losses to the other party by failing to meet its obligations. Credit risk arises as a result of the Company's business operations (trade receivables) and financial market activities. The Company's credit risk quantification is based on a number of primary criteria, where the threat of counterparty default during a transaction is the main determinant due to possible negative impact on the Company's economic result and cash flow. The Company analyses the counterparties using both, internal departments and external information services. Any Counterparty insolvency may result in imminent losses with an adverse impact on the Company's business.

Sources of credit risks related to threat of a counterparty default during transaction were recognised by the Company as follows:

- suppliers who receive advances from ČD,
- financial institutions,
- employees or tenants – natural persons to whom the receivable arises,
- corporate customers,
- the state and regions as public service payers.

Hence, the approval of business operations with new counterparties is a subject to standardized approval procedures by designated departments. The credit risk management does not include assets and receivables management, as standard financial instruments, such as prepayments and bank guarantees are used in order to reduce the risk.

Financial assets that the Company exposes to potential credit risk include cash and cash equivalents, trade receivables and financial derivatives contracts. The Company's cash is deposited in prestigious domestic financial institutions. The Company is mainly exposed to the following credit risk categories due to its business activities:

- direct credit risk,
- credit equivalent risk.

Most frequently, the direct credit risk arises from receivables from ongoing trading relationships, particularly from supplier loans granted. The quality credit-ratings of the customer are assessed individually, based on the financial position, previous experiences and other factors.

To measure expected credit losses using the simplified approach, current receivables are classified according to common features relating to credit risk and by maturity. Based on this measurement, the Company assesses the expected credit losses for trade receivables.

Expected credit losses are determined based on the payment profile and sales over the 5-year period preceding 1 December 2018 and 31 December 2018, respectively, on the historical actual credit losses basis. The Company analysed the number of macroeconomic variables (gross domestic product, industrial production indexes, etc.) together with the possible correlation with the customer's solvency. However, since no correlation was recognised, the Company considers the customer's individual creditworthiness.

The following table states the impairment of current receivables:

(CZK million) As at 31 December 2018	Before due date	Past due date (days) 1 – 30	31 – 90	91–180	181-365	Over 365	Total
Expected credit loss rate	3%	3%	6%	100%	100%	100%	
Current trade receivables and contractual assets before taxation	1,458	31	16	2	3	105	1,615
Expected credit loss	**40**	**1**	**1**	**2**	**3**	**105**	**152**

(CZK million) As at 1 January 2018	Before due date	Past due date (days) 1 – 30	31 – 90	91–180	181-365	Over 365	Total
Expected credit loss rate	3%	5%	100%	0%	100%	100%	
Current trade receivables and contractual assets before taxation	1,129	21	5	1	1	107	1,264
Expected credit loss	**32**	**1**	**5**	**-**	**1**	**107**	**146**

The concentration of the Company's credit risk is low as a significant portion of the Company's revenues (passenger transportation fare) is collected in cash. In the case of payments from public services customers from the state budget or regional budget, the risk is low due to bank's high (see note 28.8.). In other transactions, the Company seeks to deal only with creditworthy counterparties whom the Company reviews individually on an ongoing basis using publicly available information. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

Financial assets:

(CZK million)

As at 31 December 2018		Before due date, not impaired	Before due date, impaired	Past due date, not impaired	Past due date, impaired	Impairment	Total
Trade receivables and contractual assets *)	19	1,606	42	45	111	(153)	1,651
Cash and cash equivalents	29	1,837	-	-	-	-	1,837
Receivables from finance leases	20	78	-	-	-	-	78
Loans in the CD Group	20	869	-	-	-	-	869
Other	20	195	-	-	19	(19)	195
Financial derivatives used in hedge accounting	20	155	-	-	-	-	155
Total		**4,740**	**42**	**45**	**130**	**(172)**	**4,785**

(CZK million)

As at 31 December 2017		Before due date, not impaired	Past due date, not impaired	Past due date, impaired	Impairment	Total
Trade receivables *)	19	1,129	22	113	(113)	1,151
Cash and cash equivalents	29	6,332	-	-	-	6,332
Receivables from finance leases	20	76	-	-	-	76
Loans in the CD Group	20	925	-	-	-	925
Other	20	103	-	36	(36)	103
Financial derivatives used in hedge accounting	20	72	-	-	-	72
Other financial derivatives	20	-	-	-	-	-
Total		**8,637**	**22**	**149**	**(149)**	**8,659**

*) Aging of trade receivables is disclosed in Note 19.1.

The credit risk on liquid funds and derivative financial instruments is limited as the counterparties are banks with credit-ratings assigned on the investment grade. Due to that fact, the impact of impairment of cash is considered immaterial.

(CZK million)

Bank	Rating	Bank balances as at 31 Dec 2018	Bank balances as at 31 Dec 2017
Komerční banka	A1	401	1,486
ČSOB	A2	1,341	3,263
Citibank	A1	8	594
ING bank	Aa3	2	305
Česká spořitelna	A2	3	601
Total		**1,755**	**6,249**

The carrying amount of financial assets recognised in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk. The credit quality of receivables that are not past their due dates and are not impaired in any other way, is good and corresponds to the carrying value.

The Company does not recognise any pledged assets as at 31 December 2018 and 2017.

33.12. Liquidity risk management

The Company manages its liquidity risk through a process of planning future cash flows and provision of short-term funding with reputable financial institutions (promissory notes programme and agreed overdraft loans), with the minimum period of 12 months. In order to secure sufficient short-term liquidity, the Company has contracted committed credit facilities so that its available funds exceed its short-term liabilities. The liquidity balance is monitored by the Moody´s rating agency on an ongoing basis.

33.12.1. Liquidity and Interest Rate Risk Tables

The following tables details the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that instruments carry the floating interest, the undiscounted amount is derived from interest rate curves at the end of the reporting period and may change, if interest rates differ from the determined estimates.

(CZK million)

31 December 2018	Up to 1 month	1 - 3 months	3 months up to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	1,699	1,508	527	81	35	3,850
Derivatives	1	3	35	158	536	733
Incoming cash flows	-	-	187	1,698	5,987	7,872
Outgoing cash flows	1	3	222	1,856	6,523	8,605
Finance lease liabilities	28	53	230	493	-	804
Float interest rate instruments	57	-	-	-	-	57
Fixed interest rate instruments	-	-	8,464	12,955	8,174	29,593
Total	**1,785**	**1,564**	**9,256**	**13,687**	**8,745**	**35,037**

(CZK million)

31 December 2017	Up to 1 month	1 - 3 months	3 months up to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	1,011	1,464	505	12	22	3,014
Derivatives	26	1	43	169	692	931
Incoming cash flows	-	-	214	1,819	7,672	9,705
Outgoing cash flows	26	1	257	1,988	8,364	10,636
Finance lease liabilities	34	69	309	794	-	1,206
Float interest rate instruments	99	-	4,042	-	-	4,141
Fixed interest rate instruments	-	-	741	10,642	18,739	30,122
Total	**1,170**	**1,534**	**5,640**	**11,617**	**19,453**	**39,414**

Following tables present the Company's expected maturity for its financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets reflecting the anticipated maturity period. The table includes cash flows from the interest and principal.

(CZK million)

31 December 2018	**Up to 1 month**	**1 - 3 months**	**3 months up to 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
Non-interest bearing	2,486	556	453	1	440	3,936
Finance lease assets	3	-	15	77	475	570
Fixed interest rate instruments	-	-	112	-	-	112
Float interest rate instruments	51	19	77	392	460	999
Hedging derivatives	-	-	65	(73)	-	(8)
Incoming cash flows	-	-	6,727	1,662	-	8,389
Outgoing cash flows	-	-	6,662	1,735	-	8,397
Total	**2,540**	**575**	**722**	**397**	**1,375**	**5,609**

(CZK million)

31 December 2017	**Up to 1 month**	**1 - 3 months**	**3 months up to 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
Non-interest bearing	6,793	382	394	17	330	7,916
Finance lease assets	4	-	14	73	473	564
Fixed interest rate instruments	-	-	100	-	-	100
Float interest rate instruments	6	12	55	292	461	826
Hedging derivatives	-	-	(19)	17	-	(2)
Incoming cash flows	-	-	265	6,651	-	6,916
Outgoing cash flows	-	-	284	6,634	-	6,918
Total	**6,803**	**394**	**544**	**399**	**1,264**	**9,404**

33.12.2. Financing facilities

The Company has access to the below loan facilities:

(CZK million)

Bank overdrafts	ČSOB	KB	Total
Amount of the loan as at 1 Jan 2017	**700**	**1,500**	**2,200**
Unused amount as at 1 Jan 2017	**700**	**1,500**	**2,200**
Change in the amount of the loan in 2017	-	-	-
Amount of the loan as at 31 Dec 2017	**700**	**1,500**	**2,200**
Unused amount as at 31 Dec 2017	**700**	**1,500**	**2,200**
Change in the amount of the loan in 2018	-	-	-
Amount of the loan as at 31 Dec 2018	**700**	**1,500**	**2,200**
Unused amount as at 31 Dec 2018	**700**	**1,500**	**2,200**

(CZK million)

Promissory notes programme	ČSOB	Citibank	ING	KB	Česká spořitelna	Total
Amount of the loan as at 1 Jan 2017	**-**	**1,000**	**2,000**	**-**	**1,000**	**4,000**
Unused amount as at 1 Jan 2017	**-**	**1,000**	**2,000**	**-**	**1,000**	**4,000**
Change in the amount of the loan in 2017	-	-	-	-	-	-
Amount of the loan as at 31 Dec 2017	**-**	**1,000**	**2,000**	**-**	**1,000**	**4,000**
Unused amount as at 31 Dec 2017	**-**	**1,000**	**2,000**	**-**	**1,000**	**4,000**
Change in the amount of the loan in 2018	1,700	(1,000)	1,000	950	1,250	3,900
Amount of the loan as at 31 Dec 2018	**1,700**	**-**	**3,000**	**950**	**2,250**	**7,900**
Unused amount as at 31 Dec 2018	**1,700**	**-**	**3,000**	**950**	**2,250**	**7,900**

(CZK million)

Revolving credit	Citibank	Total
Amount of the loan as at 1 Jan 2017	**-**	**-**
Unused amount as at 1 Jan 2017	**-**	**-**
Change in the amount of the loan in 2017	-	-
Amount of the loan as at 31 Dec 2017	**-**	**-**
Unused amount as at 31 Dec 2017	**-**	**-**
Change in the amount of the loan in 2018	2,000	2,000
Amount of the loan as at 31 Dec 2018	**2,000**	**2,000**
Unused amount as at 31 Dec 2018	**2,000**	**2,000**

34. Post Balance Sheet Events

No significant events occurred between the balance sheet date and the date of the preparation of the financial statements except of the changes in the Board of Directors and Supervisory Board as described in the chapter on Corporate governance in Annual report.

35. Approval of the Financial Statements

The financial statements were approved by the Board of Directors and authorised for issue on 8 April 2019.

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Providing Information

Pursuant to Act No. 106/1999 coll., on Free Access to Information for 201

Pursuant to Section 18 of Act No. 106/1999 Coll., on Free Access to Information, as amended (hereinafter the "Act") České dráhy, a.s., hereby publishes its annual report on its activities in providing information pursuant to the Act in 2018.

On 26 September 2017, according to judgement under file number 8A 80/2017 - 50-54, Municipal Court in Prague decided, that České dráhy, a.s., are not a mandatory subject under Section 2 (1) of Act No. 106/1999 Coll., on Free Access to Information, as amended.

a) The number of submitted information requests and the number of issued decisions

   In the reporting period, the total number of 29 information requests were responded to.

b) Based on the decision of the Supreme Administrative Court of 22 October 2014, ref. no. 8As 55/2012-62, www.nssoud.cz) and pursuant to Section 4(4) of Act no. 500/2004 Coll., the Code of Administrative Procedure, as amended, České dráhy, a.s. provided statements to the Ministry of Transport to 2 requests relating to the operation of České dráhy, a.s.

c) České dráhy, a.s., as an interested party in the appeal proceedings expressed to the Regional Offices and SŽDC in 2 cases.

d) České dráhy, a.s., came as a defendant person in 19 prosecutions at Municipal Court in Prague (further on "court"), of which

- 7 prosecutions filed in years 2016 to 2017 have not yet been settled by the court;
- against 3 court judgments, ČD filed three cassation complaints against the Supreme Administrative Court, which have not yet been decided on;
- at 7 complaints brought to court ČD were acting as persons involved in the proceedings;
- 2 actions were confirmed by the court and the cases were returned by the court for further proceedings;

For 2 prosecutions, which were confirmed by the court and returned for further proceedings according to law, based on a judgment of the court file no. 8A 80 / 2017-50-54, have not been settled by ČD because ČD is not a mandatory subject under Section 2 (1) of Act No 106/1999 Coll. on Free Access to Information.

e) List of exclusive license, including a justification of the necessity to grant exclusive license

In the period under review, none of the application procedure under the provisions of the license or sub-license agreement in providing information were adhered to.

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Information about Persons
Responsible for the ČD Group Annual Report

Responsibility for the Annual Report

Affidavit
With due care and to the best of our knowledge, the consolidated annual report gives a true and fair view of the financial position, business activities and operational results of the Company and its consolidation group for the year ended 31 December 2018, and of the prospects of the future development of the financial position, business activities and operational results of the Company and its consolidation group and no facts that could change its meaning have been concealed in this report.

Prague, 8 April 2019

Miroslav Kupec
Chairman of the Board
of Directors
České dráhy, a.s.

Radek Dvořák
Member of the Board
of Directors
České dráhy, a.s.

14

Report on Relations

Between the Controlling Party and the Controlled Party and Parties Controlled by the Same Controlling Party for the Year 2018

The Board of Directors of České dráhy, a.s., with its registered office in Prague 1, Nábřeží L. Svobody 1222, ID: 70994226, maintained by the Municipal Court in Prague, Section B, File 8039, presents the following

Report on Relations between the Controlling Party and the Controlled Party and between the Controlled Party and Parties Controlled by the Same Controlling Party (hereinafter the „Report on Relations“)

prepared under Section § 82 of Act 90/2012 Coll., the Corporations Act (the „Corporations Act") for the accounting period from 1 January 2018 to 31 January 2018.

I. The Controlling Party and the Party Preparing the Report on Relations

For the purposes of the Report on Relations, the controlling party is the Czech Republic (hereinafter also the „State" or the „CR").

The controlled party for the purposes of the Report on Relations is České dráhy, a.s. (hereinafter the „Company" or „ČD"), with its registered office in Prague 1, Nábřeží L. Svobody 1222, corporate ID 70994226, maintained by the Municipal Court in Prague, Section B, File 8039.

Related parties, for the purposes of the Report on Relations, include entities controlled, directly or indirectly, by the State.

II. Methods and Means of Control

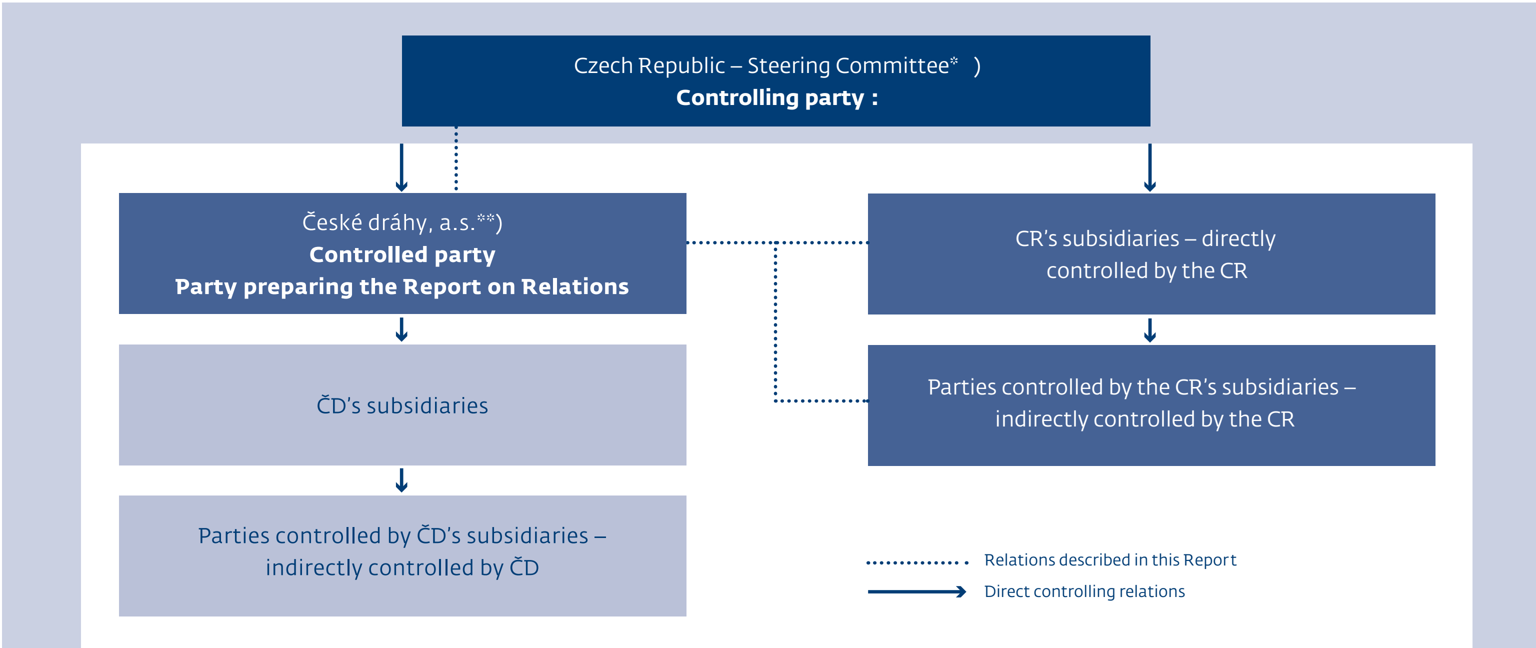
1) A directly controlled related party is a business corporation in which the State has a share of voting rights of at least 40% of all the votes in the given business corporation, unless another party or other parties in concern have the same or bigger share of voting rights in the given business corporation.

2) An indirectly controlled related party is a business corporation controlled by a party specified in paragraph 1).

The Report on Relations includes only such related parties of which the Company is aware and with which the Company in the respective reporting period established relations that are described in this Report on Relations.

The Company's Board of Directors declares that it identified the relations between the Company and the State and between the Company and relevant related parties, and described the relations in the Report on Relations.

III. The Structure of Relations between the Company and the State and the Parties Controlled by the State



*) The Czech Republic exercises the rights of a shareholder in the Company through the Company's Steering Committee. The Steering Committee comprises the relevant employees of the Ministry of Transport (three members), the Ministry of Finance (one member), The Ministry of Defence (one member), the Ministry of Industry and Trade (one member) and the Ministry of Regional Development (one member), authorised by the Government in writing.

**) In the structure of relations of the parties controlled by the Czech Republic, České dráhy, a.s., fulfils the role of the national railway carrier in terms of Section 8, 9 and 17 of Act No. 77/2002 Coll., as amended.

IV. Contracts Entered into between the Company and the State or the Company and Related Parties

This list below outlines the contracts entered into between the Company and the State and the Company and its Related Parties that were valid and effective in 2018.

ČEPRO, a.s.	
Contract reference number	**Contract description**
4600010961	Extra light heating oil LTO-E
2657020017	Siding - plot of land Zeleneč
2927202209	Equipment siding
2937706306	Plot of land no. 855/20
2967271207	Siding – plot of a land no.12,.Nová Víska
2977408603	Plot of land Veselý nad Lužnicí
2977735207	Plot of land no. 3203/22, cadastral territory no 722120

ČEZ Distribuce, a. s.	
Contract reference number	**Contract description**
4500777530	Realization of Chotěvice relocation
4500791456	Fee for the supply point - Frenštát
2012295510014	CEZ Distribution, supply water to vl SCI object
2667102516	Under construction
2927402414	1S44 powerhouse Olomouc
2927852807	Plot of land Ostrava
2947003102	Plot of land H. Králové
2947012007	Plot of land, Všestary siding

ČEZ ESCO, a.s.	
Contract reference number	**Contract description**
4600013566	Electricity supplies - Louny

ČEZ Korporátní služby, s.r.o.	
Contract reference number	**Contract description**
2657003018	Surface reservation for placement of 2 hydrogeologist. wells

ČEZ Prodej, a.s.	
Contract reference number	**Contract description**
2017002520147	Provision of services - REMIT
4600013382	Electricity supplies - Louny
4600011357	Connection of sampling point
4600011461	Traction power supply of electricity
4600008450	Electricity supplies - Ústí nad Labem
4600010444	Contract on joint services of electricity supplies
4600010959	Electricity supplies
4600013835	Electricity supplies - Hlinsko
4600013836	Contract on joint services of electricity supplies
4500791210	Electricity supplies

ČEZ Prodej, s.r.o.	
Contract reference number	**Contract description**
4600008487	Electricity supplies Borová u Poličky
4600013585	Electricity supplies Svojšín 412061
4600013586	Electricity supplies Svojšín 412062

ČEZ Teplárenská, a.s.	
Contract reference number	**Contract description**
4600009597	Heat energy - Hradiště UNL
4600009554	Heat energy - Chomutov
4600010292	Heat energy - no.68050003_1
4600009767	Heat energy - no.68141501_1
4600013797	Heat energy - Trutnov
E296-OS-0015/12-A	Water and sewerage fees

ČEZ, a. s.	
Contract reference number	**Contract description**
4600008825	Water and sewerage fees
4500752993	Cooling liquids

2937105107	Siding – plot of a land no. 2864/610
2937302207	Plot of land no. 4515/20 and 4177/23
2947007207	Plot of land no 311/21 siding Dvůr Kr./L.
2947007307	Plot of land no 1529 siding Poříčí u Trutnova
2967106911	Siding Trmice no. 1493/1
2977100708	Siding – plot of a land

Elektrárna Počerady, a.s.	
Contract reference number	**Contract description**
2967362307	Siding no. 310/14 and 385/2 - Počerady

EVČ s.r.o.	
Contract reference number	**Contract description**
4600010190	Rental of technological equipment
4600010776	Heat energy Havlíčkův Brod
2010295506412	EVČ, rental of boiler room NBK office building

Letiště Praha, a. s.	
Contract reference number	**Contract description**
4600012713	Prague Airport - advertising cooperation

MARTIA a.s.	
Contract reference number	**Contract description**
4600012865	Management and maintenance of the boiler room and storage Chomutov

Ministry of Transport	
Contract reference number	**Contract description**
4600011555	Contract for the lease of commercial space
E060-57564/2018	MD - transport service R14A Pardubice - Liberec
E060-59346/2015-O16	SŽDC - transport services Brno-Břeclav-Olomouc

SD - Kolejová doprava, a.s.	
Contract reference number	**Contract description**
E296-OS-0022/13-T	Heat and hot water supply
E296-OS-0026/13-A	Water, sewerage, storm water
2967105113	Building no. 354 Březno
2967346907	Siding no. 224/6 – Chotějovice

Severočeské doly a.s.	
Contract reference number	**Contract description**
2667100215	Siding no. 2251/1 and 2386 – Bílina

ČEZ Energetické služby, s.r.o	
Contract reference number	**Contract description**
2677204118	Land lease

V. Other relation

The Company made no other legal acts in the interest or at the initiative of the controlling party or the Company's related parties that would concern assets with a value exceeding 10% of the Company´s equity, which is in amount of CZK 3,537 million according to the most recent set of financial statements - as at 31 December 2017.

VI. Other information

Credibility of information: Confidential information comprises information and facts that are part of the related parties' business secret and information that was designated as confidential by any party that is part of the structure of relations described in this Report on Relations. In addition, confidential information includes any business information that could, on its own or in connection with other information, cause damage to any party belonging to the structure of relations described in this Report on Relations. For this reason, the Report on Relations contains no information on the prices (or amounts) of construction work, supplies, services or the relevant amounts.

VII. Declaration

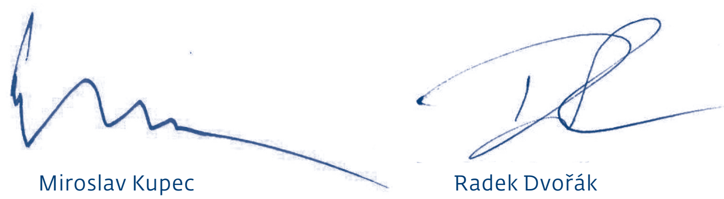
All the above-specified contracts and amendments were entered into and the performance and counter-performance were provided under arm's length conditions. The Company suffered no detriment arising from the business relations.

The Company's statutory body states that the relations described in this Report on Relations primarily bring the Company advantages and that it is not aware of any risks arising to the Company from the relations described in this Report on Relations.

VIII. Conclusion

The Company's statutory body prepared the Report on Relations within the deadline stipulated by law. The Report on Relations was prepared to the best of the Company's knowledge and belief, using available data and documents and taking all reasonable efforts. The scope of the Czech Republic's controlling relations was identified using the data provided by the shareholder. The Report was submitted for the review to the Supervisory Board which will provide its statement at the Company's Steering Committee.

Prague, 8 April 2019



Miroslav Kupec Chairman of the Board of Directors České dráhy, a.s.	Radek Dvořák Member of the Board of Directors České dráhy, a.s.

Attachment 1

List of business corporations controlled by the State from 1 January 2018 to 31 December 2018 with which relations as described in this Report were established during the reporting period

Related entity	Identification number	Share of the State	Means of Control
ČEPRO, a.s.	60193531	100.00%	Related entity directly controlled by the State.
ČEZ Distribuce, a. s.	24729035	0.00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
ČEZ ESCO, a.s.	3592880	0.00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
ČEZ Korporátní služby, s.r.o.	26206803	0.00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
ČEZ Prodej, a.s.	27232433	0.00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
ČEZ Teplárenská, a.s.	27309941	0.00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
ČEZ, a. s.	45274649	69.78%	Related entity directly controlled by the State.
Elektrárna Počerady, a.s.	24288110	0.00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
EVČ s.r.o.	13582275	0.00%	Related entity indirectly controlled by the State through ČEZ ESCO, a. s., which has a 100% share in this entity.
Letiště Praha, a. s.	28244532	100.00%	Related entity directly controlled by the State.
MARTIA a.s.	25006754	0.00%	Related entity indirectly controlled by the State through ČEZ Teplárenská, a. s., which has a 100% share in this entity.
Ministerstvo dopravy	66003008	100.00%	State organizational unit.
SD - Kolejová doprava, a.s.	25438107	0.00%	Related entity indirectly controlled by the State through Severočeské doly a.s, which has a 100% share in this entity.
Severočeské doly a.s.	49901982	0.00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
ČEZ Energetické služby, s.r.o.	27804721	0.00%	Related entity indirectly controlled by the State through ČEZ ESCO, a. s., which has a 100% share in this entity.

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List of Used Abbreviations

Zkratka	Popis
AO	Audit body
APS	Automated machine master workplace
CAPEX	Investment (capital) expenditures
CER	Community of European Railways
CSM	Security method for evaluating and assessing risks
ČD	České dráhy, a.s.
ČD-IS	ČD – Informační Systémy, a.s.
ČD-T	ČD – Telematika a.s.
ČNB	Czech National Bank
ČSN	Czech Technical Norm
ČSN EN	European norm
ČR	Czech Republic
DB	Deutsche Bahn AG
DG MOVE	Directorate-General for Mobility and Transport
DISOD	Dispatcher Information System for Passenger Transport
DLB	Die Länderbahn
DP	Means of transport
DPH	Value added tax
DPOV	Dílny pro opravy vozidel (DPOV, a.s.)
DVI	Transport Education Institute (Dopravní vzdělávací institut, a.s.)
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation

Zkratka	Popis
EK	European Commiss
ETCS	European Train Control System
EU	European Union
EUROFIMA	European Company for the Financing of rail vehicles
Ex	Long-haul passenger train of the express category
GS	Grandi Stazioni
GSM-R	Global System for Mobile Communication- Railway
HDP	Gross domestic product
Hrtkm	Gross tonne-kilometers (product of transport performance and cargo weight)
IAS	International Accounting Standards
ICT	Information and Communication Technology
IDOS	Transport Information System
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IoT	Internet of Things
IS	Information system
ISO	International Organisation for Standardisation
IS OPT	Information system of the Shipping revenue center
IT	Information technologies
IZS	Integrated Rescue System
JIP	Intensive Care Unit
JLV	Jídelní a lůžkové vozy, a.s.

Zkratka	Popis
JŘ	Train timetable
KASO	Complex application of rounds
KN	Land register
LV	Title deed
MD	Ministry of Transportation of Czech Republic
MF	Ministerstvo financí České republiky
MIMO	Systém mimořádností ČD
MMR	Ministerstvo pro místní rozvoj České republiky
MPO	Ministry of Finance of the Czech Republic
MPSV	Ministry of Labour and Social Affairs
NAD	Rail Replacement Bus Service
OPT	Shipping revenue center
OSŽD	Organisation for Railway Cooperation
ÖBB	Österreichische Bundesbahnen
PARIS	Sales and reservation information system
PHM	Fuel
POP	Portable personal cash register
PROBIS	Operational business information system

Zkratka	Popis
PRIBOR	Prague Inter Bank Offered Rate
ROCE	Return on Capital Employed
ROP	EU Regional Operational Programme
SAP	Bookkeeping system
SC	Passenger train category of highest quality (SuperCity)
SŽDC	Správa železniční dopravní cesty, státní organizace/Railway Transport Route Administration, state organisation
TAČR	Technology Agency of the Czech Republic
UIC	International Union of Railways
UNIPOK	Cash register system for ČD personnal transport
ÚMVŽST	Regulation of property relations in railway stations
ÚOHS	Office for Protection of Competition
Vlkm	Train kilometers (sum of train and distance trains)
VUZ	Výzkumný Ústav Železniční, a.s./ Railway Research Institute
ZSSK	Železničná spoločnosť Slovensko, a.s./ Slovak Railway Company
ZVS	Public service commitment (závazek veřejné služby)
ŽKV	Railway vehicle
ŽST	Railway station

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Identification and Contact Information

Name of the company: České dráhy, a.s.

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České dráhy, a.s.
2018