
# Annual Report 2017

Cargo

# Annual Report
# ČD Cargo, a.s.,
# for the year 2017

Cargo

Czech Railways Group

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# 01 Mission, Vision and Goals

The strategic vision of ČD Cargo, a.s., is to be a stable and dynamic company, with a leading position in railway freight transportation in the Czech Republic and with a strong position among the five largest railway freight transportation companies in Europe. ČD Cargo, a.s. lives up to its history of rail freight transport in the territory of the Czech Republic, but at the same time it embraces and uses the latest trends.

ČD Cargo, a.s., 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.

By running a business in a fully liberalised and highly competitive environment, the Company will positively motivate the voluntary transition from modes of transport that have an adverse effect on the environment to less demanding and more environmentally friendly rail transport.

An instrument that will enable fulfilling this objective is to achieve the full equalisation of conditions for rail freight transport with road transport, including clear rules for their fair charging throughout the whole European Union. ČD Cargo, a.s., is and will continue to be strongly committed to this adaptation, at both the national level, and especially at the European level.

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.

All strategies, plans and goals are aimed at strengthening the position of ČD Cargo, a.s., as a modern, highly competitive and responsible company at the top European level. As a result, the Company will be able to play a key role in the European rail freight market in the medium and long term, as well as become a major carrier in the dynamically growing segment of freight transport from Asia to Europe.

**„ČD Cargo, a.s., will continue expanding the services provided and adapting...“**


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# 02 Company Profile

ČD Cargo, a.s., was set up on 1 December 2007 by means of the deposition of part of the business from České dráhy, a.s. The sole founder and shareholder is the joint stock company České dráhy. ČD Cargo, a.s. is a subsidiary of České dráhy, a.s. specialised in providing of freight transport.

### Name, Address and Identification of the Company

Business entity: ČD Cargo, a.s.
Registered office: Prague 7, Holešovice, Jankovcova 1569/2c, ZIP code 170 00
Corporate ID: 28196678
Registered in the Register of Companies held by the Municipal Court in Prague, File B, Insert 12844

### Basic Characteristics of the Company

ČD Cargo, a.s., provides the railway transport of goods and a comprehensive list of related services. The goal of the Company is to improve its leading position and to be the driving force in the freight transport market in the Czech Republic and the Central European region.

**Its principal business activity – the rail transportation of goods – is structured into two principal segments:**

- Transportation,
- Additional services.

**The above segments are structured according to the type of transportation, as follows:**

- local,
- export,
- import,
- transit.

**The Company transports almost all types of goods, which can be divided into the following groups:**

- iron and engineering products,
- construction materials,
- brown coal,
- black coal and coke;
- chemical products and liquid fuels,
- wood and paper products,
- food and agricultural products,
- combined transportation,
- automotive products,
- other.

**The Company offers railway transportations and a wide range of complementary services such as:**

- customs services,
- logistics services (loading, unloading, storage),
- security advisor services,
- lease of railway vehicles,
- repairs and maintenance of railway vehicles,
- and others.

# 03 Basic Economic Indicators of ČD Cargo Group

ČD Cargo Group consists of the parent company ČD Cargo, a.s., its subsidiaries and other investments.
With the liberalisation of railway freight transport in Europe, gradual removal of barriers to entry into foreign markets, and in order to provide customers with quality services „Across Europe“, the ČD Cargo Group, which is providing comprehensive service to customers all over Europe, is growing.

| Key indicators of ČD Cargo Group according to IFRS consolidated financial statements financial | | | | |
|---|---|---|---|---|
| | **2017** | **2016** | **2015** | **2014** |
| **Structure of assets and liabilities (CZK million)** | | | | |
| Total assets | 18 470 | 18 172 | 17 742 | 17 333 |
| Fixed assets | 15 626 | 15 280 | 14 588 | 14 528 |
| Equity | 8 529 | 7 718 | 6 727 | 6 122 |
| **Structure of profit (CZK million)** | | | | |
| Revenue from main activities | 11 923 | 11 760 | 12 063 | 12 352 |
| Operating profit | 1 097 | 1 372 | 968 | 1 568 |
| Profit before tax | 947 | 1 153 | 698 | 1 273 |
| **Ratio indicators (%)** | | | | |
| Current liquidity (current assets/current liabilities) | 83 % | 83 % | 62 % | 59 % |
| Total indebtedness (liabilities /total assets) | 54 % | 58 % | 62 % | 65 % |
| Average number of employees | 7 110 | 7 065 | 7 335 | 7 451 |
| **Performance indicators** | | | | |
| Amount of transports (millions of tons) | 66,1 | 65,9 | 66,4 | 68,6 |
| Transport performance (net kilometres million) | 11 819 | 11 365 | 11 139 | 11 622 |

Principal business segments of ČD Cargo Group can be divided into the segments Transportation and Additional services related to transportation.

The Transportation segment is realised through the goods carried by entire trains or the goods of individual wagon loads that ČD Cargo, a.s., offers to its customers as the only carrier in the Czech Republic. In the segment of Additional services, the Company offers such products as rail siding operations, customs services, security consultancy, storage, rentals of capacity or maintenance and repair of traction and towed vehicles.

These activities are provided through both its own capacities and cooperation with other companies.

The potential of subsidiaries mainly focuses on the implementation of foreign expansion, which is one of the strategic goals of ČD Cargo, a.s. In 2017, the development of transport in Poland continued in cooperation with the subsidiary CD Cargo Poland.

With a transport volume of over 66 million tonnes of goods, ČD Cargo Group ranks among the most important railway freight carriers in Europe. ČD Cargo, a.s. is also an important employer in the Czech Republic.

| Segmental analysis (CZK million) | | Transportation | Additional services | Elimination | Total |
|---|---|---|---|---|---|
| Revenue from main activities | 2017 | 11,000 | 2,529 | (1,606) | **11,923** |
| | 2016 | 10,622 | 2,417 | (1,279) | **11,760** |
| Cost of sales | 2017 | (5,342) | (2,488) | 1,812 | **(6,018)** |
| | 2016 | (5,113) | (2,210) | 1,448 | **(5,875)** |
| Employee benefits costs | 2017 | (3,652) | (422) | (2) | **(4,076)** |
| | 2016 | (3,483) | (386) | - | **(3,869)** |
| Depreciation and amortization | 2017 | (1,026) | (191) | 21 | **(1,196)** |
| | 2016 | (964) | (114) | (1) | **(1,079)** |
| Operating profit or loss | 2017 | 790 | 452 | (145) | **1,097** |
| | 2016 | 934 | 476 | (39) | **1,371** |
| Profit/loss before taxation | 2017 | 639 | 453 | (144) | **948** |
| | 2016 | 750 | 454 | (52) | **1,152** |
| Profit for the period from continuing operations | 2017 | 492 | 397 | (144) | **745** |
| | 2016 | 620 | 366 | (52) | **934** |

### Transportation Segment

Profit before taxation from the Transportation segment amounted to CZK 639 million in 2017. The long-term decrease in revenues from the principal business activity was stopped and growth of revenues was reached in 2017 mainly due to better transport performance in Poland. Better performance directly generated an increase in traction energy costs, fuel consumption and fees for railway infrastructure use. In 2017, ČD Cargo Group invested a larger amount of funds in the modernisation, repair and maintenance of the railway fleet as well as in an increase in the real wages of employees. The increase in these operating expenses is the main explanation for the slight year-on-year decrease in the profitability of the transportation segment. However, it was necessary to ensure the long-term sustainability of the freight rail transport of ČD Cargo.

### Additional Services Related with Transportation Segment

In the segment of Additional Services Related with Transportation, profit before tax of ČD Cargo Group for the year 2017 amounted to CZK 453 million, which is a result in line with the year 2016. The year-on-year increase in revenues from Additional Services Related with the Transportation segment is mainly due to better management of the residual capacity of the fleet within the entire ČD Cargo Group and higher activity of affiliated companies offering logistics and other support services in the segment of Transportation. The increase in wage costs, depreciation of fixed assets and other operating expenses in ČD Cargo Group affected this segment, as it did the Transportation segment.

# 04 Major Events in 2017

## January

- Negotiations between ČD Cargo, a.s., and Lithuanian Railways (LG) in Vilnius on the possibilities of cooperation and an alternative way for transportation goods from China across the border crossing of Šeštokai;

## February

- 20 February – Completion of modernisation of the hump at Prague-Libeň Station. The aim of the construction was, among other things, to reduce noise pollution during composition of railway vehicles;
- 22 – 25 February – transportation of the 400 kV transformer between the ČEPS transformer stations of Central Bohemia (Mochov) and Prague-Řeporyje;
- 28 February – the first train with cement came from Hranice na Moravě to the Prague-Krč station;

## March

- 15 March – transport of the first Himrrs car loaded with BEST concrete products – the result of the activities of regional business managers;
- 22 – 24 March– in the Prague hotel Clarion Congress, with the participation of ČD Cargo, a.s., the sixth year of the international railway conference IRFC 2017 was held under the slogan „Let's Make the European Railways Easier";

## April

- The first wagons of Sggrrs series was included in the vehicle fleet – eight-axle 80-foot truck for container transport;
- 1 April – regular carriage of coal to the Opatovice Power Station using Innofreight technology was launched;
- Dracula product train on Brno – Curtici route was launched;

## May

- 9 – 12 May – ČD Cargo, a.s., as well as its subsidiaries, were presented at the Transport Logistic expo in Munich which was marked by Europe's digital future;
- 16 – 19 May – test transport of modernised tram T3R.PLF from Krnov to Prague;
- End of May 2017 – test transport of the bus bodywork from the production plant from the German Neu Ulm to the Evo Bus in Holýšov;

## June

- 3 June – the first transport of bricks from Hodonín to Chotětov in 4 Habbillns wagons including the provision of comprehensive unloading by ČD Cargo, a.s., forklift;
- 22 June – ČD Cargo, a.s., obtained a license for operation of rail transportation in Austria;

## July

- 11 July – transport of glass bottles for the local brewery Clock from Nové Sedlo to Potštejn was launched;
- 13 July – the first loading of the municipal waste containers on the Metalstrot Tlumačov siding, the operation of Svitavy to Brno-Slatina to the SAKO incinerator in Brno, using ACTS technology;
- 26 July – the Chairman of the Board of Directors of ČD Cargo, a.s., Mr. Ivan Bednárik, attended the first Bavarian-Czech Summit in Furth im Wald, which took place in order to improve the parameters of the railway connection between Prague and Munich;
- 31 July – the first train with road semitrailers RailRunner from Bratislava to Braunschweig – for the entire route led by Vectron locomotive;

## August

- 2 August – the first combined transport train from Małaszewice to the Czech Republic directed by CD Cargo Poland;
- 18 August – transit of the first transport of U.S. Army over the Czech Republic;

## September

- 5 September – Chairman of the Board of Directors, Mr. Ivan Bednárik, handed over the first Corporate Social Responsibility Certificate to the representative of Z-Group Steel Holding;
- 9 September – ČD Cargo, a.s., was presented on the Open day of a major customer – Stora Enso Wood Products s.r.o. in Ždírce nad Doubravou;
- 12 September – celebrations of the 15th anniversary of the establishment of the Austrian company Innofreight at the Terminal Sankt Michael in Obersteiermark together with the presentation of the ČD Cargo, a.s., Vectron locomotive;
- 21 September – handover of 383.006 locomotive to ČD Cargo. The locomotive is equipped with a platform presenting the transport of individual wagon loads;
- 20 – 21 September – 26 CCIT meeting – Coordinating Council on Trans-Siberian Transportation in n Beijing, attended by ČD Cargo;

## October

- 6 October – celebrations of 10 years of ČD Cargo, a.s., in SOKV Ústí nad Labem;
- an increase in the scope of ČD Cargo, a.s., services in the locks in western Bohemia (transport of gravel from Stráž nad Ohří quarry);
- 13 October – the first Maria Theresa product train from Brno to Budapest;
- 13 October – the Memorandum on cooperation between ČD Cargo, a.s., and VGP VO ZDT, was signed to provide higher security of shipments transported not only on the Trans-Siberian Railway;
- 29 October – Cyclone Herwart had a significant impact on rail traffic in Central Europe;

## November

- 9 November – 14th annual ČD Cargo conference with customers in Harrachov;
- 23 November – within the Blatno – Bečov traffic closure, ČD Cargo, a.s., carried out the transport of the Renault truck with gravel in the Lubenec - Chyše section with the direct debarking of the gravel into the track;
- 24 November – arrival of the last diesel train for the Administration of State Material Reserves (Správa státních hmotných rezerv) from Krailling to Šlapanov;
- 25 – 26 November – events for children „What will I be“ („Čím budu“) at OC Harfa Gallery in Prague-Vysočany with the participation of ČD Cargo;

## December

- 1 December – ČD Cargo, a.s., 10th anniversary gala;
- 7 December – the first issue of the electronic newsletter ČD Cargo, a.s.;
- 18 December – new annual transport record of the subsidiary CD Cargo Poland – transport of 3 million tons of goods.

# 05 Statement of the Chairman of the Board of Directors

**Dear Shareholders and Business Partners, Ladies and Gentlemen,**

Another year has come and I would like to present you with the annual report of the company ČD Cargo, a.s., for the year 2017. This was a year that brought us many successes and challenges. Please, I would like to look back at the most important events of 2017.

Positive economic results have enabled us to continue implementing one of our main strategic goals, the modernisation of our fleet. The ČD Cargo, a.s., fleet expanded not only with the next interoperable Vectron locomotives, but also with the new Innofreight carrying wagons for transporting superstructures. The use of this technology fully corresponds to our fleet renewal strategy, as we want to purchase universal vehicles supplemented with intermodal transport units that will meet market demand.

Modernisation of the fleet is also related to our successful entry into foreign markets. These markets represent a long-term potential for freight rail transport ČD Cargo, a.s., that the company wants to take full advantage of. We have considerable ambitions; we want to use the opportunities offered by the development of the new silk road. We want to be prepared for these new business opportunities in the best possible way, so we have personally strengthened our business team dealing with shipments to or from China.

Regarding the uniform business strategy, we renamed all of our foreign companies to CD Cargo Slovakia, CD Cargo Poland, CD Cargo Germany and CD Cargo Austria. The importance of these foreign affiliates is growing in the long-term and is increasingly contributing to the Company's economic performance. Thanks to CD Cargo Slovakia, we managed to fulfil orders in the Balkans and introduce the new freight trains Drakula and Maria Theresa, as well. We have also succeeded in Poland, where the share of domestic transport increased significantly and, during the last year, CD Cargo Poland actively participated in our MalaTrain product train.

Rail freight transport encounters a number of restrictions, such as the capacity of the transport route or the growing interest in passenger rail transport and the related absolute right of priority over rail freight transport. Despite that, we are still cooperating within the rail transport association ŽESNAD. CZ in activities that will gradually help to achieve the European Commission goal – intends to transfer thirty percent of freight road transport over 200 km to other modes of transport by 2030, whereas rail transport is a priority issue. We managed to stop the negative trend of decreases in individual wagon load transportation, which is a positive fact for us.

Despite the fact that many issues concerning our activities repeat each year, 2017 was also exceptional in some respects. We celebrated the tenth anniversary of the establishment of our company. During the celebration, there was time for entertainment, but also for summarising and for looking into the future. On this occasion, I would like to thank everyone who was involved in building the success of ČD Cargo, a.s., both employees and business partners. Thanks to you, ČD Cargo, a.s., is a self-confident company, and one of the most important European rail carriers. I am convinced that ČD Cargo, a.s., will continue this positive trend, and I wish all of you and myself that at least the next 10 years will be full of success.

**Ivan Bednárik**
Chairman of the Board of Directors of ČD Cargo, a.s.

**„Modernisation of the fleet is also related to our successful entry into foreign markets.“**

**Ivan Bednárik**
Chairman of the Board of Directors

# 06 Statutory Bodies and Management of the Company

ČD Cargo, a.s., is fully owned by České dráhy, a.s., which acts in the role of the General Meeting, i.e. the Company's supreme body. The Company's statutory body is the Board of Directors, which comprises three members; the Company's oversight body is the Supervisory Board, which has seven members. Pursuant to Act No. 93/2009 Coll. on Auditors, a three-member Audit Committee was established as at 1 October 2009.

## Board of Directors and Management

### Ivan Bednárik

**Chairman of the Board of Directors (member since 1 November 2014, Chairman since 3 November 2014), age: 42**

Ivan Bednárik graduated from grammar school at Zlaté Moravce. Following this, he studied at NSW Business College, Sydney, Australia. From 1995, he held management positions in several companies engaged in trade and transport, most recently as a member of the Board of Directors and Sales Director of Express Group, a.s. In November 2014, he was appointed a member of the Board of Directors in ČD Cargo, a.s. He was appointed Chairman at the initial meeting of the Board. In 2017, he graduated from the Central European Management Institute (CEMI).

## Bohumil Rampula

**Member of the Board of Directors (since 1 November 2014), age: 61**

Bohumil Rampula graduated from an engineering high school in Brno. From 1978 to 1992, he worked in ČSD (ČD) in operational positions. Since 1992, he held management positions at various companies engaged in trade and transport, most recently as the statutory executive and sales director of Rail Cargo Logistics Czech s.r.o.

Since 1 November 2014, he has been a member of the Board of Directors of ČD Cargo, a.s., and has concurrently managed the Sales Division.

## Ing. Zdeněk Škvařil

**Member of the Board of Directors (since 1 November 2014), age: 60**

Zdeněk Škvařil graduated from the Transport University at Žilina. Throughout his career he has worked in the railway segment and has held numerous operational and management positions. He has been employed by ČD Cargo, a.s., as the head of the operational unit in Brno since the Company's formation. Since 1 November 2014, he has been a member of the Board of Directors of ČD Cargo, a.s., and has managed the Operations Division.

## 1. Pavel Krtek

**Chairman of the Supervisory Board (since 16 March 2014), age: 47**

Pavel Krtek studied at the French state technical university Ecole Centrale Paris. He began his career working for the multinational company Lafarge Cement. He then worked for the petrochemical oil refinery group Unipetrol as a member of the company's board of directors. Following this, he worked as financial director of UNIPETROL DOPRAVA, s.r.o., and later as financial director of the Paramo refinery in Pardubice. In February 2014, he was appointed a member of the Board of Directors of ČD, a.s., with the responsibility for economy and finance. In November 2014, he was appointed Chairman of the Board of Directors of ČD, a.s.

## 2. Miroslav Kupec

**Member of the Supervisory Board (since 22 March 2017), age: 58**

Miroslav Kupec graduated from the Faculty of Mechanical Engineering of Czech Technical University in Prague. Since 1983, he worked in Poldi Kladno, where he started working as a operations manager after two years of experience. In 1990, he won the request for proposal for the position of CEO of ČKD Slaný. Later, he worked in F.X. Meiller, where he was Executive and Managing Director since 1994. Since 2001, he was acting as a Chairman of the Board of Directors and CEO of Škoda Machine Tool in Pilsen and Škoda Vagonka in Ostrava. Since 2009, he has worked as a consultant and dedicated himself to entrepreneurship. In 2013, he joined ČD Cargo, a.s., as the director of the repair industry. From the beginning of 2014 until December 2016, he worked as Chief Executive Officer of Prague Rail vehicle yard, from this position he was promoted to the management of ČD, a.s.

## 3. Jan Kasal

**Member of the Supervisory Board (since 12 March 2014), age: 66**

Jan Kasal graduated from the Technical University in Prague. From 1975, he worked at Žďárské strojírny as a developer. From 1990 to 2010, he was a deputy of the Czech National Assembly, afterwards the Chamber of Deputies of the Czech Parliament. He has been working for ČD Cargo, a.s., since 2011.

## 4. Radek Nekola

**Member of the Supervisory Board (from 1 December 2007 to 30 November 2008 and since 1 December 2008), age: 52, on 1 December 2013, elected by the Company's employees for another term**

Radek Nekola graduated from the Technical Vocational School in Prague and the Transportation high school in Prague, specialising in operations management. In 1981, he joined the then Československé státní dráhy, where he worked as a motor vehicle mechanic in the railway vehicles depot in Ústí nad Labem. He has worked in ČD Cargo, a.s., since 1 December 2007, and is released in the long-term for the position of Chairman of the corporate committees of the association of railway workers of ČD Cargo, a.s. Concurrently, he is the deputy Chairman of the Railway Workers Union (OSŽ).

## 5. Jindřich Nohal

**Member of the Supervisory Board (since 1 December 2008, elected by the Company's employees), age: 63, on 1 December 2013, re-elected by the Company's employees for another term**

Jindřich Nohal graduated from the Railway high school in Česká Třebová, specialising in transportation. In 1972, he started work for the then Československé státní dráhy, where he was train dispatcher in the Nymburk-město and Třinec stations. Between 1980 and 2001, he first worked as train controller and then as operations controller. In 2001, he became head controller. Since 1 December 2007, he has worked in ČD Cargo, a.s. Operations division, where he is a head controller – head of shift in ČD Cargo, a.s. He is the chairman of the OSŽ basic organisation.

## 6. Roman Onderka

**Member of the Supervisory Board (since 1 April 2017), age: 52**

Roman Onderka graduated from Karel Englis College (VŠKE) in Brno, Faculty of Economics and Business Law and Brno University of Technology, Brno Business School, Faculty of Business Administration, MBA program. In 1989, he joined the Czechoslovak State Railways. From 1994 to 2006, he worked in the Odborové sdružení železničářů as the regional secretary of transport and shipping for the South Moravian and Vysočina Region. From 2006 to 2014, he was a Mayor of Brno. He worked as a member of the Board of Trustees of Brno University of Technology in Brno and was a member and then a Chairman of the Supervisory Board of Veletrhy Brno, a.s. Since 2014, he has worked in the PR and marketing sphere. He is a Deputy of Brno and, since October 2017, a Member of the Parliament of the Czech Republic and Vice-Chairman of the Budget Committee of the Chamber of Deputies of the Parliament of the Czech Republic.

## 7. Jiří Švachula

**Member of the Supervisory Board (since 1 April 2017), age: 51**

Jiří Švachula graduated from high school with a maturity examination. Since 1990, he has been working in the private sector where he has managed to build several viable businesses - an advertising and media agency, a renewable resource company, and a gallery dedicated to modern arts. In 1995, he received a City of Brno Award for contribution to culture. Now, within the self-government, he strives to take full advantage of valuable experience and knowledge he has gained during the 27 years of working in the private sector. Since 2014, he has been vice-mayor for investment and house administration in Brno-střed. He is a member of the Board of Directors of Veletrhy Brno, a.s.

### Changes in the Supervisory Board

České dráhy, a.s., as sole shareholder of ČD Cargo, a.s., in the exercise of the powers of the General Meeting has decided about appointment of Miroslav Kupec, as a member of the Supervisory Board of ČD Cargo, a.s., with the effective date of 22 March 2017 on 21 March 2017.

České dráhy, a.s., as sole shareholder of ČD Cargo, a.s., in the exercise of the powers of the General Meeting has decided about appointment of Roman Onderka, as a member of the Supervisory Board of ČD Cargo, a.s., with the effective date of 1 April 2017 on 28 March 2017.

České dráhy, a.s., as sole shareholder of ČD Cargo, a.s., in the exercise of the powers of the General Meeting has decided about appointment of Jiří Švachula, as a member of the Supervisory Board of ČD Cargo, a.s. with the effective date of 1 April 2017 on 28 March 2017.

### Audit Committee

## 1. Oldřich Vojíř

**Chairman of the Audit Committee (member since 15 December 2009, Chairman since 18 February 2010), age: 56, (on 16 December 2014, he was re-appointed for another term, Chairman since 27 February 2015)**
Oldřich Vojíř graduated from the Faculty of Education of Jan Evangelista Purkyně University in Ústí nad Labem and completed doctoral studies at the Transport Faculty of the University of Pardubice. He was a deputy of Parliament and has managed or supervised business, energy and transportation companies. At present, he manages Enima pro, a.s., which focuses on engineering and work in the construction industry, electro-technology and transportation technology in Prague, with branches in Ostrava and Most.

## 2. Libor Joukl

**Member of the Audit Committee (since 15 December 2009), age: 51, (on 16 December 2014, he was re-appointed for another term)**
Libor Joukl graduated from the Brno University of Technology. In 1989, he joined ŽĎAS in Žďár nad Sázavou, dealing with plant equipment construction and design. From 1991 to 1992 he worked as an independent agent for the PENTA Žďár nad Sázavou advertising agency. Since 1992, he has been self-employed. Between 1994 and 2000, he acted as the Production Manager of JMZ-CATONEX s.r.o. In 2000, he became a Statutory Executive and Director of APOLY s.r.o. Přibyslav. Since 2002, he has been a member of the Town Council of Přibyslav. He was a member of the Supervisory Board of MERO, a.s., Kralupy nad Vltavou from 2003 to 2006 and its Vice Chairman from 2004 to 2006. Since 2004, he has been a member of the Regional Council of Vysočina; in November 2008 he became the Deputy Governor of the Vysočina Region for transportation and property. Currently, he is a member of the Regional Administration and Maintenance of Roads Vysočina Regional Council Board.

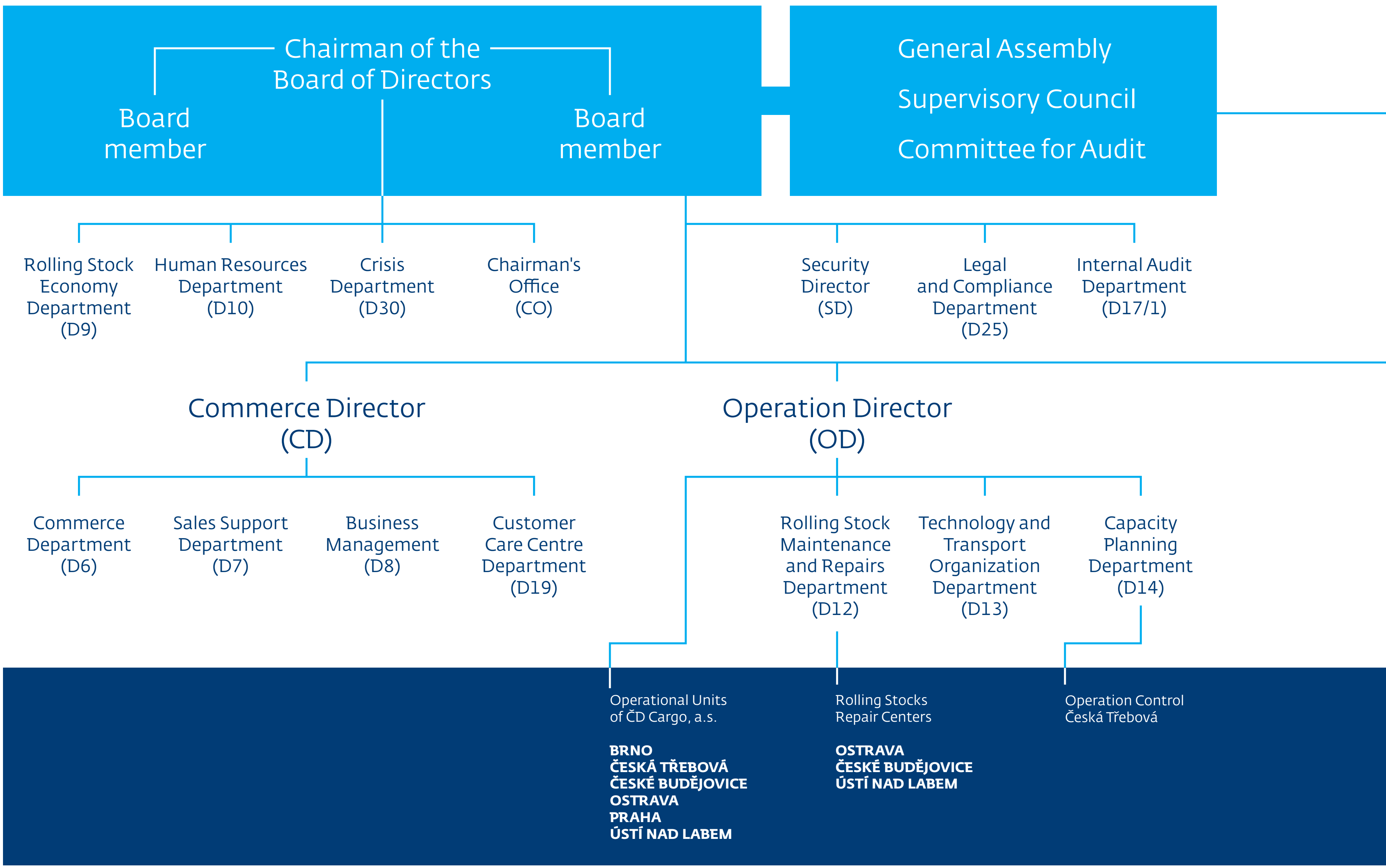
## 3. Miroslav Zámečník

**Member of the Audit Committee (since 15 December 2009), age: 55, (on 16 December 2014, he was re-appointed for another term)**
Miroslav Zámečník graduated from the University of Economics in Prague, and was a Pew Fellow at the School of Foreign Services, Georgetown University, Washington. From 1990 to 1993, he worked as an advisor to the federal Minister of Finance and then the head of the Centre for Economic Analysis of the Office of President Václav Havel. Between 1994 and 1998, he was a representative of the Czech Republic at the World Bank in Washington, D.C. Since 2001, he has worked as an independent economic consultant specialising in the restructuring of companies. He was a member of the National Economic Council of the Czech Government.

# 07 Organisational Structure of ČD Cargo, a.s., as at 31 December 2017

Authorities of ČD Cargo, a.s.

**Board of Directors of ČD Cargo, a.s.**



## Joint ventures, capital interests

**RAILLEX, a.s.** (based in Praha)
**BOHEMIAKOMBI, spol. s r.o.** (based in Praha)
**Ostravská dopravní společnost, a.s.** (based in Ostrava)
**Ostravská dopravní společnost – Cargo, a.s.** (based in Ostrava)
**BCC s.c.r.l.** (based in Bruxelles)

## Subsidiaries

**CD Cargo Germany GmbH** (based in Frankfurt am Main)
**CD CARGO POLAND SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ** (based in Warszawa)
**Terminal Brno, a.s.** (based in Brno)
**ČD Logistics, a.s.** (based in Praha)
**ČD-DUSS Terminál, a.s.** (based in Lovosice)
**Auto Terminal Nymburk, s.r.o.** (based in Praha)
**CD Cargo Slovakia , s.r.o.** (based in Bratislava)

## Finance Director (FD)

- Economics and Financial Management Department (D1)
- Accounting Department (D2)
- Controlling Department (D3)
- Process Engineering Department (D20)
- Project Management Office (D18/1)

**Central Level (GM)**

**Executive Level**

Traffic Receipts Clearing Olomouc


383 004-9
SIEMENS
Vectron
153

# 08 Report of the Board of Directors on the Business Activities and Position of ČD Cargo, a.s.

The Board of Directors of ČD Cargo, a.s., presents this Report on the Company's Business Activities and the Balance of its Assets.

## Freight Transportation Operations

### Freight transportation

In 2017, ČD Cargo, a.s., transported 64.8 million tons of goods, which means a year-on-year decrease of about 900 thousand tons. ČD Cargo, a.s., earned CZK 8.7 billion for these services, representing decrease by approximately CZK 116 million in comparison to 2016. Expressed as a percentage, the decrease in tons and sales represents approximately 1.3%. Behind these numbers there are many objective reasons, such as the climatic conditions from last winter, or changes in transport flows associated with the shortening the transport distance of some commodities. In accordance with the statistical data, we managed to stop the decrease in revenues from transport of individual wagon's loads, as in 2017, our result in this segment increased roughly by CZK 90 million. This result can be attributed to the ČD Cargo's business policy, the establishment of regional business managers and marketing support and partly, due to the lack of drivers, as well.

Despite increased orders, even during the year, losses in the transport of iron ore were not compensated, when as a result of strong frosts at the beginning of the year, freezing of substrates in wagons, extension of wagon circulation and reduction of orders took place. The closure of a large furnace and other technological changes at one of the main customers also proved to have a negative impact. Traffic flows have also changed - in cooperation with CD Cargo Poland, iron ore from the Belarusian-Polish transhipment sites has been newly transported, on the other hand, the oversea transport from Omarska has ceased. The total decrease in metallurgical production reflected the results in iron and mechanical engineering products, when goods from the domestic ironworks were replaced by the foreign ones. Unfortunately, it was extensively transported to the Czech Republic by road, for example from Italy. Despite the growing competition, export shipment of iron scrap increased. New customers were attracted with the offer of new product trains Dracula and Maria Theresa. Within the construction materials commodity the transport of cement was increased to almost all major customers (Českomoravský cement, Cement Hranice, CEMEX Prachovice), road cement transport continued not only to the modernisation of the D1 motorway, but also for other infrastructure works. The increase of slag and clinker transport was similar. The transport of desulfurized limestones from Beroun to German power plants, which started at the end of the year, can be considered a breakthrough. The transport is for the entire route led by ČD Cargo a.s., driver and Vectron locomotive. Unfortunately, the overall result in the commodity was negatively impacted by the lower volume of freight transport (gravel, fret) related to the overall decrease in extent of SŽDC traffic closures and increasing competitiveness of other carriers.

Despite the appearance of many negative factors, the plan has been completed in brown coal commodity. External examples are unplanned accidents and disruptions in electricity supply (power plant Mělník II, power plant Chvaletice), transition to natural gas in heating plants (Náchod) and, of course, climatic conditions at the beginning of the year, when fuel was frozen in vehicles. Internal factors include insufficient number of vehicles to meet the transport needs. During the year, new transport technology to the Opatovice Power Station was launched, when the Falls series hopper cars were replaced by Innofreight containers. They were also deployed in the heating plant in Pilsen.

During 2017, the situation of the hard coal and coke commodities deteriorated significantly. In addition to the permanent cause, expected in 2017 loss of transport (Coke to Romania, black coal from Polish mines to Slovak ironworks), there was also an unclear situation in Polish coal mines, in which the major organisational changes affecting mining and business relations, especially with Czech companies have occurred. As a result of USA divergent policy, aiming at an increased use of black coal or by flooding a coal mine in Australia and limiting mining in China, coal prices have risen again, following a fall in demand. In 2017, cooperation with the subsidiary CD Cargo Poland has deepened. In addition to the loss of some transports, the shortening of the transport distance had a very negative impact on the revenues, as well.

The downward trend in results in the chemicals and liquid fuels commodity was not stopped, even because proceeds from some new transports. The results of 2017 present the impact of changes in commodity flows, which recorded a sharp decline in imports of fuels from Poland. On the other hand, supplies from Unipetrol have increased, but at less favorable prices. The ČEPRO client began to favor its own pipeline network for fuel distribution. A fierce battle with other carriers was carried out to import fuel from Germany. However, the effectiveness of ČD Cargo, a.s. in these ad-hoc transports was rather good. Several transports of Slovnaft fuel were gradually taken over from the AWT carrier, development of fertilizer transport was also positive, especially from Lovochemie. The trains of ČD Cargo, a.s., successfully transported all crude oil from Krailling in Bavaria to the Czech Republic.

In wood and paper products commodity the transports of calamity wood from the Jeseníky and Beskydy Mountains were still carried out, not only to domestic wood processing enterprises but also abroad (Germany - cooperation with CD Cargo Germany, Romania - cooperation with CD Cargo Slovakia). For transport to Romania, in 2017, a new Dracula freight train was used, which influenced the acceleration of wagons turnaround in this field. Decrease in transport of chipped wood from at the beginning of the year (redirection of chips from sawmill in Plané near Mariánské Lázně to Germany instead of Hněvice) has been eliminated by other shipments. Since December 2017 ČD Cargo, a.s., has been transporting chips from Ždírce nad Doubravou to the Austrian Gratwein-Gratkorna for the entire route led by Vectron locomotive. The lack of loading wagons had a negative impact on this commodity. A major problem in 2017 was the cleaning and maintenance of administrative areas in calamity stations. Slight increase was shown in transport of timber, transport of paper products has maintained at constant level.

Good results were recorded in food and agricultural products commodity by offering promotional prices. As a result, new transhipments of grain from Slovakia and Hungary to seaports were carried out. The grain transport increased by 70 thousand tonnes in total. On the contrary, transport of sugar beet to sugar factories in Hrušovany nad Jevišovkou slightly decreased (domestic transport, imports from Austria and Slovakia), which is a result of last year's harvest of this crop. Unfortunately, slight decrease was recorded in transport of table and mineral water due to lower demand. During the year, transport of confectionery from Olomouc to Středokluky was terminated (the customer changed the distribution warehouse). Sugar transports to countries outside the European Union were interesting due to transhipment from trucks to railway wagons in Jaroměř (SLS Trutnov).

Increase in carriage is recorder in 'other' commodity by all major customers such as Czech Post Office, where the number of wagons on existing trains is constantly increasing, ŠKODA Transportation (passenger transport units to / from Germany and the test loops) and the Army of the Czech Republic. Last year, military transport recorded a significant increase, both domestic and foreign. Among the foreign, the transit transportation of the US Army from the Balkans through our territory to Germany is worth pointing out. The shipment of other extraordinary transports, such as rail vehicles or transformers has also recorded an increase.

In 2017, combined transport commodity was marked by an increase in transport of road semitrailers combined with the deployment of interoperable Vectron locomotives for the entire route. The number of Brno - Rostock connections for transport of LKW Walter semitrailers increased to 6-7 pairs weekly. Their part is used by the product train Dracula from Brno to Curtici. At the end of July, the operation of the train with semitrailers RailRunner from Bratislava to Braunschweig was launched. The Metrans operated its own carrier for new international transport and some domestic connections, which had a negative influence on the realisation of the plan. On the other hand, we almost managed to contribute the drop in the Rail Cargo Operator's client – CSKD, who has lost his major customer – the ship-owner Hanjin. In Maersk there was a decrease related to the cancellation of some trains in relation Mělník - Koper. Shipments of disassembled Škoda cars to Russia have continued, as well as transport for Foxcon on both the Transsibir Highway and the southern route. The MalaTrain project has been successfully developing. Three test trains from Belgium to China for the Volvo customer are a curiosity of the end of the year.

ČD Cargo, a.s., lost several transit shipments in automotive commodity, the structure of the export from the HMMC car factory, where rail transport partially decreased and the transport distance decreased significantly at the same time has also changed. We have made a contribution to increasing production at ŠKODA AUTO also in 2017 and the increase in imports of cars to several destinations in the Czech Republic has also a positive effect. The transport of cars from Poland to Brno has been launched with scattering to three other foreign destinations.

### Operational management (operational structure)

During the whole year 2017, employees of Traffic Management Česká Třebová ensured the operational management of freight trains ČD Cargo, a.s., the organisation of car extensions, the production of the Product Shipment Survey and the Exchange Schedules and performed the full scope of the activities specified by the Organisational Regulations of the Traffic Management Česká Třebová. They also performed the duties of ČD Cargo, a.s., dispatching apparatus, which closely cooperated with the dispatching device of the SŽDC railway operator.

In 2017, ČD Cargo, a.s., dispatched an average of 640 freight trains a day (excluding mechanical rides) over the many ongoing traffic closures on the whole network. The Company was still focused on the target client to meet all customer requirements, in particular regarding timeliness, information and higher demand on operative collection of loads. Stabilised form of the dispatching apparatus completed all tasks resulting from the development of the operating situation and changing customer requirements.

Dispostelle PKP confirmed its value, effectively dealing with crisis situations resulting from increased traffic, especially from Poland, where the number of ordered empty sets for loading in Poland reached critical limits, due to lack of Eas and Falls wagons, railway capacity in the Ostrava region, capacity of border crossing stations and railway procedural requirements.

Dispostelle DB in Děčín also presents a consistently high level of efficiency, especially regarding to transport solutions for the traffic closures on both sides of the common border. The efforts of the Wood Processing Coordinator and the Product Transport Department aimed to meet the increased customer requirements in the transport of calamity wood from the Jeseníky and Beskydy Mountains region in deficient Roos and Laaps series.

An indispensable part of the operational management is also the realisation of special transports, whether in complete trains or in individual shipments.

Attention should be paid to the Traffic Management employees' actions in relation to clients, in particular providing feedback in realisation of transport of complete trains. In addition to their main activities, this role was performed by both appointed specialists for Traffic Control and by dispatchers providing operational control information and announcements regarding trains.

In 2017, major changes have occurred within the IT systems related to the management of operational works. The further development of links IS ÚDIV with TMS (Transport Management System) was continued. The connection of DISC-OŘ and PRIS has been strengthened to prepare the transition to activation and the new TAF 2.1 data interface. An object Train Staff (Vlakový personál) was also newly added to ISC DISC-OŘ starting the stage of allocating and monitoring the performance of this object. The end of the year was marked by the IS DISC-OŘ modification for the upcoming train drivers list and preparation for registering their activities.

The customer transport management project (Řízení zákaznických přeprav), which is a continuation of the OBIS project, has been set-up and aimed at establishing links between the attribution of business cases, technological preparation and operational implementation. This combination should also

**„Good results were recorded in food and agricultural products commodity by offering promotional prices."**

provide a comprehensive analysis covering a overall review of operational events related to business operations. It will also enable an overview of events that affect every business case, which will also help to make more objective decisions regarding pricing. The aim is to strengthen the role of the Traffic Management Česká Třebová, whose mission is to ensure the maximum possible accuracy and completeness of data sent between IS. Work on the development of IS E-ROZA (customer's electronic interface) is still in progress.

In 2017, a large part of the obsolete HW was renovated, which positively influenced the improvement of our employees' working conditions by means of IT systems.

### Operational safety

To assure operational safety in line with the relevant legal provisions, every railway operator and railway transporter has to introduce a system of safe operations regarding the railway route and railway transport. One of the key parts of the system is the recording of extraordinary events (the "EE"), for which the system must include the causes, analysis and the necessary preventive measures that must be adopted.

Basic duties of the rail operator and operator of rail transport during the rise of EE is determined in section 49 of Act No. 266/1994 Coll., on Railways, as amended, in decree on the railway safety system and railway transport and procedures during rise of EE on the railways No. 376/2006 Coll. as amended. The amendment to these documents entered into force on 1 April 2017, however it does not fundamentally alter the commitments made, but regulates "only" the definitions and related activities of state authorities on public administration and state supervision of EEs.

Also in 2017, ČD Cargo, a.s., had an „Agreement on cooperation in cases of extraordinary events in railway transport and in cases of fatal and serious accidents at work" (the "Agreement") concluded to fulfil those obligations. Investigating the causes and circumstances of EE in the railway transport is performed for ČD Cargo, a.s. by state organisation Správa železniční dopravní cesty ("SŽDC") and its authorized persons, under the Agreement.

For reporting and investigating the EE ČD Cargo, a.s., applies measures No. 38/2016 of operating officer ČD Cargo, a.s., and the internal regulations of SŽDC D17 „Předpis pro hlášení a šetření mimořádných událostí" including implementing measures, for the regulation of the reporting and investigation of EE SŽDC D17 – 1.

In 2017, 246 EEs were recorded with ČD Cargo, a.s., participating as the railway transporter or the railway operator. Out of these, as at 25 January 2017, 219 EEs have been concluded, of which 94 were the ČD Cargo, a.s., responsibility or co-responsibility.

The total material damage caused by all the EEs is estimated at CZK 59,999,068. The damage to the assets of ČD Cargo, a.s., is estimated at CZK 29,576,463.

The concluded investigations show that ČD Cargo, a.s., is responsible for an estimated damage of CZK 27,014,370, while the damage caused by all the EEs to the assets of ČD Cargo, a.s., is estimated at CZK 23,623,374.

Presented amounts are not final and will be gradually clarified in 2018, in line with both EEs investigations and completed repairs and total elimination of EEs consequences.

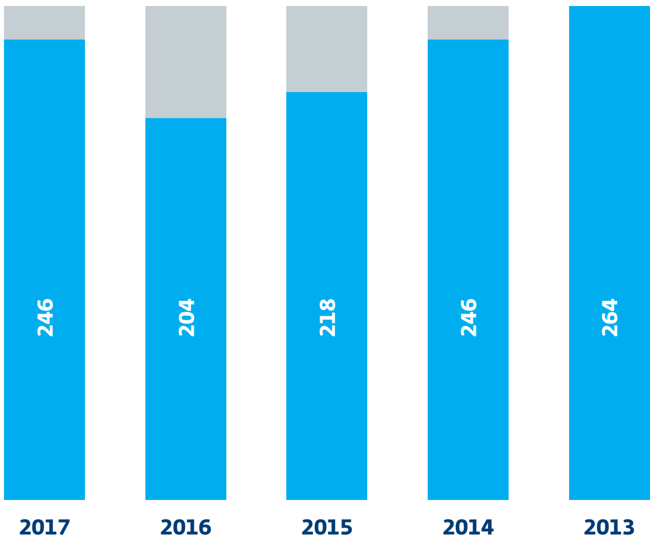
During the EEs in 2017, a total of 29 people were killed and 13 people were injured. The deaths occurred due to the people being in restricted areas of the railway track and in collisions at railway crossings. Three employees of ČD Cargo, a.s., were injured during work. A total of 25 traction vehicles (of which 24 owned by the Company) and 72 wagons (of which 49 owned by the Company) derailed. A total of 92 traction vehicles (of which 81 owned by the Company) and 43 wagons (of which 24 owned by the Company) were damaged.

**The results of the investigations into the 2017 EEs are as follows:**

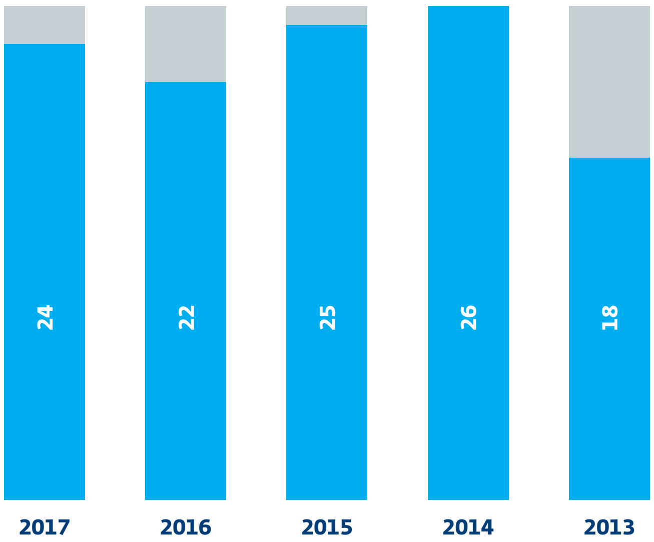
- In previous years, the total number of EEs decreased in year-on-year comparison. However, in 2017 there was a turnover and we recorded an increase by about 20% in comparison to 2016.
- Despite the fact that the total amount of EEs increased, the total damage is estimated at about 7 million less than in 2016, i.e. about 12% decrease.
- In 2016, the aggregate damage resulting from EEs amounted to CZK 67,009,981, while in 2017 the aggregate damage is estimated at CZK 59,999,068, as stated above. In 2017, the damage to the assets of ČD Cargo, a.s., is about CZK 5,5 million higher in comparison to 2016 (we reported the damage of CZK 24,069,636 for 2016). Even though not all the EEs investigations of the 2017 are finished, significant increase in these amounts is not expected.
- ČD Cargo, a.s., was not responsible for any of the deaths.
- At one EE caused by a technical fault in the trailed railway vehicle (TDV) owned by ČD Cargo, a.s., the driver of another carrier suffered a minor bodily injury.
- The three employees of ČD Cargo, a.s., responsible for EEs, also suffered injuries.
- In two of 22 railroad crossing accidents an employee of our company is co-responsible for the emergence, due to noncompliance with technology while performing shunting movements.

- In 2017, we record 24 EEs, caused by the illegal ride of a railroad vehicle behind a prohibition ban. ČD Cargo, a.s., has only general responsibility for the occurrence of 3 EEs, with particular responsibility of cooperating carriers' employees. ČD Cargo, a.s., train drivers are responsible for 17 cases of this EEs group and in one case the train driver shares the responsibility with the shift manager.
- No EE was caused by a system mistake.

**Development of the total number of EE**




**Illegal ride on signal not allowing to pass – number of EE**




The development of the total amount of damage always depends on the occurrence of serious accidents and accidents with widespread consequences in the given period. In 2017, we register one EE, that is determined in section 49 of Act No. 266/1994 Coll., on Railways, as amended, as a serious accident. This is about EE A2-category accident, which took place on 1 December 2017.

During the drive of the train Pn 67260, there was a derailment of the fourteenth trailed railway vehicle behind a driving railway vehicle (DRV), followed by a drive in derailment a distance of about 2 km, after which the train broke down and stopped. Damage arising from this EE is due to extensive damage of the railway superstructure, is preliminary estimated at CZK 6,125,000. Investigation is not yet completed, but according to initial results, fold axle lock of the foreign holder's (PKP Cargo) drive rail vehicle, was the cause of the derailment. ČD Cargo, a.s., is responsible for the occurance of this accident in general, but in particular, the responsibility is on the rail vehicle holder.

During the fall 2017, there were two EEs, which, by their consequences, had quite a big impact on the resulting values of the incurred damage. Both cases were related to the fire, that appeared on driving railway vehicle during the drive of the train. The fire was caused by mistakes in the work performance of our employees.

First accident took place on 27 September 2017. During the drive of the train Pn 62145 via railway station Čáslav, there was a fire on driving railway vehicle 91 54 7 230 057-2, that drove in the „slave" (controlled) mode. The cause of the catching of the high-voltage cables of the traction engine no. 1 was the small hot pices of the brake pads in long term friction between break pads and disc breaks. The driver, who did not ensure the safety of railway transport in the extent of his professional competence, is responsible for the occurence of this EE, by letting the direct-acting brakes of the driving railway vehicle braked and due to insufficient check of the brakes' restraints before the depart of the train from Kutná Hora main station. The damage caused by the damaged driving railway vehicle was estimated at CZK 6,595,000.

The second accident took place on 19 November 2017. It is similar to the previous one, the only difference is that the train trip occurred in the line section between the stations Čáslav and Golčův Jeníkov. This time there was a fire on the driving railway vehicle 91 54 7 230 072-1 (classified again as controlled – „slave"). Material damage of driving railway vehicle is more serious than in the previous case and the cost of its re-launch was estimated at CZK 10 million. The cause is the same as in case of EE from 27 September 2017. The determination of the specific responsibility is currently under investigation.

Many of EE's from the 2017 is still investigated under the supervision of Rail Inspectorate and on the basis of the information available. In relation to this, it is expected, that ČD Cargo, a.s., will issue the safety recommendations affecting the operation of rail transport. For this reason, it is necessary to thoroughly investigate and take appropriate preventive measures for all damages that occured.

## Information on the Company's Assets

### The real estate of ČD Cargo, a.s.

In addition to conventional basic means of production, i.e. rail vehicles, the Company also owns real estate. Without this, the business activity of the Company would be limited, but thank to this, it could be considered as strategically significant. A total of 235 buildings and 243 plots of land owned by the Company is registered at the Czech Cadastral Office. The year-on-year changes are the result of a process of unifying plots of land or buildings into logical units and settling ownership relations that had not yet been settled. In 2017, such case was the settlement of ownership relations in the cadastral area of Nymburk, in particular the settlement of the ownership relations on the land associated with Rail Vehicle Repair Centre and the purchase of the petrol station, which is strategic for ČD Cargo, a.s., in this location. The built-up area amounts to almost 116 thousand square meters. The total land area is 683 thousand square metres (including built-up areas of individual buildings). Regular maintenance of the real estate is carried out by the Rail Vehicle Repair Centres in line with the financial plan; the investment activities are carried out in line and in cooperation with the General Directorate of ČD Cargo, a.s.

Following the change in the licence for the operation of railway transportation, real estate tax returns for all land and buildings owned by the Company have been filed since 2015. The admission to the property tax was previously granted only to immovable assets, which were not directly related to the public interest or were, furthermore, even partially, the subject of the lease. ČD Cargo, a.s., paid the property tax at 10 relevant tax offices in the amount of CZK 3,604 million.

### Lease of rail vehicles

One of the Company's significant business activities includes the lease of railway vehicles, i.e. wagons and locomotives. In the case of locomotives we perform some for long-term rentals to our partners. Mostly, this is a rental of redundant and unnecessary driving vehicles. Short-term rental is performed for locomotives in individual business cases, where mainly interoperable vehicles are used. With regard to the lease of wagons, we provide our customers with both long-term and short-term or repeated leases of vehicles for spot and one-off transactions. For these purposes, the Company has sufficient vehicle capacity available and offers the leasing of all wagon series, including cisterns. The Company additionally cooperates in projects for the use of non-operating vehicles that are put into operation at the cost of the future lessee and are subsequently operated. Increasingly frequent trend is to use the overcapacities of the rail vehicles in cooperation with our subsidiaries during the implementation of their business transactions in foreign markets.

### Vehicles fleet, management of vehicles

In order to ensure the operation of freight trains in 2017, the Company operated 852 locomotives, of these 70 were leased in terms of financial leasing. The freight wagons fleet consisted of around 22.6 thousand freight wagons of different types. The vehicles fleed was adjusted as required by leases of vehicles amounting on average to 2,600 vehicles. Of the total vehicles fleet, approximately 17.5 thousand vehicles were in the operational condition. Maintenance of all the vehicles was carried out primarily by the Company's maintenance and repairment department.

During 2017, over 3,000 vehicles were scrapped due to natural wear and tear, obsolescence and poor technical condition. Another group of obsolete and technically worn-out vehicles is selected for the year 2018. The same perspecive has nearly 100 locomotives. Suitable parts from liquidated vehicles were recovered for use in the repairs of operated vehicles.

Maintenance and repair of rail vehicles was carried out primarily by the Company's repair centres, by České dráhy a.s., DPOV a.s., Přerov and partially also based on concluded agreements, in external capacities. In the case of freight wagons, in some types of designs, the number of operated vehicles dropped below commercial needs while coverage of the turnaround needs of locomotives was fulfilled. In 2017, in year-on-year comparison, more decommissioned vehicles were repaired due to technical defects and damage. Repair capacities were used for planned major repairs, like technical inspections and inspection repairs.

In the rail vehicles repair centres, ČD Cargo carried out also construction work related with implemented projects, such as measure of consumption of electric traction energy in front drive cars, activation of multifunctional displays on locomotives for display and transfer of operating data, or projects to improve working conditions and safety of driver's work. For railway vehicles, the most important was to change combined wooden floors with full metal floors.

In 2017, the most significant investments of ČD Cargo, a.s., include the purchase of new interoperable multi-system electric locomotives of the Vectron type, which followed the delivery of the first locomotives from 2016. By the end of 2017, the Company had 6 machines, and two more locomotives will be take over at the beginning of 2018. In addition, there was the purchase of 100 Sggrrs series, which are primarily designed to transport goods in Innofreight superstructures. Investment activities of ČD Cargo, a.s., focused mainly on the renewal and modernisation of the freight wagons fleet, improvement of the technical equipment of workplaces for vehicle repairs and improvement of working conditions. It is worth to mention about capital expenditures for the technical improvements of front drive cars and freight vehicles. In the year

2017 inspection repairs of other supporting lines of freight vehicles and major repairs and berthing of front drive cars took place especially in case of series 753.7, 163, 372 and 130.

## Cross Functional Activities

### Marketing and communication activities

The Company's marketing and communication activities are predominantly based on our need to support the sale of our own products and services, create a new corporate identity, and increase brand awareness.

In relation to the Company's business activities, the Company set the objectives of individual marketing campaigns and activities for 2017. The promotion focused primarily on existing and potential customers. Communication activities, however, significantly affected also other business partners, and professional and general public. The most importnant impact on all these target groups has been carried out by the premiere digital campaign, in its spring and autumn part it generated millions of views and also spread awareness on the Company's services on the dedicated microsite (business section) featured an extensive brand campaign in order to strengthen awareness of the Company and its brand.

Among other key instruments used to fulfil the set targets within the marketing and communication activities there are web presentation, own printouts, participation in international professional trade fairs and conferences, a marketing campaign, support for selected cultural and sports projects, and last but not least a PR presentation in professionally oriented printed and e-media.

In 2017, the presentation of the 10th anniversary of the establishment of an independent company ČD Cargo, a.s., was also an important part of marketing communication, intermingling across the various forms of marketing and communication activities. Its peak was the festive gala evening at the Žofín Palace in Prague, which took place on 1 December 2017, exactly on the day of its foundation.

### Web presentation

In 2017, ČD Cargo websites traffic maintained a stable level of interest. The number of foreign visitors has increased, which is a result of the full launch of the English and German page versions in May 2017. The language versions include all parts of the site including applications. The website regularly publishes news and interesting information about the realised transport, its purpose is to convince existing and potential customers about the width and quality of the Company's services.

During 2017, there was a transition of PDExt application to a new environment on the ČD Cargo site. This is the Data & Queries application, which is part of the so-called EROZA (Electronic Interface for Customers), the closed section of the ČD Cargo, a.s., website, accessible only to registered users. The Data & Queries application was deployed in the pilot version from 1 April, then become full version from 1 August 2017. The application contains the same query range as the original application. Customers have complete information on wagons and consignments transported with ČD Cargo, a.s. Data outputs are provided by several channels - viewing directly on the web, sending an xml file to an e-mail or to FTP server, sending a PDF file to an e-mail. There is also a possibility to set up automated regular data transmission.

The campaign called www.1vagon.cz was launched in order to support the single wagon loads. It give the customers the opportunity not only to see the advantages of this kind of transport but also enables them to easily calculate the costs.

Another interesting activity was the „Life in ČD Cargo" photo competition. The submitted photos were used to create the table calendar of ČD Cargo.

### Print and media communication with customers

Communication with journalists and the wider general public was carried out by press department of České dráhy. The most important theme was the 10th anniversary of ČD Cargo, a.s. However, other topical issues were also communicated, such as the operation of Vectron locomotives, the issue of individual wagon loads or a new silk trail.

The print communication was focused on advertising ČD Cargo, a.s., services in professional journals. Targeted ads and PR articles were published, among the others, in Dopravní noviny, Železniční magazín, Railvolution and in Silnice-železnice magazine. By means of Železničář – a holding newspaper – ČD Cargo reached out to the wide range of customers interested in the rail freight and transport.

„Profiles of ČD Cargo" was supplemented with a new product list aimed at transport in terms of the campaign www.1vagon.cz or at expanding network of product trains (Dracula, Marie Terezie, Breza etc.). The issued publication to the 10th anniversary of ČD Cargo, a.s., can be considered a very important step for all, business partners, employees and the general public. The festive launch of the book took place at the gala evening on 1 December 2017.

An important part of the Company's internal communication was (as in previous years) the internal newspaper Cargovák. In the new series, it focused on the events from ČD Cargo, a.s. independent existence and also provided extensive information on foreign railways.

### Trade fairs and conferences

Trade fair presentations are an irreplaceable part of the marketing communication of ČD Cargo and are important in supporting active business policies such as expansion to foreign freight markets. In recent years, the trade fair display of ČD Cargo has been present at most of the significant transportation and logistics trade fairs.

In 2017, ČD Cargo, a.s., could not miss one of the world's most important trade fairs, which is the Transport Logistic in Munich. Besides the traditional exhibition of a wide portfolio of rail freight services, as in prior years, in 2017, the Company presented 10th anniversary of its independent existence.

Besides the exhibition at the traditional annual domestic presentation during international trade fair of railway technology, products and services for the rail and urban rail transport Czech Raildays Ostrava, the visitors were also attracted by the Habbilnns exhibition car, in which they could recall the aforementioned 10-year anniversary. Habbilnns was also exposed to a number of other promotions. The Trade Fair year 2017 concluded the Company's participation at the 12th annual Trako International Railway Fair, held in the modern multi-purpose exhibition area Amberexpo in Gdansk, Poland. Among the exhibitions on domestic trade fairs, we can also include participation and partnership on the National Railway Day, which took place by the end of September in Bohumín.

The conference year was equally interesting. Once again, the „Business Conference of ČD Cargo", was the core point. This conference is always held at the beginning of the new business year. Its main theme is trade and pricing policy for the coming period. If we chronologically mention other participations or partnerships at other professional conference events, these were in particular: IRFC Prague International Railway Transport Conference, Czech Logistics Day, „National Railway Transport Companies in Europe" conference. We shall not forget about an active participation in the 216th Žofín Forum, that focused on European railways of the 21st century.

**„In 2017, ČD Cargo, a.s., could not miss one of the world's most important trade fairs, which is the Transport Logistic in Munich."**

### Research, development and cooperation with universities

During 2017, the Company continued its cooperation with certain Czech universities, predominantly technical and economic universities – the Jan Perner Transportation Faculty in Pardubice, the Faculty of Transportation at the Czech Technical University in Prague, the Technical University in Ostrava and the Faculty of Operation and Economy in Transport and Communications at the Žilina University in the Slovak Republic. We offer students topics that can be used in their bachelor and diploma thesis as they connect theory and practice in the abovementioned schools, and eventually ensure internships. Unfortunately, this cooperation has been used by students only to a limited extent, what is probably due to the complexity of the issue in comparison to other topics offered.

ČD Cargo considers the cooperation with universities as highly significant and beneficial for both parties. At the same time, ČD Cargo, a.s., tries to cooperate with students during their studies by offering student jobs, elaboration of technical works and, in some cases, honored cooperation for the interested persons with a higher level of knowledge in the area of railway transport.

### Informatics

The principal architecture of the ČD Cargo, a.s., information systems target arrangement is based on the information image of the Company's organisational structure and is structured into three principal areas as follows:

- Operational and business activities covered by the PROBIS information system,
- Economic management of the Company covered by the SAP information system,
- Internal operations of the Company and ICT security supported by applications on the „Microsoft" platform.

In the area of business applications, the development and adaptation of applications has been particularly focused on supporting process changes in relation to a gradual transition to customer transport management. This is a long-term process of procedural changes and follow-up changes to applications, which will continue during next year. In addition to editing existing applications, it may be necessary to support the circulation of assemblies or to provide information on the movement of vehicles abroad. The development of the EMAN - EPROV module was launched to support planning of capacity and for partial realisations of business cases. In the first stage, it is related to routes and trains, and subsequently planning will be extended to locomotives and train drivers.

The first stage of the Smart vehicle project was completed in the environment of ČD Cargo, a.s. Its goal was a pilot verification of modern technologies in the area of tracking and evaluating the movement and performance of operated railway wagons in order to manage the work of the fleet and its efficient use. The verification of selected technologies - GPS, IoT and RFID was initiated for specific processes and support for these processes based on the evaluation of the study. The technologies are being gradually applied to selected vehicles of ČD Cargo, a.s., or to their components.

During the year, there was a gradual implementation of the Train Drivers' Electrisation project, which is intended to provide tablets with an application designed to control the work of drivers and to transfer necessary documents for their work. The first trainings of train drivers and the delivery of tablets had been already carried out.

The first Data and Queries application was deployed within the EROZA platform (Customer's Electronic Interface - a secure part of the user's registration, where the transport electrisation applications will be gradually deployed) on the ČD Cargo, a.s. websites. This will fully replace PDExt application, closely related to CEVIS application, which was shut down after 18 years in September 2017.

A comprehensive reporting tool for VAT reporting in the ČD Group, which enables the contracting authority to process VAT tax returns and submit them to the tax administrator via the data box was implemented in the SAP area.

In the area of ICT, there were initiated preparations for the upgrade of system, office and groupware environments, which consist of Microsoft products. Implementation of ICT security management processes within ISMS is still ongoing, the Continuity Management Information System has issued internal directives and preparations are underway in order to gain the ISO 27001 certificate in the future.

In terms of ICT management within the ČD Group, there was the consolidation of RIA internal network environment and, as a result, new workstation virus protection solution will be deployed. In the area of internal agendas in the MS Sharepoint environment, the optimization and development of existing applications and the preparation of the new application Controlled Documentation were optimized for the purpose of the Train Drivers' Electrisation project. Based on the decision of the general meeting, the Company's ICT development will be harmonised with ICT development in the ČD Group in the following period. The implemented measures should result in an increased efficiency of developing and using ICT means (HW and SW).

## Investment

ČD Cargo, a.s., investments reached in 2017 amount of CZK 1.379 billion. On the top of it, CZK 30 million were paid on advances for the acquisition of fixed assets. The Company's investment activities focused primarily on the renovation and modernisation of railway vehicles fleet, where investments amounted to CZK 1.121 billion (including component repairs of freight vehicles and locomotives), which is 81% of the investments.

**Investments in freight wagons**

In terms of freight wagons investments, the most significant event is the purchase of 100 new Sggrrs platform vehicles for the purpose of combined transport and shipment with the use of removable extensions Innofreight. In addition, there was also a purchase of 243 Sgnss platform vehicles, as their finance lease term has eneded. The renovation of floors in Eas platform vehicles was continued.

**Investments in Traction vehicles**

Within investments in traction vehicles in 2017, most significant was the purchase of another Vectron locomotive, which extended the fleet of interoperable locomotives, and the payment of an advance for the delivery of two of these two locomotives in 2018.

Technical improvements of traction vehicles of various tractions and series were also made, including the assembly of the traction energy and fuel consumption meter. Central OHS investments gradually include modifications to the engine driver spot (installation of safety glass, air-conditioning units or supplementary heating, etc.).

**Investments in Construction and Machinery**

Another significant part of the Company's investment activities is in the area of construction and machinery. The investments in construction and machinery were focused on modernising machinery and technological equipment for the needs of organisational structure units, and on renovating administrative and repair centres within these units, including the improvement of the working environment, the consolidation of the handling areas and the reconstruction of rail tracks in terms of repairs. Most significant events in 2017 included a comprehensive reconstruction of the repairment hall in Ostrava, the construction of the compressor station in Nymburk and the renewal of the wheelsets gauges.

**Other investments**

Other investments include IT investments, acquisition of handling technology, and other investment activities. In 2017, investments in the area of IT continued to focus on the further development of internal information systems and on the ICT security project (cybersecurity). There were also new projects launched to support business activities of ČD Cargo, a.s. Other investments included, for example, the renewal of fork-lift trucks for rolling stock and rolling stock repair centers.

**Component Accounting for Significant Repairs of Railway Vehicles**

Since 2010, the Company has applied the method of component accounting for significant repairs of railway vehicles. In 2017, internal and external repair capacities were carried out with the revision repair of the freight wagons, the component repair of the wheelsets and the main repairs of electric and diesel locomotives conducted, which are necessary for the implementation of ČD Cargo performance.

## Staff policy and social programme

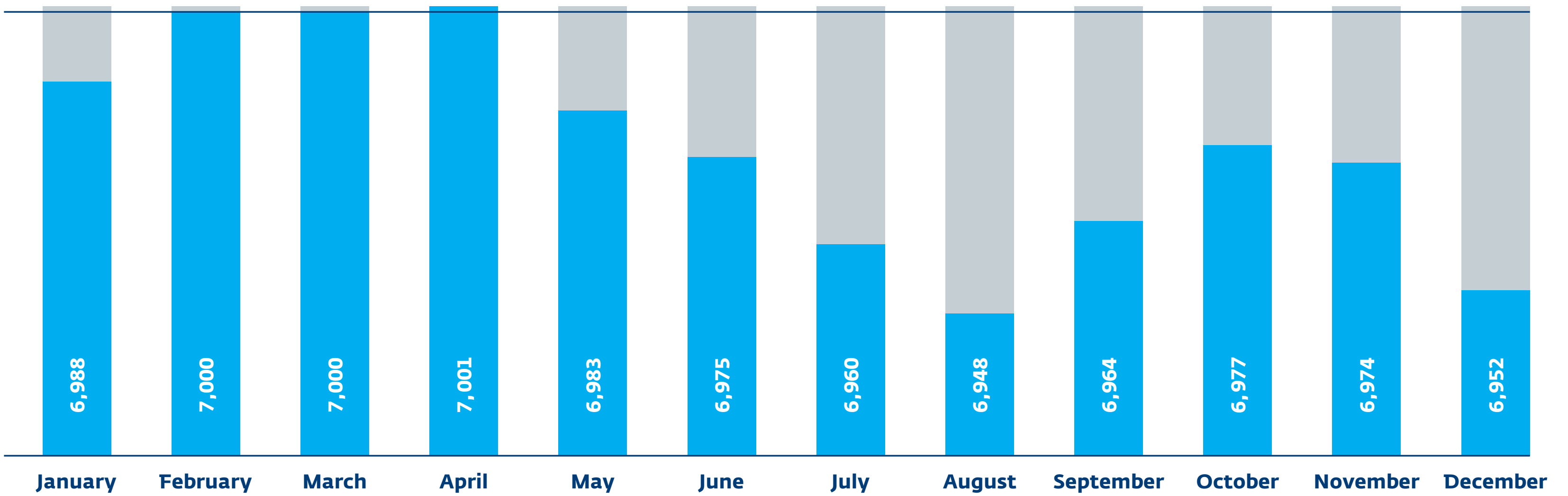
In 2017, in cooperation with trade unions and in compliance with the applicable legal regulations, the Company covered issues relating to health and safety protection at work. All the requirements of OHSAS 18001:2008 norm were fulfilled. ČD Cargo, a.s., actively approached improvements in the work and social conditions of employees.

The principles of remuneration and the scope of the provision of employee benefits were agreed in the „Company Collective Agreement of ČD Cargo, a.s., for 2017". The fulfillment of ČD Cargo, a.s., Company Collective Agreement was evaluated at regular meetings of the employer and trade unions. The Company met all its obligations towards employees in the remuneration and provision of employee benefits in 2017.

The set of provided employee benefits is primarily used to strengthen and stabilise the employee base and includes, among other things, benefits relating to working hours and vacation days; the employer continued to contribute to the employees' pension savings scheme and life insurance. Due to legislative changes by the end of the year, the subsidy for new products was terminated in case of life insurance.

Apart from this fact, ČD Cargo, a.s., started the active recruitment of employees for selected operational jobs, including the provision of recruitment bonuses, which are related to quality and time-defined incorporation. In order to recruit new employees, the Company used, among others, presentations at several secondary schools and universities, its presence on labour markets and in social networks. Cooperation with selected secondary schools is also taken into consideration. Students could use and, in some cases, participate in practical training. After finishing school, some of the graduates could join ČD Cargo, a.s., mainly in terms of operational employment.

The average number of employees calculated to full-time employment in individual months of 2017




ČD Cargo, a.s., has internally set requirements for qualification, knowledge, skills and experience of employees. Employee training focuses on providing training to meet the qualification requirements in accordance with the requirements of legislation, offering specific training to acquire the necessary knowledge and skills beyond the qualifications, including the implementation of not only presenting but also e-learning and combined training and sharing support knowledge and experience. All this for the purpose of their ongoing development. According to the defined rules, the employer made additional contributions from the social fund of the Company to the employees, primarily for holidays, summer camps for children and young people, sports and cultural events, social subsidies, etc.

In 2017, the average number of employees recalculated to FTE was 6,976.89.
The number of employees as at 31 December 2017 was 6,953 persons.
In 2017 the average salary in ČD Cargo, a.s., i.e. the payroll costs, excluding other staff costs, amounted to CZK 33,685.
Nine trade unions operate within ČD Cargo, a.s. On 18 December 2017 Company Collective Agreement for the year 2018 was signed.

## Code of ethics, respect for human rights

ČD Cargo, a.s., strictly complies with all legal standards, regulations and is aware of the risks and negative social impacts associated with their disrespecting. ČD Cargo, a.s., is also committed to the rigorous compliance and protection of human rights and realises that this is an area that is becoming increasingly important for the Company's employees and customers. Due to this, there is a trade and moral obligation to ensure respect for human rights across organisational structure units and throughout the value chain.

Currently, the great significance is dedicated to ethical behavior and corporate culture of the employees, focusing among other things, on anti-corruption behavior, prevention of criminal liability cases and protection of personal data. No direct nor indirect discrimination is permitted in ČD Cargo, a.s., Education, expertise, qualifications and skills of each applicant are crucial in the recruitment process. ČD Cargo, a.s., does not exclude any candidates during recruitment process, always properly ensures compliance with the principles of diversity.

In 2017, „ČD Cargo, a.s. Code of Ethics“ has been updated by the first amendment. The Code of Ethics helps to ensure that the Company's everyday operational activities and the conduct of its employees are in line with the rules and principles set by the Company. Every employee has the opportunity to report unethical behaviour, violation or reasonable suspicion of violation of the Code of Ethics and good morals. Simultaneously, each reported case will be reviewed and dealt with in accordance with the valid „Reporting Guidelines“. The Code of Conduct is linked to the new internal standard „Anti-Corruption Policy and Anti-Corruption Rules of ČD Cargo, a.s.“ in the form of strengthening the fight against corruption, bribery and conflict of interest. The Company would proceed in the same manner in case of the human rights abuses.

In 2017, no cases of the Code of Conduct or human rights abuses were reported nor suspected.
The area of corporate culture and ethical principles is regularly one of the points examined during audits at ČD Cargo, a.s.

### Anti-corruption rules

The provision of services and performance of ČD Cargo, a.s., is based on the principle of equal access to its customers or suppliers, which means all the activities of ČD Cargo, a.s., are based on the principle of zero tolerance for corrupt behaviour in all its forms, as well as in other forms of illegal, in particular criminal, proceedings.

In 2017, a new internal standard, entitled „Criminal liability prevention and anti-corruption rules of ČD Cargo, a.s.", was prepared and approved by the Board of Directors. This standard fully regulates the issue of the criminal liability of legal persons, including the anti-corruption attitude of ČD Cargo, a.s. The subject matter of the internal standard is relevant not only in terms of its content but also in terms of its form. It was adopted as a basic control act within the framework of ČD Cargo, a.s. (see Internal Standard OR-1-A-2007, System and Internal Creation standards, the basic act of control is the internal document of utmost importance i.e. the document of extraordinary importance).

Among other things, thae so-called Compliance team has been created based on this internal standard for those who investigate and resolve reports on illegal proceedings, which could cause an increase in ČD Cargo, a.s.'s criminal liability (i.e. mentioned corrupt practices) or a statement of reasonable suspicion of illegal proceedings. Currently, on 2 August 2017, a training was held for the management of ČD Cargo, a.s., including the management of the Directorate-General. Subsequently, in November 2017, an e-learning training took place, attended by all other unskilled employees of ČD Cargo, a.s.

In 2017, no cases of corruption were under investigation.

In accordance with the above-mentioned internal standard, the selection of areas with corruption potential should be carried out by each manager within their competence. In cases where corruption occurs in a particular area with increased corruption potential, a specific risk for this area is created, and it is subsequently controled through the Risk Management Committee of ČD Cargo, a.s. The Board of Directors of ČD Cargo, a.s., is regularly informed of the state of risk management. The risk management policy is regulated in detail by IN ORz-19-A-2011 Risk Management Policy of ČD Cargo, a.s.

The topic of criminal liability of legal persons is included as a point for investigation for audit in the subsequent period.

### Quality management – ISO

Quality management helps the Company in fulfilment of its main goal - to be a reliable and sought-after carrier with a stable share in the railway freight transportation market. The control of ISO management systems, was delegated to the Internal Audit department.

The management system of ČD Cargo, a.s., has been audited and certified for years 2016-2018 as meeting the requirements of the following standards:
- ISO 9001:2008 (quality certificate) for business activity in the area of rail freight transport and shipment, for the implementation of services in the area of rail freight transport and shipment, operating a railroad and rail transport on a siding, maintenance and repairs of railway vehicles and their parts, lease and rental of railway vehicles,
- ISO 14001:2004 (environmental certificate) for the maintenance and repair of rail vehicles and their parts,
- OHSAS 18001:2007 (OSH management system certificate) for business activity in the area of rail freight transport and shipment, for the implementation of services in the area of rail freight transport and shipment, operating a railroad and rail transport on a siding, maintenance and repairs of railway vehicles and their parts, lease and rental of railway vehicles.

In 2017, it was verified and certified, that ČD Cargo, a.s., meets the requirements of the following standard:
- ISO 50001:2011 (energy management certificate) for business activity in the area of rail freight transport and shipment, for the implementation of services in the area of rail freight transport and shipment, operating a railroad and rail transport on a siding, maintenance and repairs of railway vehicles and their parts, lease and rental of railway vehicles.

In 2017, during the annual mandatory external supervisory audit, the Company fulfilled the quality certificate according to ISO 9001, the environmental certificate according to ISO 14001 and the health and safety management system certificate according to OHSAS 18001.

Besides the certificates mentioned above, in 2015 the SQUAS (Rail) system was implemented in accordance with CEFIC SQAS 2011 methods. This certification is valid up to 2018. It is a system that assesses the quality, safety, impact on environment and compliance with the requirements of the chemical industry in the realisation of transport services provided in form of united unambiguous standard assessment, which is conducted by an independent accredited assessor.

SQAS is an European assessment system used in road and railway transport, fluvial transport, sea of combined transport of bulk and packaged goods, at cleaning stations, in distribution, storage terminals, cargo ships and tugboats in cooperation with companies in consideration to the issue of dangerous chemicals.

## AEO Certificate

### Simplified Custom Procedures/ Security and Security Measures (AEOF)

In 2017, the process to reconsiderate the legitimacy of Authorized Economic Operator no CZAEOF0801B7 from 23 September 2009 was commenced by Customs Office for South Bohemian Region against ČD Cargo, a.s. In line with the new legislation, that became effective on 1 May 2016 and also regulated the status of Authorised Economic Operator (AEO), the Customs Office is one more requested to monitor the compliance with the conditions and criteria that Authorized Economic Operator is obliged to fulfil.

The reconsideration process has started by completing the questionnaire, that is being used in all European Union member countries and is the same for all AEO holders. It does not only focus on customs matters but is structured to map all the Company's activities and practices. The Company demonstrated the quality of the services provided and fulfilled all the conditions and criteria established by the AEO certificate holders. A combined AEO certificate with kept authorization no. CZAEOF0801B7 was issued to ČD Cargo, a.s., by the Customs Office for South Bohemian Region on the base of the decision from 2 August 2017.

The AEO certificate is recognized in all European Union member countries, particularly when considering the risks related to safety aspects. Under the agreements concluded between the European Union and third countries on mutual recognition of AEO programs, the certificate is also recognized in Switzerland, Norway, Japan and Andorra. Negotiations on the recognition of the certificates by USA and China are ongoing. Obtaining the certificate provides guarantees to the customs administration, namely that the Company is a reliable operator and is aware of customs issues.

### Customs services

As part of supplementary services ČD Cargo, a.s., provides is customers' representation in customs procedures and statistics management Intrastat. Customs agents' activity is an integral part of comprehensive range of services in order to provide railway transport. We offer our clients the opportunity to discuss the export and import procedures in the offices of customs representatives and additionally the customs clearance procedure at the stations in Český Těšín and Valašské Meziříčí. An advantage of customer service at waypoint stations is that goods delivered to the stations are already cleared by customs. These services use mainly importers and exporters of bulk substrates.

Our customers also include many smaller companies that transport their goods by means of transport other than rail, which do not have the facility of the intermediate stops. We consider this service to be significant, because in addition to profits, it also carries the prestige and awareness of ČD Cargo, a.s., as a versatile business partner in the area of logistics.

## The Company and the Community

### International Activities and Relationships

The international activities of the Company include a wide range of activities involving active membership in international organisations, coordination of international projects, organisation of conferences with the aim of increasing mutual awareness, the exchange of experience, and development of contacts. The activities in international organisations are coordinated with the parent company ČD. Among other things, this is based on principles set out in the contract for international cooperation concluded between the Company and ČD, a.s. With its parent company, the Company jointly promotes the principle of a uniform concept, i.e. uniform membership of the ČD Group, coordination, and information sharing. Under this contract, České dráhy, a.s., is a guarantor of its membership in the International Union of Railways (UIC), the Community of European Railways (CER), the Organisation for Railway Cooperation (OSŽD), Forum Train Europe (FTE), and the International Rail Transport Committee (CIT). The Company has become a standalone member in the Bureau Central de Clearing (BCC) and Coordinating Council on Trans-Siberian Transportation (CCTT).

ČD Cargo, a.s., is actively involved in a number of international bodies and working groups. Within UIC we are members of the Freight Transportation Forum of UIC and its study groups, we have led the informatics group for four years (two terms) until October 2017. In information technology, the Company organises the IT group and participates in the activities of the work sub-group GRU for application in freight transport. We are also a member of RAILDATA organisation, which operates Central European data Exchange systems. The Company is engaged in the ISR system, which allows the monitoring of the current location and condition of vehicles in 20 European countries. We use ORFEUS system for the central exchange of data from freight and wagon sheets with 10 foreign partners. Last year, we launched the forwarding of shipments to the DB Cargo electronic waybill, by now only for empty wagons. With the increasing number of co-operating carriers involved in the transport of trains, the number of data exchange partners also increases, in particular regarding the composition of freight trains. We also started exchanging data with a subsidiary of CD Cargo Poland (formerly Koleje Czeskie). The Company is involved in an international project for the implementation of interoperability specifications for telematics applications for freight transportation in the European Union (TSI TAF). Together with ČD, a.s., the Company is connected to the European railway data IP through the VPN Hermes network and is involved in the activities of HIT Rail.

In the long-term strategy, ČD Cargo, a.s., focuses on cooperation with Eastern European states. To this end, it generally supports and promotes, among other things, the unified CIM/SMGS cargo document, which reduces the costs of transporters, and increases the speed and quality of the transportation process. In 2017, 15,856 shipments were transported with the CIM/SMGS cargo document (7,870 export, 7,986 import), which represents a 46% increase in comparison to the previous year. In transports with the Russian federation, the CIM/SMGS cargo document was used as follows (export – 97%, import – 29%), with Belarus (export – 82%, import: 10%), Ukraine (export – 1%, import – 1%).

In 2017, ČD Cargo, a.s., successfully presented itself at the largest European transport trade fair in Munich and at the Polish trade fair TRAKO. The Company has actively participated in international conferences, such as the Trans-Siberian Transport Coordination Committee in Beijing, the OSCE General Assembly Conference in Minsk, the V4 Group Railroad Meeting, and the Bavarian-Czech Railway Summit. In June 2017, ČD Cargo, a.s., was licensed to operate on the Austrian rail network. By the end of last year, foreign subsidiaries of ČD Cargo changed their name to CD Cargo Germany, CD Cargo Poland and CD Cargo Slovakia in order to make even more obvious belonging to the parent company.

In the area of drawdown of European funds, in the past year, the Company used a call from the Operational Program Employment on the project realised by its own employees entitled „Business Education of ČD Cargo, a.s." Dozens of employees of ČD Cargo, a.s., have already taken part in the support of technical education, in the area of welding, diagnostics, railway vehicles' repairs and controls. ČD Cargo, a.s., has also been involved in an international project called OPTIYARD, which is supported by the European Union's financial support under the European program to support the railways Shift2Rail. The project's goal is to support the optimization of processes in large marshalling yards by simulating their variants and theoretical evaluation of the most suitable solution for real time decision support. A marshalling station in Česká Třebová and the sea terminal connected with the marshalling station in Trieste, Italy were chosen for the purpose of investigation and modelling. ČD Cargo, a.s.,

**„ČD Cargo, a.s., is actively involved in a number of international bodies and working groups."**

will participate in the development and verification of innovative technologies and solutions aimed at increasing the competitiveness and sustainability of the European rail system, together with the other twelve foreign and Czech partners managed by UIC.

## Environmental Protection

Environmental protection at ČD Cargo, a.s., is centrally managed by the Department of Maintenance and Repair of the Directorate-General. The actual execution of activities related to environmental protection is provided by ČD Cargo a.s. (SOKV, PJ). Given the concluded contract, České dráhy, a.s., provides methodical support for ČD Cargo, a.s., in the area of ecology. Such includes especially comprehensive services related to removal of consequences of emergencies, methodical support during implementation of existing environmental remedies, supervision and post-remedial monitoring, environmental protection trainings.

By adopting the environmental policy, all employees of ČD Cargo, a.s., are bound to environmental management. This primarily aims to describe, review, assess and improve the EMS management system in terms of waste and the negative impacts of activities and technologies on the environment (e.g. in compliance with pollution prevention principles, readiness for disasters, purchase of environmentally friendly products, environmental protection, and primarily an effort to reduce the production of waste). ČD Cargo, a.s., meets requirements of ČSN EN ISO 14001:2004, the relevant certificate is available on the ČD Cargo website.

Destruction of unnecessary freight wagons and investment actions to reduce energy consumption are the examples of actions with a positive impact on the environment. In 2017, the reconstruction of the rail-vehicle-repair hall in the centre of rail wagons repairs in Ostrava (saving energy for heating and reducing greenhouse gas emissions) was carried out, as well as the thermal insulation of the laboratory building in the centre of rail wagons repairs in České Budějovice. In addition, the Company invests in equipment for energy consumption measurement in locomotives, what will potentially cause the decrease in this consumption. The main risks associated with environmental issues are emergency oil spills during repair operations, refuelling and incidents. These risks are classified as significant environmental aspects and are being resolved by the relevant internal legislation and via emergency plans.

The main indicator of system performance is waste production, which has been maintained at a reasonable level for a long time. The quality of wastewater and the measurement of stationary sources emissions has been monitored as well.

**Fire protection in 2017:**

- In accordance with the "Organisational Rules" of ČD Cargo, a.s., the Maintenance and Repairs of Railway Vehicles department (O12) continues to be the guarantor of fire prevention. The documentation is updated on a continual basis and potential inspections, performed by the Czech Fire Service, identified no failures.
- The Company concluded the contract with SŽDC, s.o. on mutual assistance in case of emergencies, fires and other circumstances specified by the contract. In 2017, the range of services provided by the Fire Brigade of SŽDC was expanded, i.e. with consultancy or implementation of professional training. The Fire Brigade of SŽDC, as the guarantor ensuring that the transport route is put into operation after an extraordinary event for ČD Cargo, a.s.
- In 2017, there were 178 interventions in total for ČD Cargo a.s., of which 6 were fires in traction vehicles due to technical failures, and 6 were fires of vehicles, mostly due to someone else's fault and one case of ignition of overheated bearing. 3 cases were caused by smoke-filled HKV engine room due to the insulation of the cabling. Further interventions were related to removing dripping from the tanks or putting derailed train back on tracks. Other interventions provided additional services performed under contractual relationship were related to securing loose cargo on vehicles, transfer of cargo, tree pruning, securing roof covering damaged by weather conditions or disposal of troublesome insects.

**The report of SŽDC Fire Brigade interventions in behalf of ČD Cargo, a.s., in 2017**

| Price charged for interventions in 2017 /1 – 12 months excluding ancillary costs of HZS SŽDC operating | Fires and burns | Drips and reseal | Assistance in removing the consequences of emergency | Other activities performed under contract | The total number of interventions for ČDC (1–12/2017) |
|---|---|---|---|---|---|
| **CZK 2,318,040** | **16** | **45** | **47** | **70** | **178** |

In comparison to the previous year 2016, the total number of interventions increased by 12.3%, especially in the category of drips and reseal of tank wagons. On the contrary, the number of interventions in the category of fires and burns decreased.

## Corporate Social Responsibility

The Company is fully aware of its social responsibility and participates in various projects in this area. It is a traditional partner of projects mostly organised in cooperation with the parent company ČD, such as Kinematovlak, which is visited by children attending nursery and primary schools at stations in selected cities in Czech Republic. Fairy tales are projected and there is also a play car in this train. Last year, Kinematovlak was also present in Retz, Austria. In 2017 Legiovlak, whose proud partner is also ČD Cargo, a.s., continued its journey in Czech Republic. The project helps to renew public awareness, especially young people, about Czech legions and their contribution to forming independent Czechoslovakia. ČD Cargo a.s., also supported the annual project called Prevention Train focused on safe railway transportation. We also supported various sport disciplines – floorball or „Bike for life“ project.

An entirely new activity was receiving a certificate for a socially responsible company, to which ČD Cargo, a.s., appreciated the cooperation with the companies that decided to transfer at least part of their transports from the road to the railway. The Company traditionally cooperates with Diakonie Broumov. The Company has provided the transport of collected clothing and other humanitarian aid for the Diakonie Broumov civic association for a number of years. From approximately 50 stations in the Czech Republic, the goods are transported by rail to the sorting centre in Broumov. In total, the Company transported around 500 wagons for Diakonie Broumov in 2017.

As part of propagation of railway transportation, ČD Cargo, a.s., was involved in various social events, such as anniversary celebration of launching of operating on railway tracks, Children’s day celebration, Santa Claus drives, etc. The Company rented trains for these purposes or provided railway transport under preferential conditions. For the promotion of ČD Cargo, a.s., we also used the 10th anniversary exhibition, installed in a covered railway vehicle.

## Companies in which ČD Cargo has an Equity Interest

**CD Cargo Germany GmbH**
Date of entry in the Register of Companies: Germany 11 October 2004
Share capital: EUR 50,000
CD Cargo, a.s. interest: 100 %
Principal business activities: mediation of services in freight transportation on behalf of and for ČD Cargo, a.s., shipping.

**CD Cargo Slovakia, s.r.o.**
Date of entry in the Register of Companies: Slovakia 24 September 2008
Share capital: EUR 2,672,248
CD Cargo, a.s. interest: 100 %
Principal business activities: mediation of services in freight transport on behalf of and for ČD Cargo, a.s., shipping, lease of freight wagons and locomotives.

**CD Cargo Poland Sp. z o.o.**
Date of entry in the Register of Companies: Poland 18 December 2006
Share capital: PLN 41,966,000
CD Cargo, a.s. interest: 100 %
Principal business activities: mediation of services in freight transportation on behalf of and for ČD Cargo, a.s., shipping, lease of freight wagons and locomotives, operation of rail transportation.

**ČD Logistics, a.s.**
Date of entry in the Register of Companies: 16 June 2007
Share capital: CZK 10,000,000
ČD Cargo, a.s. interest: 78 % (CZK 7.8 million)
Principal business activities: shipping.

**Auto Terminal Nymburk, s.r.o.**
Date of entry in the Register of Companies: 24 October 2012
Share capital: CZK 200,000
CD Cargo, a.s. interest: 100 %
Principal business activities: shipping and technical activities in transportation. The company is dormant.

**Terminal Brno, a.s.**
Date of entry in the Register of Companies: 25 July 2008
Share capital: CZK 71,550,000
ČD Cargo, a.s. interest: 66.93 % (CZK 47.89 million)
Principal business activities: operations of a combined transportation terminal in Brno.

**ČD-DUSS Terminál, a.s.**
Date of entry in the Register of Companies: 1 March 2007
Share capital: CZK 4,000,000
ČD Cargo, a.s. interest: 51 % (CZK 2.04 million)
Principal business activities: operations of the container terminal in Lovosice.

**RAILLEX, a.s.**
Date of entry in the Register of Companies: 17 June 2006
Share capital: CZK 2,000,000
ČD Cargo, a.s. interest: 50 % (CZK 1 million)
Principal business activities: cargo handling and technical transportation services.

**BOHEMIAKOMBI, spol. s r.o.**
Date of entry in the Register of Companies: 17 April 1992
Share capital: CZK 6,000,000
ČD Cargo, a.s. interest: 30 % (CZK 1.8 million)
Principal business activities: mediation of services in the field of transportation except for transportation by own means.

**Ostravská dopravní společnost, a.s.**
Date of entry in the Register of Companies: 30 May 1995
Share capital: CZK 15,000,000
ČD Cargo, a.s. interest: 50 % (CZK 7.5 million)
Principal business activities: operation of railway transport and lease of locomotives.

**Ostravská dopravní společnost – Cargo, a.s.**
Date of entry in the Register of Companies: 1 January 2017
Share capital: CZK 2,100,000
ČD Cargo, a.s. interest: 20 % (CZK 420 thousand)
Principal business activities: operation of railway transport.

**Bureau Central de Clearing société coopérative á responsabilité limitée (BCC s.c.r.l.)**
Date of entry in the Register of Companies: Belgium, 17 December 1996
Share capital (fixed part): EUR 18,750
ČD Cargo, a.s. interest: 3.36 % (EUR 3,750)
Principal business activities: non-cash settlement of mutual payments in railway transport.

In 2017, there were following changes in the structure of the ČD Cargo, a.s., equity interest within ČD Group:

- On 1 January 2017, there was an entry to the commercial register related to Ostravská dopravní společnost, a.s. division by spin-off with the formation of Ostravská dopravní společnost – Cargo, a.s.
- In 2017, the interest of ČD Cargo, a.s. in Ostravská dopravní společnost, increased from 20% to 50%.
- In 2017, there was an increase in the share capital of CD Cargo Slovakia.

In 2017, the following companies were renamed:

- CD Generalvertretung GmbH to CD Cargo Germany GmbH
- Koleje Czeskie Sp. z o.o. to CD Cargo Poland Sp. z o.o.
- Generálne zastúpenie ČD Cargo, s.r.o. to CD Cargo Slovakia, s.r.o.
- CD – Generalvertretung Wien GmbH to CD Cargo Austria GmbH

**„ČD Cargo, a.s. has no organisational branches abroad.“**

# 09 Financial Situation of ČD Cargo, a.s. (according to Czech Accounting Standards)

Information presented in this chapter of the annual report is based on the financial information prepared in accordance with Czech Accounting Standards referred to in chapter "Summary of significant accounting policies according to Czech Accounting Standards". However, the separate financial statements prepared in accordance with IFRS as adopted by the EU are the statutory financial statements.

## Investment activities

| Investment activities of ČD Cargo, a.s. (CZK million) | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Acquisition of freight wagons | 313 | - | - | 19 | 200 | 10 | - | - |
| Renovation and modernisation of freight wagons | 23 | 20 | 171 | 311 | 52 | 241 | 214 | 584 |
| Acquisition of locomotives | 104******) | 621 | 233 | - | - | - | - | - |
| Renovation and modernisation of locomotives | 83 | 35 | 33 | 42 | 389 | 1,448**) | 63 | 390 |
| Machinery investments | 8 | 26 | 1 | 11 | 2 | 100 | 23 | 11 |
| Construction investments | 51 | 23*****) | 61 | 48 | 45*) | 108 | 53 | 104 |
| Other investments | 199 | 119 | 100****) | 168***) | 143*) | 109*) | 72 | 109 |
| Component accounting for inspection repairs of railway vehicles | 599 | 551 | 575 | 414 | 330 | 558 | 748 | 507 |
| **Total investments** | **1,379** | **1,395** | **1,174** | **1,014** | **1,161** | **2,574** | **1,173** | **1,705** |
| Prepayments for investments | 30 | - | - | - | - | 105 | 239 | 239 |

*) Investments of CZK 58 million and CZK 59 million in 2012 and 2013, respectively, were acquired from investment subsidies.

**) Including the modernisation of locomotives from series 163 to 363.5

***) In addition to this amount, the Company made in 2014 investments of CZK 23.92 million from subsidies. Other investments including these assets would amount to CZK 192 million.

****) Investments amounting to CZK 57.09 million were in 2015 acquired from investment subsidies

*****) Investments amounting to CZK 2.93 million were in 2016 acquired from investment subsidies

******) The acquisition of the locomotive was financed in the form of leaseback

In 2015, in addition to the above, the Company, under a contract for settlement with its subsidiary, exchanged part of the freight vehicles sold in 2013 with its subsidiary Koleje Czeskie

## Balance sheet

| BALANCE SHEET in full extent as at 31 December 2017 (in thousand Czech crowns) | | 31 December 2017 | | | 31 December 2016 |
|---|---|---|---|---|---|
| | | Gross | Adjustment | Net | Net |
| | **TOTAL ASSETS** | **35,746,781** | **20,608,939** | **15,137,842** | **15,090,104** |
| **A.** | **Receivables for subscribed capital** | | | | |
| **B.** | **Fixed assets** | **32,419,794** | **20,444,922** | **11,974,872** | **11,684,246** |
| **B.I.** | **Intangible fixed assets** | **985,878** | **540,970** | **444,908** | **367,554** |
| B.I.1. | Research & development | | | | |
| B.I.2. | Valuable rights | 906,377 | 540,970 | 365,407 | 346,458 |
| B.I.2.1. | Software | 778,931 | 426,680 | 352,251 | 329,695 |
| B.I.2.2. | Other valuable rights | 127,446 | 114,290 | 13,156 | 16,763 |
| B.I.3. | Goodwill | | | | |
| B.I.4. | Other intangible fixed assets | | | | |
| **B.I.5.** | **Advances paid for intangible fixed assets and intangible fixed assets in course of construction** | **79,501** | | **79,501** | **21,096** |
| B.I.5.1. | Advances paid for intangible fixed assets | | | | |
| B.I.5.2. | Intangible fixed assets in course of construction | 79,501 | | 79,501 | 21,096 |
| **B.II.** | **Tangible fixed assets** | **30,615,518** | **19,903,952** | **10,711,566** | **10,588,730** |
| **B.II.1.** | **Land and constructions** | **1,684,264** | **785,360** | **898,904** | **868,781** |
| B.II.1.1. | Land | 106,535 | 121 | 106,414 | 85,698 |
| B.II.1.2. | Construction | 1,577,729 | 785,239 | 792,490 | 783,083 |
| B.II.2. | Equipment | 23,101,120 | 14,740,353 | 8,360,767 | 8,209,433 |
| B.II.3. | Adjustment to acquired fixed assets | 5,611,411 | 4,372,911 | 1,238,500 | 1,414,952 |
| B.II.4. | Other tangible fixed assets | 59 | 6 | 53 | 55 |
| B.II.4.1. | Cultivated areas | | | | |
| B.II.4.2. | Full-grown livestock | | | | |
| B.II.4.3. | Other tangible fixed assets | 59 | 6 | 53 | 55 |
| **B.II.5.** | **Advances paid for tangible fixed assets and tangible fixed assets in course in construction** | **218,664** | **5,322** | **213,342** | **95,509** |
| B.II.5.1. | Advances paid for tangible fixed assets | 30,438 | | 30,438 | 22 |
| B.II.5.2. | Tangible fixed assets in course in construction | 188,226 | 5,322 | 182,904 | 95,487 |
| B.III. | **Long-term investments** | **818,398** | | **818,398** | **727,962** |
| B.III.1. | Equity investments - controlled or controlling entity | 760,539 | | 760,539 | 688,051 |
| B.III.2. | Loans and borrowings - controlled or controlling entity | | | | |
| B.III.3. | Equity investments - associates | 57,722 | | 57,722 | 39,767 |

| BALANCE SHEET in full extent as at 31 December 2017 (in thousand Czech crowns) | | 31 December 2017 | | | 31 December 2016 |
|---|---|---|---|---|---|
| | | Gross | Adjustment | Net | Net |
| | **TOTAL ASSETS** | **35,746,781** | **20,608,939** | **15,137,842** | **15,090,104** |
| B.III.4. | Loans and borrowings - associates | | | | |
| B.III.5. | Other securities and investments | | | | |
| B.III.6. | Other loans and borrowings | | | | |
| **B.III.7.** | **Other long-term investments** | **137** | | **137** | **144** |
| B.III.7.1. | Other financial investments | 137 | | 137 | 144 |
| B.III.7.2. | Advances paid for long-term investments | | | | |
| **C.** | **Current assets** | **2,989,043** | **164,017** | **2,825,026** | **3,018,537** |
| **C.I.** | **Inventories** | **221,866** | **497** | **221,369** | **178,505** |
| C.I.1. | Raw materials | 221,866 | 497 | 221,369 | 178,505 |
| C.I.2. | Work in progress and semi-finished products | | | | |
| C.I.3. | Finished goods and goods for resale | | | | |
| C.I.3.1. | Finished goods | | | | |
| C.I.3.2. | Goods for resale | | | | |
| C.I.4. | Immature livestock | | | | |
| C.I.5. | Advances paid for inventory | | | | |
| **C.II.** | **Receivables** | **2,025,556** | **163,520** | **1,862,036** | **1,784,964** |
| **C.II.1.** | **Long-term receivables** | **22,400** | | **22,400** | **12,684** |
| C.II.1.1. | Trade receivables | | | | |
| C.II.1.2. | Receivables - subsidiaries / controlling parties | | | | |
| C.II.1.3. | Receivables - associates | | | | |
| C.II.1.4. | Deferred tax asset | | | | |
| **C.II.1.5.** | **Receivables - other** | **22,400** | | **22,400** | **12,684** |
| C.II.1.5.1. | Receivables from shareholders | | | | |
| C.II.1.5.2. | Long-term advances paid | 909 | | 909 | 578 |
| C.II.1.5.3. | Estimated receivables | | | | |
| C.II.1.5.4. | Other receivables | 21,491 | | 21,491 | 12,106 |
| **C.II.2.** | **Short-term receivables** | **2,003,156** | **163,520** | **1,839,636** | **1,772,280** |
| C.II.2.1. | Trade receivables | 1,531,383 | 155,096 | 1,376,287 | 1,365,749 |
| C.II.2.2. | Receivables - subsidiaries / controlling parties | 1,751 | | 1,751 | 2,562 |
| C.II.2.3. | Receivables - associates | | | | |
| **C.II.2.4.** | **Receivables - other** | **470,022** | **8,424** | **461,598** | **403,969** |
| C.II.2.4.1. | Receivables from shareholders | | | | |
| C.II.2.4.2. | Receivables for social security and health insurance | | | | |
| C.II.2.4.3. | Taxes - receivables from the state | 38,431 | | 38,431 | 47,936 |

| BALANCE SHEET in full extent as at 31 December 2017 (in thousand Czech crowns) | | 31 December 2017 | | | 31 December 2016 |
|---|---|---|---|---|---|
| | | Gross | Adjustment | Net | Net |
| | **TOTAL ASSETS** | **35,746,781** | **20,608,939** | **15,137,842** | **15,090,104** |
| C.II.2.4.4. | Short-term advances paid | 125,770 | | 125,770 | 127,912 |
| C.II.2.4.5. | Estimated receivables | 210,259 | | 210,259 | 188,485 |
| C.II.2.4.6. | Other receivables | 95,562 | 8,424 | 87,138 | 39,636 |
| **C.III.** | **Financial assets** | | | | |
| C.III.1. | Equity investments - controlled or controlling entity | | | | |
| C.III.2. | Other financial assets | | | | |
| **C.IV.** | **Cash and cash equivalents** | **741,621** | | **741,621** | **1,055,068** |
| C.IV.1. | Cash in hand | 2,399 | | 2,399 | 2,179 |
| C.IV.2. | Cash at bank | 739,222 | | 739,222 | 1,052,889 |
| **D.** | **Prepayments and accrued income** | **337,944** | | **337,944** | **387,321** |
| D.1. | Prepaid expenses | 336,695 | | 336,695 | 387,107 |
| D.2. | Complex prepaid expenses | | | | |
| D.3. | Accrued income | 1,249 | | 1,249 | 214 |

| | | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| | **TOTAL LIABILITIES AND EQUITY** | **15,137,842** | **15,090,104** |
| **A.** | **Equity** | **8,050,908** | **7,604,812** |
| **A.I.** | **Share capital** | **8,494,000** | **8,494,000** |
| A.I.1. | Share capital | 8,494,000 | 8,494,000 |
| A.I.2. | Own shares held (-) | | |
| A.I.3. | Changes in share capital not yet registered | | |
| **A.II.** | **Share premium and capital contributions** | **580,138** | **512,808** |
| A.II.1. | Share premium | 138,540 | 138,540 |
| **A.II.2.** | **Capital contributions** | **441,598** | **374,268** |
| A.II.2.1. | Other capital contributions | | |
| A.II.2.2. | Assets and liabilities revaluation (+/-) | 441,598 | 374,268 |
| A.II.2.3. | Merger/demerger revaluation reserve (+/-) | | |
| A.II.2.4. | Differences from mergers and demergers (+/-) | | |
| A.II.2.5. | Valuation adjustments from mergers and demergers (+/-) | | |
| **A.III.** | **Funds from profit** | **262,117** | **218,629** |
| A.III.1. | Other reserves | 155,630 | 115,861 |
| A.III.2. | Statutory and other reserves | 106,487 | 102,768 |
| **A.IV.** | **Retained earnings (+) /Accumulated losses (-)** | **(1,690,394)** | **(1,834,766)** |
| A.IV.1. | Retained earnings | | |
| A.IV.2. | Accumulated losses (-) | (1,690,394) | (1,834,766) |
| A.IV.3. | Restatements of retained earnings (+) /Accumulated losses (-) | | |
| **A.V.** | **Profit / loss for the current period (+/- )** | **405,047** | **214,141** |
| A.VI. | Decided on advance for profit-sharing payment (-) | | |
| **B.+C.** | **Liabilities** | **7,075,882** | **7,456,057** |
| **B.** | **Provisions** | **755,386** | **883,727** |
| B.I. | Provisions for pensions and similar liabilities | | |
| B.II. | Income tax provision | | |
| B.III. | Provisions as per special legislation | | |
| B.IV. | Other provisions | 755,386 | 883,727 |
| **C.** | **Liabilities** | **6,320,496** | **6,572,330** |
| **C.I.** | **Long-term liabilities** | **3,782,211** | **3,948,551** |
| **C.I.1.** | **Debentures and bonds issued** | **2,000,000** | **2,000,000** |
| C.I.1.1. | Convertible bonds | | |
| C.I.1.2. | Other bonds | 2,000,000 | 2,000,000 |
| C.I.2. | Liabilities to lending institutions | | |
| C.I.3. | Long-term advances received | | |

| | | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| | **TOTAL LIABILITIES AND EQUITY** | **15,137,842** | **15,090,104** |
| C.I.4. | Trade payables | | |
| C.I.5. | Long-term notes payable | | |
| C.I.6. | Liabilities - subsidiaries / controlling parties | 352,254 | 449,770 |
| C.I.7. | Liabilities - associates | | |
| C.I.8. | Deferred tax liability | 1,009,373 | 893,331 |
| **C.I.9.** | **Liabilities - other** | **420,584** | **605,450** |
| C.I.9.1. | Liabilities to shareholders | | |
| C.I.9.2. | Estimated payables | | |
| C.I.9.3. | Other payables | 420,584 | 605,450 |
| **C.II.** | **Short-term liabilities** | **2,538,285** | **2,623,779** |
| C.II.1. | Debentures and bonds issued | | |
| C.II.1.1. | Convertible bonds | | |
| C.II.1.2. | Other bonds | | |
| C.II.2. | Liabilities to lending institutions | | |
| C.II.3. | Short-term advances received | 996 | 1,887 |
| C.II.4. | Trade payables | 1,419,780 | 1,363,361 |
| C.II.5. | Current notes payable | | |
| C.II.6. | Liabilities - subsidiaries / controlling parties | 72,999 | 77,264 |
| C.II.7. | Liabilities - associates | | |
| **C.II.8.** | **Liabilities - other** | **1,044,510** | **1,181,267** |
| C.II.8.1. | Liabilities to shareholders | | |
| C.II.8.2. | Other short-term borrowings | | |
| C.II.8.3. | Liabilities to employees | 214,457 | 210,089 |
| C.II.8.4. | Liabilities for social security and health insurance | 117,052 | 114,922 |
| C.II.8.5. | Taxes and state subsidies payable | 39,361 | 69,385 |
| C.II.8.6. | Estimated payables | 455,080 | 502,357 |
| C.II.8.7. | Other payables | 218,560 | 284,514 |
| **D.** | **Accruals** | **11,052** | **29,235** |
| D.1. | Accrued expenses | 11,052 | 29,235 |
| D.2. | Deferred income | | |

In the period from 31 December 2016 to 31 December 2017, the value of the Company's total assets and liabilities increased by CZK 47.7 million. The value of fixed assets increased by CZK 290.6 million and amounted to CZK 11,974.9 million, i.e. 79.1% of the total assets. The current assets, which include inventory, receivables and current financial assets, decreased by CZK 193.5 million to CZK 2,825 million, i.e. 18.7% of the total assets. Deferred expenses and accrued income decreased by CZK 49.4 million to CZK 337.9 million and account for 2.2% of the total assets.

The value of the Company's equity in the reporting period increased by CZK 446.1 million to CZK 8,050.9 million, i.e. 53.2% of its total liabilities. External funding decreased by CZK 380.2 million to CZK 7,075.9 million in the reporting period, which represents 46.7% of the total liabilities. Accrued expenses and deferred income decreased by CZK 18.2 million to CZK 11.1 million and represent 0.1 % of the total liabilities.

## Profit and Loss Account

| As at 31 December 2017 (in thousand Czech crowns) | | Year ended 31 December 2017 | Year ended 31 December 2016 |
|---|---|---|---|
| I. | Sales of products and services | 11,539,767 | 11,403,862 |
| II. | Sales of goods | | |
| A. | Cost of sales | 6,593,443 | 6,456,401 |
| A.1. | Cost of goods sold | | |
| A.2. | Raw materials and consumables used | 1,782,464 | 1,740,214 |
| A.3. | Services | 4,810,979 | 4,716,187 |
| B. | Changes in inventories of finished goods and work in progress (+/-) | | |
| C. | Own work capitalised (-) | (261,760) | (220,761) |
| D. | Staff costs | 4,009,235 | 3,846,805 |
| D.1. | Wages and salaries | 2,881,759 | 2,760,490 |
| D.2. | Social security, health insurance and other costs | 1,127,476 | 1,086,315 |
| D.2.1. | Social security and health insurance costs | 968,780 | 924,816 |
| D.2.2. | Other costs | 158,696 | 161,499 |
| E. | Valuation adjustments in operating area | 1,070,010 | 1,046,042 |
| E.1. | Valuation adjustments to non-current intangible and tangible assets | 1,084,337 | 1,111,142 |
| E.1.1. | Valuation adjustments to non-current intangible and tangible assets - permanent | 1,118,016 | 1,024,969 |
| E.1.2. | Valuation adjustments to non-current intangible and tangible assets - temporary | (33,680) | 86,173 |
| E.2. | Valuation adjustments to inventory | (3,336) | (31) |
| E.3. | Valuation adjustments to receivables | (10,991) | (65,069) |
| III. | Other operating income | 469,433 | 262,771 |
| III.1. | Revenue from disposal of non-current assets | 127,077 | 3,557 |
| III.2. | Revenue from disposal of material | 172,926 | 118,142 |
| III.3. | Other operating income | 169,430 | 141,072 |
| F. | Other operating expenses | 200,758 | 152,011 |
| F.1. | Carrying value of non-current assets sold | 103,769 | 659 |
| F.2. | Carrying value of material sold | 30,300 | 23,985 |

| As at 31 December 2017 (in thousand Czech crowns) | | Year ended 31 December 2017 | Year ended 31 December 2016 |
|---|---|---|---|
| F.3. | Taxes and fees | 7,900 | 6,816 |
| F.4. | Provisions in operating area and complex pre-paid expenses | (128,315) | (84,740) |
| F.5. | Other operating expenses | 187,104 | 205,291 |
| * | **Operating result (+/-)** | **397,514** | **386,135** |
| IV. | Income from non-current financial assets - equity investments | 143,974 | 40,435 |
| IV.1. | Income from equity investments - controlled or controlling entity | 138,974 | 30,435 |
| IV.2. | Other income from equity investments | 5,000 | 10,000 |
| G. | Expenses expended on sold equity investments | | |
| V. | Income from other non-current financial assets | | |
| V.1. | Income from other non-current financial assets - controlled or controlling entity | | |
| V.2. | Other income from other non-current financial assets | | |
| H. | Expenses from other non-current financial assets | | |
| VI. | Interest income and similar income | 113 | 2,733 |
| VI.1. | Interest income and similar income - controlled or controlling entity | | 1,938 |
| VI.2. | Other interest income and similar income | 113 | 795 |
| I. | Adjustments to provisions in financial area | | |
| J. | Interest expense and similar expense | 31,446 | 56,508 |
| J.1. | Interest expense and similar expense - controlled or controlling entity | 3,618 | 876 |
| J.2. | Other interest expense and similar expense | 27,828 | 55,632 |
| VII. | Other financial income | 207,747 | 72,215 |
| K. | Other financial expenses | 204,745 | 117,264 |
| * | **Financial result (+/-)** | **115,643** | **(58,389)** |
| ** | **Net profit before taxation (+/-)** | **513,157** | **327,746** |
| L. | Income tax | 108,110 | 113,605 |
| L.1. | Income tax - due | 5,511 | 5,398 |
| L.2. | Income tax - deferred (+/-) | 102,599 | 108,207 |
| ** | **Profit after tax (+/-)** | **405,047** | **214,141** |
| M. | Transfer of profit share to equity holders (+/-) | | |
| *** | **Net profit for the financial period (+/-)** | **405,047** | **214,141** |
| * | Net turnover for period | 12,361,034 | 11,782,016 |

The Company's net profit before taxation for 2017 in the amount of CZK 513.2 million was achieved with the aggregate revenues CZK 12,361 million and the total costs (excluding income tax) of CZK 11,847.9 million, including accounting amortisation and depreciation charges of CZK 1,070 million. The value of EBITDA (earnings before taxes, interest, depreciation and amortisation) amounted to CZK 1,614.6 million.

## Funding

In 2017, the Company's investment and operational activities are financed via a combination of the Company's own internal cash flow and external funding, which comprises short-term bank loans, supplier loans, leases and bonds.

### Operating bank loans

Financing the operating activities ČD Cargo, a.s. has maximum credit limits for overdraft loans - up to CZK 1.2 billion, provided by four banks. Furthermore, ČD Cargo, a.s., has been additionally included in the cash-pooling of ČD, a.s. As part of the cash-pooling, the Company can use funds of up to CZK 0.6 billion and there is also an additional contractual limit of CZK 0.4 billion. As at 31 December 2017, no funds have been drawn from the above credit limits.

### Promissory Notes Programme

The Promissory Notes Programme was approved in the amount of CZK 1.5 billion. The Company's Supervisory Board must be informed about any intention to draw more than CZK 1 billion in advance. The Promissory Notes Programme was not drawn as of 2017; however, the promissory notes facility is kept as a reserve for short-term financing independent of bank sources.

### Leases

In 2017, a new lease agreement was concluded with SG Equipment Finance Czech Republic, s.r.o. to finance a new Siemens Vectron locomotive.

### Bonds

This funding source significantly increases the financial stability of the Company's cash flow due to its long-term nature. No new bond issue was made in 2017. In total, as at 31 December 2017, ČD Cargo, a.s., issued bonds amounted to CZK 2 billion.

### Loans

In 2016, ČD Cargo, a.s., has concluded a borrowing contract with its parent company ČD, a.s., for an amount of EUR 19,975 thousand, with a repayment term of up to seven years. The borrowing was taken for the purpose of financing the purchase of five Siemens Vectron locomotives.

## Risk Management

ČD Cargo, a.s., monitors and assesses all material business risks, specifically business, operating, financial and compliance risks within the ČD Cargo, a.s., integrated risk management system.

The activities of the organisational units in the Company within the risk management system are governed by the ČD Group Manual for risk management, which determines specific procedures for the identification, analysis, measurement, strategy and processes for dealing with, monitoring, reporting and communicating risks.

The standardisation of procedures is supported by "eRisk" software risk management throughout the entire ČD Group. The introduced single method of risk management created preconditions for further developments and increases in the quality of the monitoring, assessing and reporting of all significant risks.

The principal objective of the implemented system for active risk management is to achieve a maximum reduction in the negative impact of individual risks on the results of the Company, i.e. minimise the impacts of unused opportunities for generating income and reduce the negative impacts of costs. As part of the active risk management, the Company introduced the ongoing monitoring and assessment of compliance with approved risk limits and the overall risk appetite of the Company in 2017.

The deliverables from the risk monitoring systems are discussed on a regular basis by the Risk Management Committee and subsequently delivered to the Company's other bodies.

### Insurance of Operational Risks

The Company hedges a range of operational risks via insurance coverage. The major risks identified include a transporting company's liability for damage caused to other parties in relation to railway transport operations on nationwide and regional tracks, the liability for damage by the owners of wagons, and insurance of selected traction vehicles.

### Business Risk

In connection with the development of the transport market, in 2017, ČD Cargo, a.s., faced strong downward pressure on prices both by private rail carriers (block trains) and by road hauliers (individual wagon loads). The pricing policy in the area of transporting individual wagon loads was aimed at achieving maximum efficiency in this activity and thus maintaining its competitiveness against road transport and also appealing to new customers with an attractive offer. Business negotiations have been conducted to stabilise freight volumes and revenues through multi-year contracts and to offer customers modern transport technologies. Another means of eliminating business risks was the offer of comprehensive services, including the provision of goods transport abroad - including through subsidiaries of ČD Cargo, a.s.

### Financial Risks

The goals and methods of the Company's financial risk management are based on the Financial Risk Management Strategy of ČD Cargo, a.s. This defines the goals for individual risks and the permitted derivative operations used to hedge against the risks.

### Liquidity Risk

The Company's liquidity risk is managed so as to ensure that the volume of funding necessary to settle the financial liabilities is sufficient and diversified. On a day-to-day basis, liquidity development, the balance of available funds, and the Company's cash flow are assessed. The Company is actively engaged in ensuring planned external financial resources.

### Credit Risk

To provide collateral to support risky receivables, standard tools are used in various combinations. There is a system of the continuous monitoring of receivables by individual companies, length of delay and other facts in ČD Cargo, a.s. The development of past-due receivables is dealt with by individual responsible employees and the Receivables Committee at the top level.

### Currency Risk

Given that a significant part of the Company's income is realised in Euro, the Company pays constant and systematic attention to currency risk management. To mitigate negative impacts on the Company's financial performance, a wide range of tools is used, which are applied on a short-term as well as medium-term basis based on their underlying characteristics.

The goal of currency risk management is to hedge so that an open position is not higher than the Company's approved risk appetite. To achieve the required status, methods and tools to manage currency risk arising from the Financial Risk Management Strategy are approved.

During 2017, the Company mitigated the risk of possible domestic currency appreciation through the use of continuous hedging of the exchange rate of the Czech Crown against the Euro. With respect to the expected collections in Euro for the performance delivered and the internal price calculation, the hedging of the CZK/EUR exchange rate will be subsequently agreed upon on an ongoing basis in line with the Financial Risk Management Strategy as approved by the Company's Board of Directors and in view of the market situation.

### Commodity Risk – Price of Railway Diesel

Railway diesel used by the Company represents a significant cost component. During 2017, the Company used hedging of the price of diesel, which reduced the Company's commodity risk.

The commodity risk management's goal is to hedge so that an open position is not higher than the Company's approved risk appetite. To achieve the required status, the methods and tools for commodity risk management arising from the Financial Risk Management Strategy are approved.

### Interest-Rate Risk

Changes in floating interest rates may be sources of interest-rate risk. The goal of interest-rate risk management is to hedge so that an open position is not higher than the Company's approved risk appetite. The maximum share of funding using a floating interest rate is specified at 50% of the total volume under the Financial Risk Management Strategy.

Through various hedging instruments, interest rates are hedged to eliminate any possible risk of a floating rate increase in compliance with the Financial Risk Management Strategy.

# 10 Expected Development, Objectives and Intended Activities

A company without visions and goals cannot be viewed as a promising and reputable partner by customers or suppliers. However, ČD Cargo, a.s., is a company that has its priorities fixed, and what is important, is gradually satisfying them.

Our primary objective is to stabilise our position on the domestic transport market and to gradually increase the share of international transport operations. We want to remain the first choice carrier to offer high-quality and affordable services. Thanks to our convenient location in the heart of Europe, we want to gradually expand our rail product network to offer our customers a fast rail link across Europe. With our own licenses or through subsidiaries, but also thanks to an appropriate fleet of locomotives and wagons, we are building a strong ČD Cargo, a.s., brand on the European transport market.

We will also expand the area of additional services such as implementation of the first / last mile by car transport. Through this offer, we want to address a wide range of potential customers hitherto using only car transport. We have to make clear that individual wagon loads represent a suitable alternative for road transport by offering favourable terms and quality of services. Transport by rail means inexpensive, quality and environmentally friendly transport. We will motivate new customers by awarding seals of socially responsible company. In the future, we also plan to support the offer of individual wagon deliveries by advertising campaigns.

A very important goal for us is the development of combined transport, which represents significant potential, particularly in continental road transport of semitrailers and swap bodies. Only through the use of synergies between rail transport (transport of large volumes of goods over long distances) and road transport (first / last mile flexibility), it is also possible to gradually achieve the objectives of the EU White Paper on moving goods from road to railway by using intermodal transport units. That is why ČD Cargo, a.s., is expanding its fleet by combined transport vehicles. Our competitive advantage is also in having a shareholding in two combined transport terminals in Brno and Lovosice.

An important prerequisite of fulfilling the Company's vision is increasing the efficiency of all activities across the entire Company as well as by adjusting the capacities (particulary of the vehicle fleet) to the current requirements of the increasingly globalised market. ČD Cargo, a.s., is now focusing on ensuring a board renewal of the fleet. The renewal started in 2015 and is gradually becoming more intense.

The economic goals of ČD Cargo, a.s., include sustaining a stable level of cash flow based, on the one hand, on securing the planned level of sales from internal transport and, on the other hand, on the effective drawing of expense items while ensuring sufficient liquidity of the Company in the medium-term and long-term horizons. The Company's long-term goals include stabilising the profitability of principal activities and other business activities.

We strive to equalise conditions for rail and road infrastructure segments, to address national and European legislative issues, insufficient capacity for freight trains, other technical and operational issues, and last but not least to help solve the problems of railway power engineering, by membership in professional interest associations, especially in Rail Freight Forwarders' Association of the Czech Republic (ŽESNAD). An important goal for us is the satisfaction of our employees. We want to be a coveted employer for graduates of (not only traffic-orientated) secondary schools and universities.

# 11 Share Capital

## The Amount of the Issued Share Capital

As of the balance sheet date of 31 December 2017, the share capital of the Company amounts to CZK 8,494,000 thousand, which was fully paid.

## Ownership Structure

**Sole Shareholder:**
České dráhy, a.s.
Prague 1, nábřeží L. Svobody 1222, 110 15
Corporate ID: 709 94 226

# 12 Report of the Supervisory Board and Audit Committee

## Report of the Supervisory Board of ČD Cargo, a.s., on the performance of its remit for the year 2017 and the results of the supervisory activities

During 2017, the Supervisory Board of ČD Cargo, a.s., held eleven meetings, in which it always had a quorum.

The Company's Supervisory Board executed its powers and fulfilled its tasks in compliance with the legal regulations and the Company's Articles of Association. The Supervisory Board monitored the execution of the function of the Board of Directors in carrying out the Company's business activities. The Board of Directors of ČD Cargo, a.s., provided the Supervisory Board with the necessary information and supporting documentation for its monitoring activities. The Chairman of the Board of Directors, together with other members of the Board of Directors, regularly participated in all meetings and continuously informed the Supervisory Board of the Company's business activities and results of operations and of the results of operations of the subsidiaries.

The Supervisory Board also discussed and evaluated the request of the Company's Board of Directors for consent with specified legal acts.

The Supervisory Board states that it had all conditions in place to duly exercise its activities. During the performance of its supervisory activities, the Supervisory Board identified no breaches or failures to meet its obligations on the part of ČD Cargo a.s., or its individual members of the Board of Directors as stipulated by the legal regulations, the ČD Cargo a.s., Articles of Association, the Company's internal guidelines, and the sole shareholder's instructions acting in the capacity of the General Meeting or on the Supervisory Board's own initiative addressed to the Company's Board of Directors.

In Prague, on 21 March 2018

**Pavel Krtek**
Chairman
of the Supervisory Board

## Report of the Audit Committee of ČD Cargo, a.s.

The Company's Audit Committee executed its duties and performed all tasks in accordance with legal regulations, the Company's Articles of Association, and the effective contractual arrangements. It systematically monitored the preparation of the Company's separate and consolidated financial statements, the audit and interim audit thereof, and related documents for the periods from 1 January 2017 to 30 September 2017 and 1 January 2017 to 31 December 2017.

The Company's Audit Committee was informed by the Company's representatives, duly and on time, of the relevant information and documents related to the individual steps of preparing the Company's separate and consolidated financial statements under IFRS as adopted by the EU and the Report on Related Party Transactions for the year 2017, and of preparing the Annual Report of ČD Cargo, a.s., for the year 2017.

The Audit Committee also assessed the impartiality and independence of the Company's auditor, PricewaterhouseCoopers Audit, s.r.o., discussed and communicated selected information, and issued statements and communications in accordance with the legislation. During the preparation of the separate and consolidated financial statements and the mandatory audit thereof, the preparation of the Report on Related Party Transactions and related activities, the Audit Committee, acting in its capacity, did not identify any errors or breaches of the legal regulations or the Company's Articles of Association by either the Company or the auditor.

With regard to the facts stated above and after discussing the draft auditor's report on the separate and consolidated financial statements and the contents of the Report on Related Party Transactions, the Audit Committee recommended that the Company's bodies discuss the separate financial statements along with the Auditor's Report and the Report on Related Party Transactions along with the Auditor's Report for the year 2017 and that the sole shareholder, acting in the capacity as the General Meeting, approve the documents. It also recommended that the Company's bodies discuss the consolidated financial statements of ČD Cargo, a.s., under IFRS as adopted by the EU for the year from 1 January 2017 to 31 December 2017, and that the sole shareholder, acting in the capacity as the General Meeting, approve the documents.

In addition, the Audit Committee monitored the integrity of the financial information provided by the Company and the internal control systems and risk management in the Company. It also discussed the report on the internal audit for the year 2017.

With regard to the facts referred to above, the Company's Audit Committee states that it complied with the obligations ensuing from legal regulations, in particular the Act on Auditors 93/2009 Coll. dated 26 March 2009 and the Company's Articles of Association, as amended.

In Prague, on 3 April 2018

**Mgr. Oldřich Vojíř**
Chairman
of the Audit Committee

## Report of the Audit Committee of ČD Cargo, a.s., on the Report on Related Party Transactions for the year 2017

The Audit Committee of ČD Cargo, a.s., in line with the relevant provisions of Act 93/2009 Coll., on Auditors, as amended, and the Articles of Association of ČD Cargo, a.s., as amended, continuously monitored the proceedings taken in the preparation of the Report on Related Party Transactions for the year 2017, from the preparatory phase.

The Audit Committee was made aware by the representatives of ČD Cargo, a.s., duly and on time, of the relevant information and materials related to individual steps taken in preparing the Related Party Transaction Report for the year 2017.

The Audit Committee also assessed the impartiality and independence of the Company's auditor, PricewaterhouseCoopers Audit, s.r.o., discussed and communicated selected accounting information, and issued statements and communications in accordance with applicable legislation. During the preparation of the Related Party Transaction Report for the year 2017, the obligatory audit thereof and the relating activities, the Audit Committee, acting in its capacity, identified no errors or breaches of the legal regulations or the Company's Articles of Association by either the Company or the auditor.

With regard to the facts outlined above and with regard to the draft Auditor's Opinion, the Audit Committee recommends that the Related Party Transaction Report of ČD Cargo, a.s., is discussed by the bodies of ČD Cargo, a.s., and approved by the sole shareholder acting in the capacity of the General Meeting.

Based on the information disclosed above, the Audit Committee of ČD Cargo, a.s., states that it fulfilled the obligations arising from legal regulations, principally from Act 93/2009 Coll., on Auditors of 26 March 2009, as amended, the Articles of Association of ČD Cargo, a.s., as amended, and that it took into consideration all information it has received related to the Related Party Transaction Report for the year 2017.

**Oldřich Vojíř**
Chairman
of the Audit Committee

## Report of the Audit Committee of ČD Cargo, a.s., on the Separate Financial Statements of ČD Cargo, a.s., prepared under IFRS for the year from 1 January 2017 to 31 December 2017, including the Auditor's Opinion

The Audit Committee of ČD Cargo, a.s., in line with the relevant provisions of Act 93/2009 Coll., on Auditors, as amended, and the Articles of Association of ČD Cargo, a.s., as amended, continuously monitored the proceedings taken in the preparation of the separate financial statements of ČD Cargo, a.s., under IFRS, the procedure of the audit of the financial statements and all related documents for the year from 1 January 2017 to 31 December 2017, from the preparation phase of the whole process.

The Audit Committee was made aware by the representatives of ČD Cargo, a.s., duly and on time, of the relevant information and materials related to individual steps taken in the preparation of the separate financial statements of ČD Cargo, a.s., under IFRS, for the year from 1 January 2017 to 31 December 2017.

The Audit Committee also assessed the impartiality and independence of the Company's auditor, PricewaterhouseCoopers Audit, s.r.o., discussed and communicated selected accounting information, and issued statements and communications in accordance with applicable legislation. During the preparation of the separate financial statements under IFRS for the year from 1 January 2017 to 31 December 2017, the obligatory audit thereof and the relating activities, the Audit Committee, acting in its capacity, identified no errors or breaches of the legal regulations or the Company's Articles of Association by either the Company or the auditor.

With regard to the facts outlined above and with regard to the Auditor's Opinion on the separate financial statements prepared under IFRS, the Audit Committee recommends that the separate financial statements of ČD Cargo, a.s., prepared under IFRS for the year from 1 January 2017 to 31 December 2017 and the Auditor's Opinion be discussed by the bodies of ČD Cargo, a.s., and approved by the sole shareholder acting in the capacity of the General Meeting.

Based on the information disclosed above, the Audit Committee of ČD Cargo, a.s., states that it fulfilled the obligations arising from legal regulations, principally from Act 93/2009 Coll., on Auditors of 26 March 2009, as amended, the Articles of Association of ČD Cargo, a.s., as amended, and that it took into consideration all information it has received related to the separate financial statements of ČD Cargo, a.s., under IFRS, for the year from 1 January 2017 to 31 December 2017, and the Auditor's Opinion.

**Oldřich Vojíř**
Chairman
of the Audit Committee

## Report of the Audit Committee of ČD Cargo, a.s., on the Consolidated Financial Statements of ČD Cargo, a.s., prepared under IFRS for the year from 1 January 2017 to 31 December 2017, including the Auditor's Opinion

The Audit Committee of ČD Cargo, a.s., in line with the relevant provisions of Act 93/2009 Coll., on Auditors, as amended, and the Articles of Association of ČD Cargo, a.s., as amended, continuously monitored the proceedings taken in the preparation of the consolidated financial statements of ČD Cargo, a.s., under IFRS, the procedure of the audit of the financial statements and all related documents for the year from 1 January 2017 to 31 December 2017, from the preparation phase of the whole process.

The Audit Committee was made aware by the representatives of ČD Cargo, a.s., duly and on time, of the relevant information and materials related to individual steps taken in preparing the consolidated financial statements of ČD Cargo, a.s., under IFRS, for the year from 1 January 2017 to 31 December 2017.

The Audit Committee also assessed the impartiality and independence of the Company's auditor, PricewaterhouseCoopers Audit, s.r.o., discussed and communicated selected accounting information, and issued statements and communications in accordance with applicable legislation. During the preparation of the consolidated financial statements under IFRS for the year from 1 January 2017 to 31 December 2017, the obligatory audit thereof and the relating activities, the Audit Committee, acting in its capacity, identified no errors or breaches of the legal regulations or the Company's Articles of Association by either the Company or the auditor.

With regard to the facts outlined above and with regard to the Auditor's Opinion on the consolidated financial statements prepared under IFRS, the Audit Committee recommends that the consolidated financial statements of ČD Cargo, a.s., prepared under IFRS for the year from 1 January 2017 to 31 December 2017 and the Auditor's Opinion be discussed by the bodies of ČD Cargo, a.s., and approved by the sole shareholder acting in the capacity of the General Meeting.

Based on the information disclosed above, the Audit Committee of ČD Cargo, a.s., states that it fulfilled the obligations arising from legal regulations, principally from Act 93/2009 Coll., on Auditors of 26 March 2009, as amended, the Articles of Association of ČD Cargo, a.s., as amended, and that it took into consideration all information it has received related to the consolidated financial statements of ČD Cargo, a.s., under IFRS, for the year from 1 January 2017 to 31 December 2017, and the Auditor's Opinion.

**Oldřich Vojíř**
Chairman
of the Audit Committee

# 13 Independent auditor's report

to the shareholder of ČD Cargo, 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 ČD Cargo, a.s., with its registered office at Jankovcova 1569/2c, Praha 7 - Holešovice ("the Company") and its subsidiaries (together "the Group") as at 31 December 2017, 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 accompanying separate financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2017, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union

We confirm that the audit opinion expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued today in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council ("the EU Regulation").

## What we have audited

The Group's consolidated financial statements comprise:

- The consolidated statement of financial position (balance sheet) as at 31 December 2017;
- The consolidated statement of profit or loss for the year then ended;
- The consolidated statement of comprehensive income for the year then ended;
- The consolidated statement of changes in equity for the year then ended;
- The consolidated statement of cash flows for the year then ended; 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 financial position (balance sheet) as at 31 December 2017;
- The statement of profit or loss for the year then ended;
- The statement of comprehensive income for the year then ended;
- The statement of changes in equity for the year then ended;
- The statement of cash flows for the year then ended; 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, 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.

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 non-audit services that are prohibited under Article 5 of the EU Regulation and fulfilled our other ethical responsibilities in accordance with these regulations.

## Our audit approach

### Overview

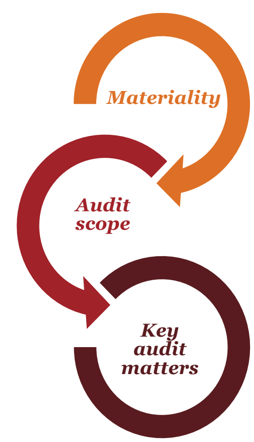
Overall materiality for the Group: CZK 108 million
Overall materiality for the Company: CZK 102 million)

We have identified three entities, that were subsequently selected for audit based on their size or related risk. For one additional entity, we have performed specified audit procedures over material balances and transactions.

As part of the audit procedures described above, we have co-operated with component auditors in Poland and Germany. All component auditors were members of the PwC network.

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

- Assessment of provision for onerous contracts
- Assessment of provision for restructuring



As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements (together "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 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 the 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 the financial statements as a whole.

| | |
|---|---|
| **Overall Group materiality** | CZK 108 million |
| **How we determined it** | 0.85% of total revenue |
| **Rationale for the materiality benchmark applied** | Materiality was determined based on total revenue from operations. As a primary benchmark for determining materiality, we considered profit before tax; however, due to its year-to-year volatility, we have decided to use revenue as a more stable measure. Furthermore, we also considered the method of measuring the performance of the Company, which is primarily focused on pre-tax profit, EBITDA and revenue. In order to take into account the impact of all these performance indicators, the basis for determining the materiality was set as 0.85% of total revenue. |
| **Overall materiality for the separate financial statements** | CZK 102 million |
| **How we determined it** | 0.85% of total revenue |
| **Rationale for the materiality benchmark applied** | Materiality was determined based on total revenue from operations. As a primary benchmark for determining materiality, we considered profit before tax; however, due to its year-to-year volatility, we have decided to use revenue as a more stable measure. Furthermore, we also considered the method of measuring the performance of the Company, which is primarily focused on pre-tax profit, EBITDA and revenue. In order to take into account the impact of all these performance indicators, the basis for determining the materiality was set as 0.85% of total revenue. |

## 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 the 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 |
|---|---|
| **Assessment of provision for onerous contracts**<br>The Company and the Group account for the material provision for onerous contracts, which arise from non-cancellable agreements. The Company and the Group calculate this provision based on discounted cash flows that are expected in relation to such contracts. Within the expected cash flows associated with the contracts, cash flows arising directly from related non-cancellable contracts, as well as other cash flows, such as related revenues or other associated costs, are taken into account. These cash flows are based on accounting records and they are adjusted by future expectations.<br>The calculation also takes into account the fact that some cash flows are made in foreign currencies (especially in EUR), and therefore emphasis is placed on the correct application of the exchange rates in the calculation as a whole.<br>The discount rates used in the calculation are determined based on an expert estimate of the Company's employees. This estimate is based on the Company's financing costs as well as on other factors that are relevant to the provision.<br>The calculation of the provision itself is then performed manually based on expected cash flows and discount rates for an irrevocable contract period.<br>For more information on this provision, see Note 16 of the consolidated financial statements and Note 16 of the standalone financial statements. | In connection with the onerous contracts provision, we performed the following procedures:<br>We checked the contracts, which are the basis for the provision calculation, in particular with regard to the possibilities of their cancelation. The relevant contracts are irrevocable for a given period and in all their parameters are appropriately taken into account in the provision calculation, in particular in terms of costs directly arising from the contracts.<br>In the context of related revenues and costs that do not flow directly from non-cancellable contracts, we performed a series of substantive tests in order to verify the completeness and accuracy of those revenues and costs, in particular as to the correctness of their assignment to the particular business case.<br>In connection with cash flows in foreign currencies, we checked whether the appropriate exchange rates were used in the calculation, in particular in connection with the appreciation of the domestic currency exchange rate during the last months of 2017. The CZK/EUR exchange rate plays a key role in the calculation. We have verified that the correct currency exchange rate was used in the calculation.<br>We verified the discount rates used in the model by tracing them to the supporting documentation submitted by the Company. This documentation contained a justification of the discount rates used that we consider appropriate in the given situation.<br>We also reviewed the consistency of the inputs used and the calculation methodology with the previous year, focusing on key inputs and their changes. We also performed a check on the mathematical accuracy of the manual calculation and assessed the retrospective accuracy of the provision calculation with respect to its use in the year ending 31 December 2017.<br>From the above procedures, we did not identify any significant findings, which could have an impact on the total amount of onerous contract provisions recognised as at 31 December 2017. |
| **Assessment of provision for restructuring**<br>The Company and the Group account for a provision for restructuring based on the long-term business plan.<br>As at 31 December 2016, this provision amounted to CZK 110 million and the Group's and Company's financial statements indicated that the provision would be fully utilised in 2017. However, in the year ending 31 December 2017, CZK 42 million of the provision was utilised, CZK 18 million released as unused and the remaining amount of CZK 50 million remained to be utilised in 2018.<br>The Company justified the transfer of the provision to the year 2018 by noting the increased business activity in 2017 as compared to the assumptions, and said that the restructuring plan is still valid and it was simply extended by one year. The completion of the restructuring plan is seen as necessary from the point of view of the Company.<br>The provision is calculated based on the internal estimate of the costs associated with the restructuring. In particular, it includes the number of positions and related payroll costs. The number of positions is determined based on the approved internal plan for 2018, and the related payroll costs are based on both the relevant statutory requirements and the conditions of the "Corporate Collective Agreement".<br>The provision calculation is manual and does not contain any significant variables other than those mentioned above.<br>For more information on this provision, see Note 27 of the consolidated financial statements. For more information on this provision, see Note 16 of the consolidated financial statements and Note 16 of the standalone financial statements. | In connection with the restructuring provision, we performed the following procedures:<br>We assessed whether the recognition criteria of a provision under IAS 37 are met, with regard to the specifics of restructuring provisions. In particular, we determined whether there was sufficient communication of the restructuring plan and specification of the positions in question.<br>We checked that the number of positions affected is in line with the official communications within the Company and in line with the 2018 plan.<br>Based on available data and using the detailed testing, we verified that the expected restructuring costs per individual positions correspond to the actual payroll costs, in terms of both gross wages and the number of monthly salaries that the Company pays on average to employees as severance. This number of monthly salaries is linked to the relevant statutory requirements and to the provisions of the "Corporate Collective Agreement".<br>We also focused on the accuracy and completeness of the disclosure information included in the notes to the standalone and consolidated financial statements.<br>We also reviewed the consistency of the inputs used and the calculation methodology with the previous year, focusing on key inputs and their changes. We also performed a check on the mathematical accuracy of the manual calculation and assessed the retrospective accuracy of the provision calculation with respect to its use in the year ending 31 December 2017.<br>Based on above procedures, we did not identify any significant findings, which could have an impact on the amount of the provision for restructuring as at 31 December 2017. |

## 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 the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which the Group operates.

The Group operates mainly in the railway transportation of goods and related services in the Czech Republic and Central Europe. The consolidated financial statements include nine entities of which the Company itself is clearly the largest entity.

In the context of determining the scope of the audit, we set the scope of work that was deemed necessary for each entity. We determined that auditing three entities and specific audit procedures on one entity would be a suitable scope of work. The criteria for determining the extent of the work on individual entities were mainly their size, complexity and risk in terms of audit procedures. Work on entities based in the Czech Republic was performed by the group audit team; work on entities located abroad was performed by component auditors from the PwC network and it was based on instructions provided by the group audit team. In cooperation with component auditors, we determined the level of mutual communication at a level, which forms a sufficient basis for our opinion. This included regular exchanges of information obtained during the audit and discussion of key audit and accounting practices.

The described range of work covers 97% of the Group's revenue and 99% of the Group's profit before tax. For the remaining entities, we performed analytical procedures focussed on significant year-to-year changes.

We consider the described scope of the audit to be sufficient for rendering our audit 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 the financial statements and auditor's report thereon. 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 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 law and regulation 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 law and regulation.

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 and Supervisory Board 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 European Union 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.

### 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 in the aggregate, 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 accounting policies used and the reasonableness of 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 to 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 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:

*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 and our uninterrupted engagement has lasted for 2 years.

*Provided Non-audit Services*

The non-audit services are disclosed in the Note 24 of notes to the consolidated financial statements and in the Note 23 of notes to the standalone financial statements.

*Non-financial information*

In accordance with § 32i of the Act on Accounting, we hereby report that the Company has prepared the non-financial information for the year ended 31 December 2017 and disclosed it in this Annual Report.

10 April 2018

PricewaterhouseCoopers Audit

represented by

**Václav Prýmek**

**Milan Zelený**
Statutory Auditor,
Evidence No. 2319

# 14 Separate financial statements (IFRS) [1]

## Separate Financial Statement for the Year Ending 31 December 2017 prepared under IFRS as adopted by the EU

ČD Cargo

**Separate Financial Statements for the Year Ended 31 December 2017**

Prepared in accordance with IFRS as adopted by the EU

| | |
|---|---|
| Name of the Company: | ČD Cargo, a.s. |
| Registered Office: | Praha 7, Holešovice, Jankovcova 1569/2c, 170 00 |
| Legal Status: | Joint Stock Company |
| Corporate ID: | 281 96 678 |

**Component of the financial statements:**

Statement of Financial Position (Balance Sheet)
Statement of Profit or Loss
Statement of Comprehensive Income
Statement of Changes in Equity
Cash Flow Statement
Notes to the financial statements

In Prague on 10 April 2018

Ing. Martin Šimek
Chief Financial Officer

**Statutory body of the reporting entity:**

Ivan Bednárik, MBA
Chairman of the Board of Directors

Bohumil Rampula
Member of the Board of Directors

[1] Chapters relating to f inancial statements are numbered separately.

## STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DecEMBER 2017

| | | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|---|
| Property, plant and equipment | 5 | 14,099 | 13,924 | 13,519 |
| Intangible assets | 6 | 441 | 362 | 317 |
| Investments in subsidiaries, associates and joint ventures | 7 | 442 | 358 | 353 |
| Other financial assets | 10 | 298 | 271 | 1 |
| Other assets | 11 | 1 | 1 | - |
| **Total non-current assets** | | **15,281** | **14,916** | **14,190** |
| Inventories | 8 | 188 | 142 | 130 |
| Trade receivables | 9 | 1,581 | 1,553 | 1,572 |
| Prepaid income tax | 29 | - | 21 | 22 |
| Other financial assets | 10 | 89 | 75 | 131 |
| Other assets | 11 | 107 | 117 | 229 |
| Cash and cash equivalents | 12 | 465 | 763 | 864 |
| **Total current assets** | | **2,430** | **2,671** | **2,948** |
| **TOTAL ASSETS** | | **17,711** | **17,587** | **17,138** |
| Share capital | 13 | 8,494 | 8,494 | 8,494 |
| Capital funds | 13 | 423 | 315 | 245 |
| Accumulated losses | | (512) | (1,206) | (1,995) |
| **Total equity** | | **8,405** | **7,603** | **6,744** |
| Loans, borrowings and bonds | 15 | 3,624 | 4,057 | 3,015 |
| Deferred tax liability | 29 | 1,500 | 1,340 | 1,157 |
| Provisions | 16 | 489 | 538 | 672 |
| Other financial liabilities | 17 | 132 | 319 | 565 |
| Other liabilities | 18 | 387 | 369 | 133 |
| **Total non-current payables** | | **6,132** | **6,623** | **5,542** |
| Trade payables | 14 | 1,735 | 1,778 | 2,170 |
| Loans, borrowings and bonds | 15 | 516 | 500 | 1,603 |
| Income tax liabilities | 29 | 2 | - | - |
| Provisions | 16 | 237 | 317 | 296 |
| Other financial payables | 17 | 264 | 319 | 412 |
| Other payables | 18 | 420 | 447 | 371 |
| **Total current payables** | | **3,174** | **3,361** | **4,852** |
| **TOTAL LIABILITES** | | **17,711** | **17,587** | **17,138** |

## STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DecEMBER 2017

| | | Year ended 31 December 2017 (CZK million) | Year ended 31 December 2016 (CZK million) |
|---|---|---|---|
| Revenue from principal operations | 21 | 11,242 | 11,094 |
| Other operating income | 22 | 884 | 547 |
| Services, consumed material and energy | 23 | (5,695) | (5,541) |
| Employee benefit costs | 24 | (3,931) | (3,759) |
| Depreciation and amortisation | 25 | (1,145) | (1,024) |
| Other operating income | 26 | (313) | (165) |
| **Profit from operating activities before tax** | | **1,042** | **1,152** |
| Financial expenses | 27 | (242) | (235) |
| Financial income | 28 | 86 | 53 |
| **Profit before tax** | | **886** | **970** |
| Income tax expense | 29 | (152) | (174) |
| **Profit for the year** | | **734** | **796** |

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DecEMBER 2017

| | Year ended 31 December 2017 (CZK million) | Year ended 31 December 2016 (CZK million) |
|---|---|---|
| **Profit for the year** | **734** | **796** |
| Actuarial gains/losses on liabilities related to employee benefits | 11 | 3 |
| **Other comprehensive income for the year (items that are not reclassified to profit or loss)** | **11** | **3** |
| Cash flow hedging | 70 | 74 |
| Relating deferred income tax | (13) | (14) |
| **Other comprehensive income for the year (items that may be reclassified to profit or loss)** | **57** | **60** |
| **Total comprehensive income for the year** | **802** | **859** |

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DecEMBER 2017

| | Share capital (CZK million) | Share premium (CZK million) | Reserve fund (CZK million) | Hedged cash flow fund (CZK million) | Actuarial gains/losses (CZK million) | Accumulatedd losses (CZK million) | Total equity (CZK million) |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2016** | **8,494** | **197** | **109** | **(43)** | **(18)** | **(1,995)** | **6,744** |
| Profit for the period | - | - | - | - | - | 796 | 796 |
| Other comprehensive income for the year | - | - | - | 60 | 3 | - | 63 |
| Comprehensive income for the year - total | - | - | - | 60 | 3 | 796 | 859 |
| Allocation to the reserve fund | - | - | 7 | - | - | (7) | - |
| Transaction with owners for the year - total | - | - | 7 | - | - | (7) | - |
| **Balance as at 31 December 2016** | **8,494** | **197** | **116** | **17** | **(15)** | **(1,206)** | **7,603** |
| Profit for the period | - | - | - | - | - | 734 | 734 |
| Other comprehensive income for the year | - | - | - | 57 | 11 | - | 68 |
| Comprehensive income for the year - total | - | - | - | 57 | 11 | 734 | 802 |
| Allocation to the reserve fund | - | - | 40 | - | - | (40) | - |
| Transaction with owners for the year - total | - | - | 40 | - | - | (40) | - |
| **Balance as at 31 December 2017** | **8,494** | **197** | **156** | **74** | **(4)** | **(512)** | **8,405** |

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DecEMBER 2017

| | | Year ended 31 December 2017 (CZK million) | Year ended 31 December 2016 (CZK million) |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| **Profit for the year before tax** | | **886** | **970** |
| Dividend income | 22 | (144) | (40) |
| Financial expenses | | 134 | 186 |
| Profit from the sale of non-current assets | | (165) | (3) |
| Depreciation and amortisation of non-current assets | 25 | 1,145 | 1,024 |
| Changes in impairments of non-current assets | | 38 | 3 |
| Changes in allowances for doubtful accounts | | 3 | (9) |
| Change in provisions | | (117) | (88) |
| Foreign exchange rate (gains)/losses | | (9) | 1 |
| Change in provisions for investments in subsidiaries, associates and joint ventures | | (4) | - |
| Others | | 38 | 7 |
| **Cash flows from operating activities before changes in working capital** | | **1,805** | **2,051** |
| Decrease/(increase) in trade receivables | | (53) | 82 |
| Increase in inventories | | (55) | (16) |
| Decrease in other assets | | 31 | 67 |
| Decrease in trade payables | | (84) | (235) |
| Decrease in other payables | | (80) | (137) |
| **Total changes in working capital** | | **(241)** | **(239)** |
| **Cash flows from operating activities** | | **1,564** | **1,812** |
| Interest paid | | (137) | (205) |
| Returned income tax overpayment /(Income tax paid) | | 17 | (4) |
| Dividends received | | 115 | 10 |
| **Net cash flows from operating activities** | | **1,559** | **1,613** |
| CASH FLOWS FROM INVESTMENT ACTIVITIES | | | |
| Payments for property, plant and equipment | | (1,418) | (1,654) |
| Income from property, plant and equipment sold | | 197 | 3 |
| Payments for intangible assets | | (164) | (115) |
| Interest received | 28 | - | 2 |
| Loans and borrowings granted to related parties | | - | 93 |
| Payments for acquisition of subsidiaries and associates and joint ventures | | (80) | - |
| **Net cash flows (used in) from investment activities** | | **(1,465)** | **(1,671)** |

| | | Year ended 31 December 2017 (CZK million) | Year ended 31 December 2016 (CZK million) |
|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from the bonds issue | | - | 1,000 |
| Proceeds from loans and borrowings | | 88 | 558 |
| Repayments of loans, borrowings and bonds | | (482) | (1,603) |
| **Net cash flows from financing activities** | | **(394)** | **(45)** |
| **Net (decrease) in cash and cash equivalents** | | **(300)** | **(103)** |
| Cash and cash equivalents at the beginning of the reporting period | 12 | 765 | 868 |
| **Cash and cash equivalents at the end of the reporting period** | **12** | **465** | **765** |

# 1. GENERAL INFORMATION

## 1.1. Formation of the Company

ČD Cargo, a.s. (hereinafter the „Company“) was formed following its registration in the Commercial Register held by Municipal Court in Prague, File B, Insert 12844 on 1 December 2007 through the investment of a business part of České dráhy, a.s.

The Company's registered office is located at Jankovcova 1569/2c, Prague 7, Holešovice.

As of 31 December 2017, the Company's reported share capital of CZK 8,494,000 thousand which was fully paid in.

The sole shareholder of the Company is České dráhy, a.s. The ultimate owner of Company is Czech Republic.

The financial statements were prepared as of 31 December 2017. The reporting period is the calendar year from 1 January 2017 to 31 December 2017.

## 1.2. Principal Operations

The principal activities of ČD Cargo, a.s., include the provision of railway transportation of goods with the set of relating services. The aim of the Company involves improving its leading position, and being the driving force, on the freight transportation marked both in the Czech Republic and the Central Europe region.

The principal business activity – railway transportation of goods – is divided into two principal segments:
- transport of complete trains,
- transport of individual wagon loads.

The above segments are structured by the type of transportation as follow:
- Local,
- Export,
- Import,
- Transit.

Based on the above mentioned division, referred to above, its appropriate to structure principal activities by commodities, i.e. by the nature of transported goods with respect to capacity requirements, requirements for vehicles, demands for operating technologies or special care of shipments:
- Transportation of solid fuels,
- Transportation of ores, metals and machinery products,
- Transportation of chemical products and liquid fuels,
- Transportation of construction material,
- Transportation of wood and paper,
- Transportation of food and agriculture products,
- Combined transportation,
- Logistical solutions for transportation of shipments using intermodal transportation units, predominantly containers,
- Automotive, and
- Transportation of other non-classified commodities.

The terms of the volume of transportation, the ČD Cargo, a.s., is one of the ten most significant railway companies in Europe and European Union.

## 1.3. Relations with Related Parties

In accordance with IAS 24 'Related Party Disclosures', an entity shall ensure that its financial statements include disclosures necessary to identify the possibility that its financial position and profit or loss is affected by the existence of related parties and transactions and outstanding balances, including liabilities with such parties. In line with this standard, such relationships are described in detail in Note 30.

### 1.3.1. České dráhy Group

ČD Cargo, a.s., Group is a part of České dráhy Group, which is led by the Parent Company České dráhy, a.s.

For the financial year 2017 the Consolidated group of České dráhy consists of following companies:

| Name of the entity | Ownership of ČD, a. s. (%) | Type of influence | Registered office | Corporate ID |
|---|---|---|---|---|
| ČD - Informační Systémy, a.s. | 100.00 | Control | Pernerova 2819/2a, 130 00 Prague 3 | 24829871 |
| ČD-Telematika, a. s. | 69.18 | Control | Pernerova 2819/2a, 130 00 Prague 3 | 61459445 |
| Výzkumný Ústav Železniční, a.s. | 100.00 | Control | Novodvorská 1698, 142 01 Prague 4 | 27257258 |
| JLV, a. s. | 38.79 | Significant | Chodovská 3/228, 141 00 Prague 4 | 45272298 |
| DPOV, a. s. | 100.00 | Control | Husova 635/1b, 751 52 Přerov | 27786331 |
| ČD Cargo, a. s. | 100.00 | Control | Jankovcova 1569/2c, 170 00 Prague 7 | 28196678 |
| Dopravní vzdělávací institut, a.s. | 100.00 | Control | Husitská 42/22, 130 00 Prague 3 | 27378225 |
| ČD travel, s.r.o. | 51.72 | Control | 28.října 372/5, 110 00 Prague 1 | 27364976 |
| Smíchov Station Development, a.s. | 51.00 | Joint Control | U Sluncové 666/12a, 186 00 Prague 8 – Karlín | 27244164 |
| ČD Relax, s. r.o. | 51.72 | Control | 28.října 372/5, Staré město, 110 00 Prague 1 | 05783623 |
| ODP-software, spol.s r.o. | 100.00 | Control | Pernerova 2819/2a, Žižkov, 130 00 Prague 3 | 61683809 |
| CHAPS spol. s r.o. | 100.00 | Control | Bráfova 1617/21, 616 00 Brno | 47547022 |
| ČSAD SVT Praha, s.r.o. | 100.00 | Control | Křižíkova 4-6, 186 00 Prague 8 | 45805202 |
| SVT Slovakia s.r.o. | 80.00 | Control | Partizánska 97, 974 01 Banská Bystrica, Slovakia | 36620602 |
| INPROP, s.r.o. | 100.00 | Control | Rosinská cesta 12, 010 08 Žilina, Slovakia | 31609066 |
| Žižkov Station Development, a.s. | 51.00 | Joint Control | U Sluncové 666/12a 186 00 Prague 8 – Karlín | 28209915 |
| Masaryk Station Development, a.s. | 34.00 | Significant | Na Florenci 2116/15, 110 00 Prague 1 | 27185842 |
| CD Cargo Germany GmbH | 100.00 | Control | Kaiserstrasse 60, 603 29 Frankfurt on Main, SRN | DE 814191687 |
| CD Cargo Austria GmbH | 100.00 | Control | Rotenturmstraße 22/24, 1010 Wien, Austria | FN 291407s |
| CD Cargo Poland Sp. z o.o. | 100.00 | Control | Grzybowska 4/3, 00-131 Warsaw, Poland | 140769114 |
| CD Cargo Slovakia, s.r.o. | 100.00 | Control | Seberíniho 1, 821 03 Bratislava, Slovakia | 44349793 |
| ČD Logistics, a.s. | 78.00 | Control | Opletalova 1284/37, 110 00 Prague 1 | 27906931 |
| Terminal Brno, a.s. | 66.94 | Control | K terminálu 614/11, 619 00 Brno | 28295374 |
| ČD-DUSS Terminál, a.s. | 51.00 | Control | Lukavecká 1189, 410 02 Lovosice | 27316106 |
| RAILLEX, a.s. | 50.00 | Joint Control | Trnkovo náměstí 3, 1112, 152 00 Prague 5 | 27560589 |
| BOHEMIAKOMBI, spol. s r.o. | 30.00 | Significant | Opletalova 6, 110 00 Prague 1 | 45270589 |
| Ostravská dopravní společnost, a.s. | 50.00 | Joint Control | U Tiskárny 616/9, 702 00 Ostrava | 60793171 |
| Ostravská dopravní společnost - Cargo, a.s. | 20.00 | Significant | U Tiskárny 616/9, 702 00 Ostrava | 05663041 |
| Auto Terminal Nymburk, s.r.o. | 100.00 | Control | Jankovcova 1569/2c, postal code 170 00 Prague 7 | 24234656 |
| České dráhy, a.s. | - | - | Nábřeží L.Svobody 12/1222, 110 15 Prague 1 | 70994226 |

### 1.3.2. Key Management

The concept of key management mainly concerns the members of the Statutory and Supervisory Bodies of the individual Company companies. The listing of individual organs is presented in Note 1.5

### 1.3.3. Relationship with SŽDC and ČEZ Group

The sole shareholder, the company České dráhy, a.s., is fully owned by the state. The Parent Company and the entire Group benefit from the related party reporting exemption specified in paragraphs 25-27 of IAS 24. In respect of other State-controlled companies, groups and organisations in these financial statements only transactions with SŽDC and ČEZ Group have been quantified, due to their significant impact on the Company's activities.
The most significant transactions carried out with these entities include the use of infrastructure, purchase of electricity and revenues from freight transport. Detailed relationships are disclosed in Notes 30.7 and 30.8.

## 1.4. Organisational Structure

The organisational structure is composed of divisions directly reporting to the Chairman of the Board of Directors or divisional directors:

- Sales Director division,
- Operational Director division,
- Finance Director division.

In addition, the organisational structure includes operational units and repair centers for rail vehicles, a settlement department for transportation sales in Olomouc and the operations management department in Česká Třebová.

The internal organisation of the Company (principles of the hierarchy, organisational structure, principal management system and authorities of organisational structure units including the responsibility and authority of managers) is determined in the Organisational Policy of ČD Cargo, a.s., and the Signing Authority Rules of ČD Cargo, a.s.

## 1.5. Statutory Bodies of the Company

The sole owner is České dráhy, a.s., which in the capacity as the sole shareholder acts as the general meeting, the supreme body of the Parent Company. The statutory body of the Parent Company comprises the three-member Board of Directors; the supervisory body is the seven-member Supervisory Board. The Parent Company established a three-member Audit Committee, the members of which were appointed by the sole shareholder.

The composition of ČD Cargo, a.s., Bodies as of 31 December 2017 was following:

| **Board of Directors** | |
|---|---|
| Chairman | Ivan Bednárik |
| Member | Zdeněk Škvařil |
| Member | Bohumil Rampula |

| **Supervisory Body** | |
|---|---|
| Chairman | Pavel Krtek, |
| Member | Miroslav Kupec |
| Member | Jan Kasal |
| Member | Radek Nekola |
| Member | Jindřich Nohal |
| Member | Roman Onderka |
| Member | Jiří Švachula |

On 21 March 2017, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., in the exercise of the powers of the General Meeting decided about appointment of Miroslav Kupec, as a member of the Supervisory Body of ČD Cargo, a.s., with effect from 22 March 2017.

On 28 March 2017, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., in the exercise of the powers of the General Meeting decided about appointment of Roman Onderka, as a member of the Supervisory Body of ČD Cargo, a.s. with effect from 1 April 2017.

On 28 March 2017, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., in the exercise of the powers of the General Meeting decided about appointment of Jiří Švachula, as a member of the Supervisory Body of ČD Cargo, a.s., with effect from 1 April 2017.

| **Audit Committee** | |
|---|---|
| Chairman | Oldřich Vojíř |
| Member | Miroslav Záměčník |
| Member | Libor Joukl |

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1. General Information

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The separate financial statement of ČD Cargo, a.s., prepared under § 19a (1), Act number 563/1991. Sb., of Czech Accounting Standards.

### 2.2. Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The Separate Financial Statements forms part of the Consolidated Financial Statements of the ČD Cargo Group.

### 2.3. Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in Exchange for assets.

Investment is subsidiaries and associates that are not classified as held for sale are carried at cost in the separate financial statement. In case, the purchase price is higher than the share in the equity of subsidiaries and affiliates are accounted for by revaluation, which reduces the value of the purchase price. The provision is calculated as the difference between the acquisition price and the share in the equity of the company.

The Company presents three Balance Sheets in the Financial Statements, therefore one additional reporting period.

Unless stated otherwise, all figures are stated in Czech crowns.

#### 2.3.1. Changes in Accounting and Reporting Method

Reclassification of items in the statement of profit or loss:

In the financial statements for the year 2017, the Company changed the presentation of items that are related to the change in provisions. The unused part of the provisions, that was dissolved during the reporting period and for which there is no actual cost, is newly recognised in Other operating income instead of Other operating expenses. Creation and use of reserves is allocated to the specific types of costs for which the reserves have actually been created. A comparative period ended 31 December 2016 was adjusted as follows:

- under Revenues from principal operations in the amount of CZK (5) million,
- under Other operating income in the amount of CZK 64 million,
- under Services, consumed material and energy in the amount of CZK (1) million,
- under Employee Benefit Costs in the amount of CZK (1) million,
- under Other operating expenses in the amount of CZK (17) million,
- under Financial income in the amount of CZK (40) million.

In the financial statements for the year 2017, the Company changed the presentation of dividends received. To better understand the ability and due to the nature of the item, dividends are presented in Other operating income instead of the line Financial income. A comparative period ended 31 December 2016 was also adjusted. In 2017, it was CZK 144 million; in 2016, it was CZK 40 million. Related adjustments were also made in the cash-flow statement.

Furthermore, in the financial statements for the year 2017, the Company changed how Employee benefits are presented. Employee benefits are newly presented within the following items: Payroll costs, Statutory social security and health insurance and Other social costs, instead of the original item Benefits resulting from the collective agreement. A comparative period ended 31 December 2016 was adjusted, which mainly had an impact on Note 24 (Employee Benefit Costs):

- under Payroll costs in the amount of CZK (30) million,
- under Employee benefit costs resulting from the collective agreement in the amount of CZK 46 million,
- under Other employee benefit costs in the amount of CZK (16) million.

The table shows the overall summary of these reclassifications:

| Annual period ended 31 December 2016 | | Previously presented (CZK million) | Reclassification (CZK million) | Adjusted (CZK million) |
|---|---|---|---|---|
| Revenues from principal operations | 21 | 11,099 | (5) | 11,094 |
| Other operating income | 22 | 483 | 64 | 547 |
| Services, consumed material and energy | 23 | (5,540) | (1) | (5,541) |
| Employee benefit costs | 24 | (3,758) | (1) | (3,759) |
| Other operating expenses | 26 | (148) | (17) | (165) |
| Financial income | 28 | 93 | (40) | 53 |

### 2.4. Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods and other assets is recognised when the Company has transferred to the buyer the risks and rewards of ownership.

Sales of services are recognised when services are rendered to counterparties. Revenues related to transportation services are recognised in the period in which the services are provided by reference to the stage of completion of the service.

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

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.

Accounting for sales of transportation services provides crucially specialized branch in Olomouc. Revenues from international railway transportation are recognised from the Clearing traffic system revenue to SAP when processing is finished. The data provided by national carriers in the data exchange in accordance with international regulations UIC for billing shares of the carriage. Among the significant volume revenues include billing charges for the use of wagons in international railway transport with national and local carriers.

### 2.5. Leasing

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

In all finance leases, the Company acts 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 statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and 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 in more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating lease are recognised as an expense in the period in which they are incurred.

#### 2.5.1. Sale and Leaseback

A sale and leaseback transactions involve the sale of an asset and leaseback of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated in a single transaction. The accounting treatment of the transaction of sale and leaseback transaction depends on the type of lease, which is part of this transaction.

If the leaseback is a finance lease, the lessor cash transactions with tenants leased asset as a guarantee. For this reason, the excess proceeds from the sale and the carrying amount is considered as income.

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.

### 2.6. 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 current exchange rate announced by the Czech National Bank as of the day of the transaction. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the exchange rate of the Czech National Bank ruling as of that date. Income and expense items are translated using the above methodology. 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.

### 2.7. 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.

### 2.8. 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 as a reduced cost of non-current assets in the statement of financial position.

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.

### 2.9. Employee Benefit Costs

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

The employee benefit obligations and provisions reported in the statement of 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 for such benefits.

Provision for long-term employee benefits is shown at present value of the future cash outflows that will need to be spent on their payment. 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. Currency and terms of these bonds are consistent with the currency and the respective other long-term benefits. The value of this provision is determined annually based on calculations of independent qualified actuaries. Gains or losses arising from changes in actuarial assumptions for benefits at retirement are included in other comprehensive income, changes in provision for other benefits are included in the income statement.

## 2.10. Taxation

The income tax includes current tax payable and deferred tax.

### 2.10.1. Current Tax Payable

The tax currently payable 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 the end of the reporting period.

### 2.10.2. 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 in the computation of 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.

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.

### 2.10.3. Current Tax Payable 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.

## 2.11. Property, Plant and Equipment

Property, plant and equipment are carried at cost reduced by accumulated losses from impairment, and by accumulated depreciation in respect of property and equipment. Freehold land is not depreciated.

Properties 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 (with the exception of some components, which are amortised using the power of depreciation).

The Company considers the main and overhaul repairs of railway traction vehicles as components. Also revision repairs for freight and passenger wagons are considered as components.Beginning from 2015, other components of wheelsets for freight cars and radios for driving rail vehicles were also singled out.

The Company determined a depreciation plan for components of railway vehicles which is based on a plan of major and general repairs of traction vehicles and inspection repairs and replacement of wheelsets of wagons. With regard to traction vehicles and wagons, the mileage depreciation is based on the actual mileage per month (i.e. actual kilometers). The amount of depreciation in the particular reporting period is calculated as the number of kilometers in the reporting period multiplied by the rate per one kilometer. The rate per one kilometer is determined as a share of the acquisition cost of the relevant component and the maximum mileage which is determined for the specific type of major and general repair of traction vehicles and inspection repair of wagons. After reaching the maximum mileage, it is necessary to undertake a new major or general repair of a traction vehicle and a new inspection repair or replacement of wheelsets of a wagon. Depreciation method for radio stations is a linear depreciation over their useful life.

Major repairs of traction vehicles involve activities made in the general repair; for this reason, these activities corresponding to the general repair are separated from major repairs and are recorded as general repairs.

In the modernising or reconstruction of freight cars (extending their useful lives to 20 years) which also involves activities relating to inspection repairs, these activities are separated and recorded as new components with regard to the relevant freight car. This approach also applies to wheelsets. Those components are subsequently depreciated in line with the accounting policy disclosed above.

Wagons and traction vehicles without components are depreciated to the estimated residual value. The estimated residual value means the estimated justifiable positive amount that the Company can acquire upon the expected disposal of assets after deducting the estimated costs associated with their disposal. The estimated residual value at the wagon and driving railway vehicles based on the scrap value that could be gained at the disposal. 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.

## 2.12. Intangible Assets

### 2.12.1. Separately Acquired 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 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 recognition of an intangible asset, 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 that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 estimated to be less than its 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.

Where an 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 so that 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 and Associates

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 those policies.

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, which exists only 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. In case, the purchase price is higher than the share capital of subsidiaries and affiliates are accounted for by revaluation, which reduces the value of the purchase price. The provision is calculated as the difference between the acquisition price and the share capital of the Company.

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.

### 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.

### 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. The exceptions are 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.

Financial assets are classified into the following four categories: financial assets at fair value through profit or loss, held to maturity investments, available for sale financial assets and loans and receivables. The classification depends on the nature of financial assets and purpose, and is determined at initial recognition.

Purchases or sales of financial assets with a usual term of delivery are recognised respectively derecognised the transaction date. Purchases or sales with a habitual date of delivery are purchase or financial assets, which require delivery of assets within the terms of time established by regulation or convention in the market.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities are classified as financial liabilities at fair value through profit or loss or other financial liabilities.

#### 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 receipts / expenditures (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 life of the debt instrument, other net carrying amount on initial recognition.

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

### 2.17.2. Held to Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Upon initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment. As of the date of preparation of the financial statements, no such investment are recorded by the Company.

### 2.17.3. Financial Assets Available for Sale

Financial assets available for sale are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Dividends on the AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established.

### 2.17.4. Loans and Receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables and bank balances) are measured at amortised cost using 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.

### 2.17.5. Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is 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 amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

As of the date of the financial statements for the temporary impairment for the estimated recoverability of receivables based on an individual assessment of the claim.

With the exception of the AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

### 2.17.6. 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 recognition of a financial asset in its entirety, the difference between the assets' 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.

### 2.17.7. Equity Instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

### 2.17.8. Financial Liabilities at Fair Value through Profit and Loss

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL recognised in profit or loss.

In this category, the Company reports derivatives.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

### 2.17.9. Other Financial Liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

### 2.17.10. 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.

### 2.17.11. Derivate Financial Instruments

The Company enters into a variety of derivative financial instruments 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.

### 2.17.12. Hedge Accounting

The Company designates certain hedging instruments as either fair value hedges or 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 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.

### 2.17.13. 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. 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 when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

### 2.17.14. Fair Value Hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of profit or loss relating to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date. As of the date of preparation of the financial statements, no such derivatives are recorded by the Company.

### 2.17.15. Financial Derivatves Held for Trading

All derivative transactions that the Company concludes are agreed 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 Company 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 Annual Period Ended 31 December 2017

During the year ended 31 December 2017 the following standards, amendments and interpretations came into force:

| Amended, new and revised standards and interpretations | Effective for annual periods beginning on or after |
|---|---|
| IAS 7 – Amendments IAS 7 – Disclosure Initiative | 1 January 2017 |
| IAS 12 - Amendments IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 |
| IFRS 12 – Amendments IFRS 12 (included in Annual improvements to IFRS – cycle 2014 – 2016) | 1 January 2017*) |

*) Standards, adaptations and interpretations that have not yet been approved for use in the EU

The improvements and interpretation referred to above have no significant impact on recognition and presentation. As required by IAS 7, a table of changes in financing commitments was added to Note 31.9.2.

## 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.

| Amended, new and revised standards and interpretations | Effective for annual periods beginning on or after |
|---|---|
| IFRS 9 – Financial Instruments | 1 January 2018 |
| IFRS 15 – Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 16 – Leasing | 1 January 2019 |
| IFRS 17 – Insurance Contracts | 1 January 2021*) |
| IFRS 2 – Amendment to IFRS 2 – Classification and valuation of share-based payment transactions | 1 January 2018*) |
| IFRS 4 – Amendment to IFRS 4 – using IFRS 9 Financial instruments together and IFRS 4 Insurance Contracts | 1 January 2018 |
| IFRS 9 – Amendments to IFRS 9 – Prepayment Features with Negative Compensation | 1 January 2019*) |
| IFRS 10, IAS 28 – Amendment to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Date will be determined*) |
| IAS 28 – Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures | 1 January 2019*) |
| IAS 40 – Amendments to IAS 40 – Transfers of Investment Property | 1 January 2018*) |
| Annual improvements to IFRS – cycle 2014 – 2016 | 1 January 2017/ 1 January 2018*) |
| Annual improvements to IFRS – cycle 2015 – 2017 | 1 January 2019*) |
| IFRIC 22 – Foreign Currency Transactions and Advance Consideration | 1 January 2018*) |
| IFRIC 23 – Uncertainty over Income Tax Treatments | 1 January 2019*) |

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

Management of the Company anticipates that the adoption of most of these standards, revised standards and interpretations will have, except for IFRS 16, no material impact on the Group in the following periods. IFRS 9 and IFRS 15 are expected to have an impact on expanded disclosure requirements. Earlier adoption is not considered in respect of any of the above standards. For the implementation of IFRS 9 and IFRS 15, the Company uses a modified retrospective method.

IFRS 15 will have no material impact on the Company's ČD Cargo, a.s., financial statements. After adoption of this standard as at 1 January 2018, the reclassification of some items presented in the Profit and Loss Statement will occur. These include, for example, compensation for customer claims that are now reported as part of "Other operating expenses". From 1 January 2018, these costs will be reduced to "Freight sales". Since 1 January 2018, the value of these reclassifications will be presented in millions of crowns.

On the basis of the analysis, implementation of IFRS 9 will also have no significant impact on the Company's presentation of the Company's financial results or financial statements.

IFRS 9 affects two areas:
- provisions for receivables,
- derivative transactions, including hedging documentation for these transactions.

In the case of the implementation of IFRS 9 in accounting policies related to the creation of adjustments to receivables, it was assessed that there would be a slight increase in the value of adjustments to receivables at maturity. An increase in the value of adjustments will be presented in millions of Czech crowns and as of 1 January 2018, and will be recognised in retained earnings. In the following years, changes in the amount of provisions will affect the results of the current period. During the IFRS 9 Impact Analysis, no correlation between the growth of outstanding claims and economic indicators (e.g. GDP development) was recognised. The accounting policy for provisions for receivables at maturity was changed with respect to the estimated share of the bad debt receivable in the value of the services provided. This share was also set with respect to the change in the value of provisions in the last 5 years.

IFRS 9 will apply to hedge accounting for the financial statements for the year 2018 in their entirety. At the same time, hedge documentation, determination of efficiency tests and sensitivity analysis will be restated. Additionally, the Company will introduce to a change in accounting and reporting of derivative financial instruments under the new IFRS 9. However, significant impacts on the financial results are not expected.

With respect to IFRS 16, the Company anticipates the need to disclose a significant number of concluded lease agreements in the balance sheet. IFRS 16 is effective for the annual period beginning on 1 January 2019. The Company is currently assessing the impact of the new standard and assumes that it will be adopted when it becomes effective, i.e. on 1 January 2019. The current analysis of the effects shows that the value of the Group's assets and liabilities will increase by several hundred million CZK as a result of implementation of IFRS 16. The Company's financial results are also expected to be affected by tens of millions of CZK.

## 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 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. Useful Lives of Property, Plant and Equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Although the Company identified no changes in the useful lives of property, plant and equipment, the situation may change in the following periods.

### 4.2. 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.

### 4.3. Income Taxation

The Company recognises significant deferred tax assets (see Note 29). The determination of the recoverable value of these assets depends on the estimate of their future realisation.

## 5. PROPERTY, PLANT AND EQUIPMENT

| Cost | Balance at 1 Jan 2016 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Balance at 31 Dec 2016 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Balance at 31 Dec 2017 (CZK million) |
|---|---|---|---|---|---|---|---|---|---|
| Land | 96 | - | - | - | 96 | 21 | - | - | 117 |
| Constructions | 1,523 | 26 | (1) | 5 | 1,553 | 44 | (1) | 2 | 1,598 |
| Individual movable assets | 37,126 | 1,263 | (902) | 56 | 37,543 | 1,156 | (1,367) | 69 | 37,401 |
| - Machinery, equipment, and furniture and fixtures | 405 | 42 | (5) | - | 442 | 32 | (4) | 5 | 475 |
| - Vehicles* | 36,528 | 1,221 | (897) | 102 | 36,954 | 1,124 | (1,362) | 64 | 36,780 |
| - Vehicles acquired under finance leases | 186 | - | - | (46) | 140 | - | - | - | 140 |
| - Other | 7 | - | - | - | 7 | - | (1) | - | 6 |
| Assets under construction | 100 | 91 | (3) | (54) | 134 | 156 | (2) | (71) | 217 |
| Prepayments | - | - | - | - | - | 30 | - | - | 30 |
| **Total** | **38,845** | **1,380** | **(906)** | **7** | **39,326** | **1,407** | **(1,370)** | **-** | **39,363** |

| Accumulated amortisation and depreciation | Balance at 1 Jan 2016 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Depre-ciation (CZK million) | Balance at 31 Dec 2016 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Deprecia-tion (CZK million) | Balance at 31 Dec 2017 (CZK million) |
|---|---|---|---|---|---|---|---|---|---|---|
| Constructions | 807 | 37 | (1) | - | - | 843 | 37 | (1) | - | 879 |
| Individual movable assets | 24,515 | 929 | (887) | - | (1) | 24,556 | 1,022 | (1,235) | 37 | 24,380 |
| - Machinery, equipment, and furniture and fixtures | 301 | 15 | (5) | - | - | 311 | 20 | (4) | - | 327 |
| - Vehicles* | 24,166 | 907 | (882) | 18 | (1) | 24,208 | 997 | (1,230) | 37 | 24,012 |
| - Vehicles acquired under finance leases | 42 | 7 | - | (18) | - | 31 | 5 | - | - | 36 |
| - Other | 6 | - | - | - | - | 6 | - | (1) | - | 5 |
| Assets under construction | 4 | - | - | - | (1) | 3 | - | - | 2 | 5 |
| **Total** | **25,326** | **966** | **(888)** | **-** | **(2)** | **25,402** | **1,059** | **(1,236)** | **39** | **25,264** |

| Net book value | Balance at 1 January 2016 (CZK million) | Balance at 31 December 2016 (CZK million) | Balance at 31 December 2017 (CZK million) |
|---|---|---|---|
| Land | 96 | 96 | 117 |
| Constructions | 716 | 710 | 719 |
| Individual movable assets | 12,611 | 12,987 | 13,021 |
| - Machinery, equipment, and furniture and fixtures | 104 | 131 | 148 |
| - Vehicles* | 12,362 | 12,746 | 12,768 |
| - Vehicles acquired under finance leases | 144 | 109 | 104 |
| - Other | 1 | 1 | 1 |
| Assets under construction | 96 | 131 | 212 |
| Prepayments | - | - | 30 |
| **Total** | **13,519** | **13,924** | **14,099** |

*Vehicles subject to leaseback are presented in financial statements under Vehicles. Their net book value is CZK 3,321 million as at 31 December 2015, CZK 3,257 million as at 31 December 2016 and CZK 3,101 million as at 31 December 2017. Liabilities arising from these financial leasebacks are part of Note 15.2 "Liabilities from financial lease and leaseback". The Company liabilities from leaseback transactions are secured by the lessor against the leased assets. These assets are not classified as finance leases under IFRS, however, their legal nature is that of a lease agreement and therefore from a legal point of view they classify as leased assets.

Properties are represented mainly by buildings and land. Land and buildings do not include railway routes, which are owned by the state.

Vehicles principally comprise rail vehicles (driving rail vehicles, freight cars) used for the railway freight transportation. These assets have been provisioned as equal to the difference between the carrying amount and the recoverable amount of CZK 195 million.

The major increases in Individual movable assets in 2017 were formed especially by investments in new freight wagons of Sggrrs series - innowagon 80 ft (Innofreight technologies) in the amount CZK 312 million, major and general repairs (components) of the traction vehicles in the amount CZK 300 million, revision repairs (components) of freight wagons in the amount CZK 257 million, purchase of new traction vehicle of 383 series (Vectron) in the amount CZK 104 million, deposits in the amount CZK 39 million for acquisition of next two traction vehicles of 383 series (Vectron), technical improvements of traction vehicles in the amount CZK 83 million and acquisition of wheelset (components) for freight wagons in the amount CZK 67 million.

Furthermore, in 2016 the Company received a deposit within the grant project to equip traction vehicles with the on-board part of the European Train Control System (ETCS), which will be implemented during the year 2019. The funds received are recorded as restricted cash within other financial assets (short-term and long-term portion). In 2017, the grant was not used and the whole amount of CZK 276 million is presented as a long-term. For more information, see Note 10 Other Financial Assets.

Railway vehicles are depreciated according to the below useful lives to the estimated residual value. Components of these railway vehicles are depreciated by actual mileage. When calculating other depreciation, the following useful lives were used:

| | Number of years |
|---|---|
| Buildings | 20–50 |
| Structures | 20–50 |
| Locomotives (without components) | 20–35 |
| Wagons (without components) | 30 |
| Machinery and equipment | 8–20 |

### 5.1. Assets Pledged as Collateral

The Company's property as at 31 December 2017 and as at 31 December 2016 was not pledged as security. The Company's liabilities from leaseback transactions are secured by the lessor right to the leased assets.

## 6. INTANGIBLE ASSETS

| Cost | Balance at 1 Jan 2016 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Balance at 31 Dec 2016 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Balance at 31 Dec 2017 (CZK million) |
|---|---|---|---|---|---|---|---|---|---|
| Software | 508 | 93 | - | 52 | 653 | 87 | - | 29 | 769 |
| Valuable rights | 110 | 5 | - | 2 | 117 | 1 | (6) | (11) | 101 |
| Assets under construction | 69 | 13 | - | (61) | 21 | 77 | - | (19) | 79 |
| **Total** | **687** | **111** | **-** | **(7)** | **791** | **165** | **(6)** | **(1)** | **949** |

| Accumulated amortisation | Balance at 1 Jan 2016 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Balance at 31 Dec 2016 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Balance at 31 Dec 2017 (CZK million) |
|---|---|---|---|---|---|---|---|---|---|
| Software | 283 | 58 | - | - | 341 | 78 | - | - | 419 |
| Valuable rights | 87 | 1 | - | - | 88 | 7 | (6) | - | 89 |
| **Total** | **370** | **59** | **-** | **-** | **429** | **85** | **(6)** | **-** | **508** |

| Net book value | Balance at 1 Jan 2016 (CZK million) | Balance at 31 Dec 2016 (CZK million) | Balance at 31 Dec 2017 (CZK million) |
|---|---|---|---|
| Software | 225 | 312 | 350 |
| Valuable rights | 23 | 29 | 12 |
| Assets under construction | 69 | 21 | 79 |
| **Total** | **317** | **362** | **441** |

Reclassifications predominantly include transfers of asset items between individual categories of assets (IAS 38) relating to software and valuable rights. Amortisation costs are recognised in the line Depreciation and amortisation in the income statement. Item Assets under construction comprises assets developed in cooperation with supplier companies, it is no internally developed software.

As at 31 December 2017, valuable rights include licenses for a total net book value of CZK 12 million. The most significant items are SAP licenses in the amount of CZK 4 million, Altworx licenses in the amount of CZK 4 million, Microsoft EA licenses, Exchange, Sharepoint in the amount of CZK 1 million and licenses Microsoft in the amount of CZK 1 million In 2017, licenses were capitalized in the amount of CZK 1 million.

In 2017 development of trading systems with acquisition cost of CZK 33 million was continued, development of BI solutions totaling CZK 20 million, operational information systems totaling CZK 16 million, adjustments of IS SAP in the amount of CZK 14 million and software IT security in the amount of CZK 12 million. The rest relates to other economic or operational tasks.

The length of amortisation of intangible assets:

| | Number of years |
|---|---|
| Software | 3–10 |
| Valuable rights | 6–10 |

### 6.1. Software

| Net book value | Balance at 1 Jan 2016 (CZK million) | Balance at 31 Dec 2016 (CZK million) | Balance at 31 Dec 2017 (CZK million) |
|---|---|---|---|
| Operational and business tasks fall under the project PROBIS | 168 | 188 | 218 |
| SAP | 39 | 48 | 41 |
| IT Security Program | - | 31 | 25 |
| Other | 18 | 45 | 66 |
| **Total** | **225** | **312** | **350** |

Software predominantly includes the SAP system and the operational business information system – PROBIS. Software additionally includes the information system supporting the activities of the freight transporter, development of the SAP information system, the Microsoft Enterprise Agreement license, OPT information system, the system for the support of office work and other systems used by ČD Cargo, a.s.

Additions to software in the year 2017 primarily include the costs of adjustments and upgrades of the current systems: Dispatching information system under the project of calculation of a full trains in the amount of CZK 40 million, central conduction of wagons in the amount of CZK 12 million, software Altworx which monitors evaluation of utilization of the company's basic capacities (operating personnel, locomotives and wagons) in the amount of CZK 11 million.

## 7. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

| Category | Investment* as of 31 December 2017 (CZK million) | Investment* as of 31 December 2016 (CZK million) | Investment* as of 1 January 2016 (CZK million) |
|---|---|---|---|
| Subsidiaries | 397 | 329 | 325 |
| Joint ventures and associates | 45 | 29 | 28 |
| **Total** | **442** | **358** | **353** |

*share value represents the net value of the investment consisting of the acquisition price of the lowly accrue value adjustments

### 7.1 Information on Subsidiaries

| Name of the entity | Registered office | Investment* as of 31 December 2017 (CZK million) | Investment* as of 31 December 2016 (CZK million) | Investment* as of 1 January 2016 (CZK million) |
|---|---|---|---|---|
| CD Cargo Germany GmbH** | Kaiserstrasse 60, 603 29 Frankfurt on Main, SRN | 1 | 1 | 1 |
| CD Cargo Poland Sp. z o.o.** | Grzybowsk 4/3, 00-131 Warsaw, Poland | 260 | 260 | 260 |
| CD Cargo Austria GmbH** | Rotenturmstraße 22/24, 1010 Wien, Austria | - | - | - |
| CD Cargo Slovakia, s.r.o.** | Seberíniho 1, 821 03 Bratislava, Slovakia | 69 | 3 | - |

| Name of the entity | Registered office | Investment* as of 31 December 2017 (CZK million) | Investment* as of 31 December 2016 (CZK million) | Investment* as of 1 January 2016 (CZK million) |
|---|---|---|---|---|
| Terminal Brno, a.s. | K Terminálu 614/11, 619 00 Brno | 49 | 47 | 46 |
| ČD-DUSS Terminál, a.s. | Lukavecká 1189, 410 02 Lovosice | 2 | 2 | 2 |
| ČD Logistics, a.s. | Opletalova 1284/37, 110 00 Prague 1 | 16 | 16 | 16 |
| Auto Terminal Nymburk, s.r.o. | Jankovcova 1569/2c, 170 00 Prague 7 | - | - | - |
| **Total** | | **397** | **329** | **325** |

* share value represents the net value of the investment consisting of the acquisition price of the lowly accrue value adjustments

** in 2017 the Company was renamed

| Name of the entity | Principal activities | Ownership percentage as of 31 Dec 2017 | Ownership percentage as of 31 Dec 2016 | Ownership percentage as of 1 Jan 2016 |
|---|---|---|---|---|
| CD Cargo Germany GmbH | Mediation of freight transportation services on behalf of and for ČD Cargo, a.s. and forwarding. | 100% | 100% | 100% |
| CD Cargo Poland Sp. z o.o. | Mediation of freight transportation services on behalf of and for ČD Cargo, a.s. and forwarding, operations of railway transport and lease of traction vehicles and wagons. | 100% | 100% | 100% |
| CD Cargo Austria GmbH | Mediation of freight transportation services on behalf of and for ČD Cargo, a.s. and forwarding. | 100%* | 100%* | 100%* |
| CD Cargo Slovakia, s.r.o. | Mediation of freight transportation services on behalf of and for ČD Cargo, a.s. and forwarding. | 100% | 100% | 100% |
| Terminal Brno, a.s. | Operations of combined transport terminal in Brno. | 66.93% | 66.93% | 66.93% |
| ČD-DUSS Terminál, a.s. | Operations of combined transport terminal in Lovosice. | 51% | 51% | 51% |
| ČD Logistics, a.s. | Forwarding. | 78% | 78% | 78% |
| Auto Terminal Nymburk, s.r.o. | Forwarding and technical activities in transport. | 100% | 100% | 100% |

* the Company is fully owned by CD Cargo Germany GmbH

### 7.2. Information of Joint Ventures and Associates

| Name of the entity | Registered office | Investment* as of 31 Dec 2017 (CZK million) | Investment* as of 31 Dec 2016 (CZK million) | Investment* as of 1 Jan 2016 (CZK million) |
|---|---|---|---|---|
| BOHEMIAKOMBI, spol. s r.o. | Opletalova 6, 110 00 Prague 1 | 3 | 4 | 3 |
| Ostravská dopravní společnost, a.s. | U Tiskárny 616/9, 702 00 Ostrava - Přívoz | 18 | 24 | 24 |
| RAILLEX a.s. | Trnkovo nám. 3, 152 00 Prague 5 | 1 | 1 | 1 |
| Ostravská dopravní společnost – Cargo, a.s. | U Tiskárny 616/9, 702 00 Ostrava - Přívoz | 23 | - | - |
| **Total** | | **45** | **29** | **28** |

*The value of the share is the net value of the investment consisting of the acquisition price of the lowly accrue value adjustments

| Name of the entity | Principal activities | Ownership percentage as of 31 Dec 2017 | Ownership percentage as of 31 Dec 2016 | Ownership percentage as of 1 Jan 2016 |
|---|---|---|---|---|
| BOHEMIAKOMBI, spol. s r.o. | Mediation of transportation services except for the transportation by own vehicles. | 30% | 30% | 30% |
| Ostravská dopravní společnost, a.s. | Railway transportation and lease of locomotives and railway vehicles. | 50% | 20% | 20% |
| RAILLEX a.s. | Cargo handling and technical services in transportation, forwarding. | 50% | 50% | 50% |
| Ostravská dopravní společnost – Cargo, a.s. | Railway transportation and lease of locomotives and railway vehicles. | 20% | - | - |

On 1 January 2017, the company Ostravská dopravní společnost – Cargo, a.s., was formed by spin-off from the company Ostravská dopravní společnost, a.s.. Thereafter, the Company ČD Cargo, a.s., increased its share in Ostravská dopravní společnost, a.s., from 20% to 50% for the price of CZK 15.2 million ČD Cargo, a.s., left 20% of share in the Company Ostravská dopravní společnost – Cargo, a.s., due to the spin-off.

### 7.3. Summary of Financial Information on Joint Ventures and Associates

| 31 December 2017 | RAILLEX a.s. (CZK million) | BOHEMIAKOMBI, spol. s r.o. (CZK million) | Ostravská dopravní společnost, a.s. (CZK million) | Ostravská dopravní společnost - Cargo, a.s. (CZK million) |
|---|---|---|---|---|
| **Total assets** | **54** | **38** | **153** | **158** |
| Short-term assets | 54 | 35 | 153 | 92 |
| Long-term assets | - | 3 | - | 66 |
| **Total liabilities** | **31** | **28** | **112** | **46** |
| Short-term liabilities | 31 | 28 | 112 | 46 |
| Long-term liabilities | - | - | - | - |
| Net assets | 23 | 10 | 41 | 112 |
| **The Company's share of net assets** | **12** | **3** | **21** | **22** |

| 31 December 2016 | RAILLEX a.s. (CZK million) | BOHEMIAKOMBI, spol. s r.o. (CZK million) | Ostravská dopravní společnost, a.s. (CZK million) |
|---|---|---|---|
| **Total assets** | **51** | **41** | **387** |
| Short-term assets | 50 | 38 | 311 |
| Long-term assets | 1 | 3 | 76 |
| **Total liabilities** | **27** | **28** | **267** |
| Short-term liabilities | 27 | 28 | 267 |
| Long-term liabilities | - | - | - |
| Net assets | 24 | 13 | 120 |
| **The Company's share of net assets** | **12** | **4** | **24** |

| 1 January 2016 | RAILLEX a.s. (CZK million) | BOHEMIAKOMBI, spol. s r.o. (CZK million) | Ostravská dopravní společnost, a.s. (CZK million) |
|---|---|---|---|
| **Total assets** | **62** | **53** | **318** |
| Short-term assets | 60 | 49 | 228 |
| Long-term assets | 2 | 4 | 90 |
| **Total liabilities** | **37** | **42** | **196** |
| Short-term liabilities | 35 | 42 | 194 |
| Long-term liabilities | 2 | - | 2 |
| Net assets | 25 | 11 | 122 |
| **The Company's share of net assets** | **13** | **3** | **24** |

| | 2017 (CZK million) | 2016 (CZK million) | 2015 (CZK million) |
|---|---|---|---|
| Total income | 1,299 | 1,504 | 1,398 |
| Profit for the period | 42 | 35 | 25 |
| **The Company's share of profit** | **13** | **11** | **7** |

## 8. INVENTORIES

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Spare parts and other components for rail vehicles and locomotives | 96 | 41 | 40 |
| Spare parts for other machines, devices and equipment | 62 | 85 | 75 |
| Fuels, lubricants and other oil products | 3 | 3 | 4 |
| Work clothes, work shoes, protective devices | 2 | 1 | 1 |
| Other | 25 | 16 | 14 |
| **Total cost** | **188** | **146** | **134** |
| Write-down of inventories to their net realisable value | - | (4) | (4) |
| **Total net book value** | **188** | **142** | **130** |

Following the inventory count, the value of inventories decreased by CZK 4 million in the year 2016. In year 2017, a write-down was reduced as a result of the scrapping of unneeded inventory.

## 9. TRADE RECEIVABLES

| | Category | Before due date (CZK million) | Past due date (days) 1–30 (CZK million) | 31–90 (CZK million) | 91–180 (CZK million) | 181–365 (CZK million) | 366 (CZK million) | Total Past due date (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|---|---|---|
| 31 Dec 2017 | Gross | 1,470 | 117 | 20 | 6 | 6 | 100 | 249 | 1,719 |
| | Allowances | (24) | - | (4) | (5) | (5) | (100) | (114) | (138) |
| | **Net** | **1,446** | **117** | **16** | **1** | **1** | **-** | **135** | **1,581** |
| 31 Dec 2016 | Gross | 1,471 | 65 | 16 | 7 | 4 | 141 | 233 | 1,704 |
| | Allowances | - | (1) | (5) | (5) | (4) | (136) | (151) | (151) |
| | **Net** | **1,471** | **64** | **11** | **2** | **-** | **5** | **82** | **1,553** |
| 1 Jan 2016 | Gross | 1,485 | 74 | 10 | 7 | 7 | 139 | 237 | 1,722 |
| | Allowances | (2) | (6) | (3) | (1) | (4) | (134) | (148) | (150) |
| | **Net** | **1,483** | **68** | **7** | **6** | **3** | **5** | **89** | **1,572** |

## 10. OTHER FINANCIAL ASSETS

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Derivatives | 21 | 12 | - |
| Receivables for damages and losses | - | - | 1 |
| Restricted cash | 276 | 258 | - |
| Other financial assets | 1 | 1 | - |
| **Other financial non-current assets** | **298** | **271** | **1** |
| Derivatives | 75 | 25 | 1 |
| Cash pooling Company | 2 | 3 | 4 |
| Receivables for damages and losses | 16 | 19 | 17 |
| Receivables for damages and losses - allowances | (13) | (9) | - |
| Restricted cash | - | 34 | - |
| Other financial assets | 22 | 18 | 199 |
| Other financial assets - allowances | (13) | (15) | (90) |
| **Other financial current assets** | **89** | **75** | **131** |
| **Total Other financial assets** | **387** | **346** | **132** |

Restricted cash' represents an advance payment in the total amount of CZK 292 million, provided in 2016 within the subsidy project to equip traction vehicles with the on-board part of The European Train Control System (ETCS). This item was split into non-current part of CZK 258 million and the current part of CZK 34 million as of 31 December 2016. The advance payment is held by Komerční Banka on the subsidy account. In year 2017, the grant value is CZK 276 million. The grant was not used in 2017 and the decrease of the amount is due to the revaluation of the amount denominated in EUR. In the financial statements as of 31 December 2017, the grant is classified as a long-term. The funds within the received advance from the European program CEF for the implementation of ETCS (European Train Control System) according to current assumptions will be used to deliver prototypes for selected series of locomotives in 2019. There is a time shift, as ČD Cargo, a.s., in terms of the tender for delivery and installation of the ETCS parts to selected vehicles in 2017, did not receive any offerings and the tender procedure was canceled. A new tender is currently underway.

## 11. OTHER ASSETS

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Prepayments granted | 1 | 1 | - |
| **Non-current financial assets** | **1** | **1** | **-** |
| Prepayments made | 25 | 50 | 75 |
| Tax receivables – value-added tax | 38 | 27 | 120 |
| Prepaid expenses | 37 | 38 | 29 |
| Other | 7 | 2 | 5 |
| **Other current financial assets** | **107** | **117** | **229** |
| **Total Other financial assets** | **108** | **118** | **229** |

Prepayments granted' item represents amounts paid to domestic and foreign suppliers in connection with business relations.

## 12. CASH AND CASH EQUIVALENTS

For cash flow statement purposes, cash and cash equivalents include cash on hand, cash at bank and investments in the 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:

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Cash in hand and cash in transit | 2 | 2 | 2 |
| Cash at bank | 463 | 761 | 862 |
| Cash on the cash-pooling account | - | 2 | 4 |
| **Total** | **465** | **765** | **868** |

For the calculation of cash flows for the year ended 31 December 2017, dividend income from subsidiary CD Cargo Germany GmbH in the amount of CZK 29 million (2016: CZK 30 million) have been recognised as non-cash income and deducted from its obligations. Since year 2017, cash-pooling account with the parent company České dráhy, a.s. is not presented with the Cash.

Table of the final balances of the Company on the accounts held with banks:

| | Short-term rating* | Long-term rating* | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|---|---|
| Citibank | P-1 | A1 | 74 | 5 | 14 |
| Česká spořitelna, a.s. | P-1 | A2 | 1 | 1 | 1 |
| Československá obchodní banka, a.s. | P-1 | A2 | 180 | 432 | 540 |
| ING Bank | P-1 | Aa3 | 134 | 153 | 64 |
| Komerční banka, a.s. | P-1 | A2 | 31 | 43 | 130 |
| Raiffeisenbank | P-2 | A3 | - | 1 | - |
| UniCredit Bank | P-2 | Baa1 | 1 | 81 | 85 |
| Všeobecná úvěrová banka a.s. | P-1 | A2 | 42 | 45 | 28 |
| **Total** | | | **463** | **761** | **862** |

* Moody's bank rating is presented at the end of 2017

## 13. EQUITY

### 13.1. Share capital

As of 31 December 2009, the share capital of the Company is composed of the non-cash investment of a business part of České dráhy, a.s., as the sole shareholder and amounted to CZK 8,800 million.

On 2 June 2009, České dráhy, a.s., acting in the capacity of the general Meeting, adopted the resolution on the decrease of the share capital of ČD Cargo, a.s., from CZK 8,800 million to CZK 8,494 million in accordance with section 213a of the Commercial Code. As of 31 December 2017, the Company reports the share capital of CZK 8,494 million in a form of 100 dematerialized shares. The share capital was fully paid.

### 13.2. Capital funds

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Share premium | 197 | 197 | 197 |
| Reserve fund | 156 | 116 | 109 |
| Cash Flow hedging reserve | 74 | 17 | (43) |
| Actuarial losses | (4) | (15) | (18) |
| **Total** | **423** | **315** | **245** |

The allocations to the statutory reserve fund are in accordance with the internal rules of the Company.

### Cash flow hedging reserve

| | 2017 (CZK million) | 2016 (CZK million) | 2015 (CZK million) |
|---|---|---|---|
| **Balance at the beginning of the year** | **17** | **(43)** | **(82)** |
| Profit / loss from the revaluation | 86 | 34 | (30) |
| Reclassification to profit or loss | (16) | 40 | 78 |
| **Total change in the cash flow hedging reserve** | **70** | **74** | **48** |
| Related income tax | (13) | (14) | (9) |
| **Balance at the end of the year** | **74** | **17** | **(43)** |

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.

## 14. TRADE PAYABLES

| Year | Category | Before due date (CZK million) | Past due date (days) | | | | | Total past due date (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|---|---|---|
| | | | 1–30 (CZK million) | 31–90 (CZK million) | 91–180 (CZK million) | 181–365 (CZK million) | 365 and more (CZK million) | | |
| 31 Dec 2017 | Short-term | 1,693 | 40 | 2 | - | - | - | 42 | **1,735** |
| 31 Dec 2016 | Short-term | 1,732 | 44 | 2 | - | - | - | 46 | **1,778** |
| 1 Jan 2016 | Short-term | 2,156 | 14 | - | - | - | - | 14 | **2,170** |

The average maturity of invoices is 90 days. The Company does not record any long-term trade payables.

## 15. LOANS, BORROWINGS AND BONDS

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Liabilities from leaseback | 1,225 | 1,551 | 1,948 |
| Liabilities from financial leases | 50 | 59 | 67 |
| Loans from České dráhy, a.s. | 352 | 450 | - |
| Issued bonds | 1,997 | 1,997 | 1,000 |
| **Total non-current** | **3,624** | **4,057** | **3,015** |
| Liabilities form leaseback | 414 | 398 | 409 |
| Liabilities from financial leases | 25 | 23 | 20 |
| Loans from České dráhy, a.s. | 73 | 77 | - |
| Issued bonds | 4 | 2 | 1,174 |
| **Total current** | **516** | **500** | **1,603** |
| **Total** | **4,140** | **4,557** | **4,618** |

As of 17 October 2016, the Company has drawn a borrowing from České dráhy, a.s., in the total amount of CZK 540 million for the purpose of financing the purchase of 383 series locomotives (Vectron). The remaining part of the borrowing is as of 31 December 2017 split into long-term part in amount of CZK 352 million and short-term part in amount of CZK 73 million.

Portions of long-term loans and borrowings, due within one year from the financial statements date are recognised as short-term loans and borrowings the Company did not breach in the reporting period, any conditions of loan agreements.

### 15.1. Issued bonds

On 4 May 2011, the resolution of the Czech National Bank, ref. no 2011/4833/570, file no. Sp/2011/50/572, approved the bond programme of ČD Cargo, a.s. The highest volume of outstanding bonds issued under the bond programme may amount up to CZK 6,000 million with the term of the bond programme being ten years. The above resolution of the Czech National Bank took effect on 5 May 2011.

Under the above-mentioned bond program or under separate issuance conditions, the following bond issues exist as of 31 December 2017:

| | |
|---|---|
| **Administrator** | Unicredit Bank Czech Republic and Slovakia, a.s. |
| **Date of issue** | 26 November2015 |
| **The total nominal value** | CZK 1,000,000,000 |
| **Nominal value of the bond** | CZK 5,000,000 |
| **Interest rate** | Fixed interest income 1.40% |
| **Issue rate** | 99.617 % |
| **Payment of interest income** | annually retrospectively |
| **Date of interest payment** | 26 November each year |
| **Date of the final maturity** | 26 November 2020 |

| | |
|---|---|
| **Administrator** | Raiffeisenbank, a.s. |
| **Date of issue** | 17 June 2016 |
| **The total nominal value** | CZK 500,000,000 |
| **Nominal value of the bond** | CZK 100,000 |
| **Interest rate** | Fixed interest income 1.28% |
| **Issue rate** | 100 % |
| **Payment of interest income** | annually retrospectively |
| **Date of interest payment** | 17 June each year |
| **Date of the final maturity** | 17 June 2021 |

| | |
|---|---|
| **Administrator** | Unicredit Bank Czech Republic and Slovakia, a.s. |
| **Date of issue** | 29 December 2016 |
| **Released under separate issue conditions** | Prospectus of book-entry bonds, ISIN CZ0003515611 with a fixed interest income of 1.26% pa, approved by the CNB under File no.: 2016/148032 / CNB / 570, S-Sp-2016/00057 / CNB / 572 on 23.12.2016 took effect on 24 December 2016. |
| **Trading** | Bonds accepted for trading on a regulated market of the Prague Stock Exchange |
| **The total nominal value** | CZK 500,000,000 |
| **Nominal value of the bond** | CZK 5,000,000 |
| **Interest rate** | Fixed interest income 1.26% |
| **Issue rate** | 100 % |
| **Payment of interest income** | annually retrospectively |
| **Date of interest payment** | 29 December each year |
| **Date of the final maturity** | 29 December 2023 |

ČD Cargo, a.s., recorded calls for a premature redemption of part of the first issue of the bonds placed through KB, a.s. with the total nominal value of CZK 341.7 million within the due period. This amount was redeemed as of 20 June 2014. ČD Cargo, a.s., repaid the remaining nominal value (after applying for early repayment) of bonds at KB in the amount of CZK 658.3 million as of 20 June 2016.

On 21 December 2016, ČD Cargo, a.s., repaid the third issue of bonds issued through Raiffeisenbank, a.s. with a nominal value of CZK 500 million.

In 2015, a fourth bond issue with a total nominal value of CZK 1,000 million was placed through the administrator Unicredit Bank Czech Republic and Slovakia Administrator, a.s.

In 2016, the fifth issue of bonds with a total nominal value of CZK 500 million was placed through the administrator Raiffeisenbank, a.s.

In 2016, the sixth bond issue, with a total nominal value of CZK 500 million, was placed through the administrator of Unicredit Bank Czech Republic and Slovakia, a.s.

Currently, bonds with a total nominal value of CZK 2,000 million are issued. In the financial statements as of 31 December 2017 these bonds are classified according to their maturity for the short and long-term.

### 15.2. Finance lease and leaseback liabilities

The Company concluded several lease contracts for the purchase of railway vehicles. The loans mature in 10 and more years. Pursuant to a lease contract, the Company has the ability to buy these vehicles upon the expiration of the lease. The Company's payables arising from finance leases are collateralised by the lessor's ownership title to the leased assets.

The value of financial liabilities and leaseback transactions is as follows:

| | Minimum lease payments | | | Present value of min. lease payment | | |
|---|---|---|---|---|---|---|
| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
| Less than 1 year | 513 | 513 | 540 | 439 | 421 | 429 |
| From 1 to 5 years | 1,218 | 1,453 | 1,732 | 1,090 | 1,270 | 1,480 |
| 5 years and more | 191 | 358 | 577 | 185 | 340 | 535 |
| **Total** | **1,922** | **2,324** | **2,849** | **1,714** | **2,031** | **2,444** |
| Minus future financial costs | (208) | (293) | (405) | - | - | - |
| **Present value of min. leasing's repayments** | **1,714** | **2,031** | **2,444** | **1,714** | **2,031** | **2,444** |
| In the financial statement position as: | | | | | | |
| - short-term loans | | | | 439 | 421 | 429 |
| - long-term loans | | | | 1,275 | 1,610 | 2,015 |
| **Total** | | | | **1,714** | **2,031** | **2,444** |
| In the financial statement position as: | | | | | | |
| - financial lease liabilities | | | | 75 | 82 | 87 |
| - leaseback liabilities | | | | 1,639 | 1,949 | 2,357 |
| **Total** | | | | **1,714** | **2,031** | **2,444** |

Financial lease liabilities and leaseback liabilities are presented in financial Instruments in Note 31.3. and in Note 31.11.1.

## 16. PROVISIONS

| | Balance at 1 Jan 2016 (CZK million) | Set-up (CZK million) | Use (CZK million) | Release (CZK million) | Transfers** (CZK million) | Balance at 31 Dec 2016 (CZK million) | Set-up (CZK million) | Use (CZK million) | Release (CZK million) | Balance at 1 Jan 2017 (CZK million) |
|---|---|---|---|---|---|---|---|---|---|---|
| Provision for litigation | 42 | - | - | - | - | 42 | 11 | (4) | - | 49 |
| Provision for business risks | 24 | - | - | - | - | 24 | - | - | (24) | - |
| Provision for employee benefits | 120 | 3 | (6) | - | - | 117 | 68 | (45) | - | 140 |
| - of which long-term part | 75 | | | | | 72 | | | | 80 |
| Provision for restructuring | 140 | - | (17) | (13) | - | 110 | - | (42) | (18) | 50 |
| - of which long-term part | 73 | | | | | - | | | | - |
| Provision for loss-making transactions | 580 | - | (55) | - | - | 525 | - | (63) | - | 462 |
| - of which long-term part | 524 | | | | | 466 | | | | 409 |
| Other provisions* | 62 | 104 | (98) | (3) | (28) | 37 | 34 | (31) | (15) | 25 |
| **Total** | **968** | **107** | **(176)** | **(16)** | **(28)** | **855** | **113** | **(185)** | **(57)** | **726** |
| **- Long-term** | **672** | | | | | **538** | | | | **489** |
| **- Short-term** | **296** | | | | | **317** | | | | **237** |

* In 2017 item Other provisions includes mainly provisions for complaints, levelling and unused vacations

** The balance of the provision for unused vacations was in 2016 reclassified to the line Other liabilities

The Company's management after careful consideration of all existing legal analyses and the results of negotiations in existing litigation and after evaluating all potential risks, present developments and disputes in accordance with the natural rate of prudence, decided to increase the provision for potential litigations to the amount of CZK 49 million (in 2016: CZK 42 million.).

During 2012, the management of ČD Cargo, a.s., decided to implement organisational changes drawn up on the basis of a restructuring plan whose main features were communicated within the Company. The nature of the plan, adopted in 2012 by the management of ČD Cargo, a.s., was a series of measures aimed at strengthening liquidity in the short and medium term to create the conditions to achieve favourable operating results and ensure the stability of the Company in the coming years. The measures adopted became a prerequisite for the establishment of the medium-term business plan. Future cash outflows associated with the restructuring plan were estimated at CZK 535 million.

Between 2012 and 2017, a provision was used to cover the costs associated with the restructuring process, respectively optimisation process. These were mainly costs associated with termination or severance pay. According to the original plan, the optimisation process should be completed by 31 December 2017, which was also noted in the prior year's financial statements. Based on the management's decision, the process of optimising and streamlining internal processes was extended by one year and will be completed on 31 December 2018. In accordance with this decision, the remaining unused portion of the restructuring reserve as at 31 December 2017 of CZK 50 million will be used as a reimbursement of the costs related to the completion of the optimisation process in 2018. Again, this will mainly concern termination pay expenses.

The most important reason for not using the reserve or not completing the optimisation process in 2017 was primarily the focus on strengthening our business activities, not only within our Company but especially within our foreign subsidiaries.

The provision for employee benefits includes the claim of employees for a financial contribution on life jubilees, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. The provision was calculated as being CZK 140 million as of 31 December 2017. Compared to 2016, it rose slightly due to the creation of several new benefits under the collective bargaining agreement for 2018. One of them is, for example, a reward for a 60 year jubilee of employees.

In calculating the provision, the Company used an actuarial model which is based on 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 in the number of employees, anticipated increase in salaries, anticipated inflation level, likelihood of death or disablement according to the data of the Czech statistical office. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

During 2014, the Company made a provision for loss-making transactions. The provision amount is determined by a qualified estimate of the amount of the estimated future liability arising from loss. The value is the difference between the expected discounted net revenue and discounted expected expenditure. For the calculation, the yield rate of 7% was used. When discounting cost, the Company used the discount rate at the expense of long-term foreign capital. The total amount of the provision as of 31 December 2016 was CZK 525 million. At the end of 2017, it is CZK 462 million. The provision will be gradually released against expenses until 2025.

Other provisions item consists mainly of provisions for claims and levelling, damage reimbursement and repairs of railroad vehicles. Until 2015, it also included the provision for untaken holiday, which is, from 2016, reported within a commitment to employees and the corresponding amount for social and health insurance. The provision for claims in freight transportation is created using a reasonable estimate of the amount of estimated future cash outflows that make up the expected value of credit notes for complaints from customers. The value of the reserve as of 31 December 2017 amounted to CZK 10 million; the total amount as of 31 December 2016 was CZK 18 million. A provision for levelling is created using a reasonable estimate of the amount of estimated future cash outflows. Estimated costs are expected amounts to be charged to the Company in a form of deductions from foreign carriers' payments. The value of the reserve as of 31 December 2017 amounted to CZK 1 million; the total amount as of 31 December 2016 was CZK 4 million.

## 17. OTHER FINANCIAL LIABILITIES

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Hedging derivatives | 1 | 8 | 16 |
| Liabilities arising from supplier loans | 24 | 128 | 269 |
| Other | 107 | 183 | 280 |
| **Other long-term financial liabilities** | **132** | **319** | **565** |
| Hedging derivatives | 5 | 12 | 43 |
| Liabilities arising from supplier loans | 121 | 173 | 198 |
| Other | 138 | 134 | 171 |
| **Other short-term financial liabilities** | **264** | **319** | **412** |
| **Total other financial liabilities** | **396** | **638** | **977** |

Other items include liabilities regarding court settlement in a dispute about the cost of traction energy taken from SŽDC and settlement agreement with a court judgment in respect of compensation for damage caused by SŽDC exclusions. A more detailed overview of the relations with the SŽDC is presented in the Note 30.7.

## 18. OTHER LIABILITIES

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Other | 387 | 369 | 133 |
| **Other long-term liabilities** | **387** | **369** | **133** |
| Received prepayments | 1 | 2 | 3 |
| Liabilities to employees | 257 | 253 | 227 |
| Social security and health insurance liabilities | 124 | 122 | 105 |
| Tax withheld to employees | 36 | 35 | 33 |
| Other | 2 | 35 | 3 |
| **Other short-term liabilities** | **420** | **447** | **371** |
| **Total other liabilities** | **807** | **816** | **504** |

In 2016, the Company obtained an advance payment of CZK 292 million within the subsidy project to equip traction vehicles with the on-board part of the European train Control system (ETCS). The subsidy for the acquisition of fixed assets of the Company is presented as 'Other'", and in 2017 its long-term part amounted to CZK 276 million (in 2016 the long-term part amounted to CZK 258 million, whereas the short-term part amounted to CZK 34 million).

Other long-term liabilities item also represent liabilities to employees arising out of collective agreements.

Liabilities to employees' item represent a liability for unpaid December salaries.

The Company records no liabilities past their due dates to taxation authorities, social security institutions or health insurers.

## 19. CONTRACTS FOR OPERATING LEASE

### 19.1. The Company as a lessee

The Company's costs of renting railroad vehicle from individual contracts amounted to CZK 348 million in 2017 (CZK 299 million in 2016).

The Company, as a lessee, reported renting of buildings and land in Lovosice Logistics Center in 2017 and in 2016 in the amount of CZK 84 million.

### 19.2. The Company as a lessor

Operating leases applies to the lease of traction vehicles, wagons and cisterns owned by the Company with various lease periods.

Income from operating leases of movable assets in 2017 amounts to CZK 309 million (in 2016: CZK 269 million).

The Company as a lessor concluded no uncancellable contracts for operating leases.

### 19.3. Contractual obligation to expenditure

| | Total as at 31 Dec 2017 (CZK million) | Already paid (CZK million) | Liability (CZK million) |
|---|---|---|---|
| Investment to ŽKV | 1,892 | 750 | 1,142 |
| Other (buildings, IT) | 229 | 2 | 227 |
| **Total** | **2,121** | **752** | **1,369** |

As at balance sheet date, the Company has concluded agreements for the purchase of land, buildings and equipment and investment property of CZK 2,121 million. Out of those, CZK 1,369 million relates to unpaid supplies. The remaining CZK 752 million was already paid on 31 December 2017. A substantial part of the liabilities to expenses of CZK 1,142 million represents investments in railroad vehicles.

| | Total as at 31 Dec 2016 (CZK million) | Already paid (CZK million) | Liability (CZK million) |
|---|---|---|---|
| Investment to ŽKV | 934 | 294 | 640 |
| Other (buildings, IT) | 242 | - | 242 |
| **Total** | **1,176** | **294** | **882** |

As at 31 December 2016, the Company has concluded agreements for the purchase of property, plant and equipment and investment property of CZK 1,176 million. Of this, CZK 596 million related to deliveries agreed for 2016 and CZK 286 million to deliveries agreed for subsequent years. The remaining CZK 294 million was already paid on 31 December 2016. A substantial portion of the liabilities to expenses of CZK 640 million represented investments in railroad vehicles.

Another item not captured in the table above is a contractual obligation for rent of a total value of CZK 718 million (as of 31 December 2016 it was CZK 802 million) from the Contract for renting of buildings and land in Lovosice Logistics Center. The commitment will be repaid on a yearly basis until 2025.

## 20. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

### 20.1. Bank guarantees issued

Bank guarantees as of 31 December 2017 issued by Komerční banka, a.s, from the contractual limit of CZK 50 million.

| List of active bank guarantees provided by ČD Cargo, a.s. as of 31 December 2017 | | | | | |
|---|---|---|---|---|---|
| **In behalf of** | **Type of guarantee** | **Amount** | **Currency** | **Termination date** | **The reason for a bank guarantee** |
| WestInvest Waterfront Towers s.r.o., Jankovcova 1569/2c, 170 00 Prague 7, Holešovice, Corporate ID 26178338 | lease guarantee | 227,267.17 | EUR | 30 September 2018 | Bank guarantee for the fulfilment of all liabilities and obligations of the lessee arising from the lease Contract with WestInvest Waterfront towers s.r.o. – lighthouse |
| HYPARKOS, s.r.o., Rohanské nábřeží 678/25, 186 00 Prague 8, Corporate ID 27626130 | lease guarantee | 16,517,056 | CZK | 30 June 2018 | Bank guarantee in the event that ČD Cargo, a.s. does not comply with the obligations stipulated by the Contract for the lease of Buildings and land in the logistics Centre in Lovosice. |
| Customs Authority for the South Bohemian region, Kasárenská 6, 370 21 České Budějovice | customs guarantee | 2,000,000 | CZK | unlimited | Letter of guarantee – transactions other than transit (comprehensive guarantee), reg. number 1401798029 to secure the customs and tax debt, which means payment of the customs duty, taxes and fees collected upon import, including accrued interest, with the exception of fines. |

### 20.2. Bank guarantees received

| List of active bank guarantees received by ČD Cargo, a.s. as of 31 December 2017 | | | | | |
|---|---|---|---|---|---|
| **In behalf of** | **Type of guarantee** | **Amount** | **Currency** | **Termination date** | **The reason for a bank guarantee** |
| AVE sběrné suroviny, a.s., Cvokařská 164/3, 301 00 Plzeň, Corporate ID 006 71 151 | Unicredit Bank Czech Republic and Slovakia, a.s. | 20,274,000 | CZK | 30 June 2018 | In accordance with the contract 05893-2017-O01 for the purchase of spare parts from scrapped 1,000 units of railway freight wagons |
| Siemens, s.r.o., Prague 13, Siemensova 1, PSČ 155 00, Corporate ID 002 68 577 | Unicredit Bank Czech Republic and Slovakia, a.s. | 1,997,500 | EUR | 28 February 2019 | In accordance with the contract no. 05012-2016-001 dated 13 April 2016 providing supplies interoperable driving railway vehicles for the needs of ČD Cargo, a.s. and operability under warranty |

| List of active bank guarantees received by ČD Cargo, a.s. as of 31 December 2017 | | | | | |
|---|---|---|---|---|---|
| **In behalf of** | **Type of guarantee** | **Amount** | **Currency** | **Termination date** | **The reason for a bank guarantee** |
| Siemens, s.r.o., Prague 13, Siemensova 1, PSČ 155 00, Corporate ID 002 68 577 | Unicredit Bank Czech Republic and Slovakia, a.s. | 1,191,000 | EUR | 31 July 2020 | In accordance with Supplement No. 2 (application of option to 3 interoperable locomotives) dated 28 April 2017 to purchase contract No. 05012-2016-O01 dated 13 April 2016 providing deliveries of interoperable locomotives for the needs of ČD Cargo, a.s. and serviceability under the warranty |
| ESTATE & INVESTMENT a.s. | Raiffaisenbank, a.s. | 2,500,000 | CZK | 31 October 2018 | In accordance with the invitation to tender for the tender contract "supply of brake blocks" |

### 20.3. The proceedings relating to Italia Express train at the Office for the Protection of Competition

In the autumn of 2016, the Office for the Protection of Competition ("ÚOHS") initiated administrative proceedings with the companies České dráhy, a.s., and ČD Cargo, a.s., relating to potential infringement of the Law on the Protection of Competition and Treaty on the Functioning of the European Union. The infringement was allegedly committed by the companies České dráhy, a.s., and ČD Cargo, a.s., in providing freight and forwarding services by cargo block trains, including the provision of related freight and forwarding services related to transfer of goods to train's loading station and transfer from loading station to the place of destination. According to ÚOHS, this infringement should have occured more than 10 years ago. The matter has not yet been decided. However, the Office for the Protection of Competition suspended the administrative proceedings against ČD Cargo, a.s., by a decision of 19 June 2017. Therefore, the proceeding is only directed against České dráhy, a.s.

In the financial statements as at 31 December 2017, ČD Cargo, a.s., does not recognise any potential liability in this respect (for example: a provision) because the Management of the Company is not aware that České dráhy, a.s. as the sole proceedings' participant would have requested ČD Cargo, a.s., to cover any potential costs incurred in the future.

## 21. REVENUE FROM PRINCIPAL OPERATIONS

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Revenue from freight transportation: | 10,571 | 10,412 |
| – Revenue from freight transportation - local | 3,712 | 3,700 |
| – Revenue from freight transportation – foreign | 6,859 | 6,712 |
| Other revenue from freight transportation: | 513 | 514 |
| – Other revenue from freight transportation - local | 328 | 337 |
| – Other revenue from freight transportation – foreign | 185 | 177 |
| Other revenue related to transportation | 158 | 168 |
| **Total revenue from principal operations** | **11,242** | **11,094** |

Other revenues from freight transportation include mainly revenues from services performed at railway stations, additional services and scheduling services.

With respect to the volume of billed services, the main local customers include the following:

- NH TRANS SE
- CARBOSPED, spol. s r.o.
- MORAVIA STEEL, a.s.
- ČD Logistics, a.s.
- Rail Cargo Logistics – Czech Republic, s.r.o.
- ČEZ, a.s.
- METRANS, a.s.

Foreign customers predominantly include railway transportation companies (national transporters) and other entities. With respect to the volume of billed services, the main companies are as follows:

Railway transportation companies (national transporters)

- Železničná spoločnosť Cargo Slovakia, a.s.
- DB Cargo AG
- Rail Cargo Austria AG

Other companies

- STVA S.A.
- CD Cargo Germany GmbH
- Maersk Line A/S
- DB Cargo Logistics GmbH
- LKW WALTER INTERNATIONAL
- BLG AutoRail GmbH

## 22. OTHER OPERATING INCOME

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Gain on sale of property, plant and equipment and property investments | 22 | 3 |
| Profit from disposal of unneeded assets | 143 | 94 |
| Rental income | 343 | 303 |
| Compensations for deficits and damage | 44 | 52 |
| Contractual fines and default interest | 32 | 9 |
| Exchange rate gains - operational | 72 | 13 |
| Changes in provisions | 44 | 13 |
| Changes in provisions for receivables | 11 | 9 |
| Changes in depreciation of tangible fixed assets | - | 1 |
| Changes in provisions for inventories | 3 | - |
| Dividends received | 144 | 40 |
| Other | 26 | 10 |
| **Total other operating income** | **884** | **547** |

Rental income includes income from short-term and occasional renting of freight wagons and locomotives.

## 23. PURCHASED CONSUMABLES AND SERVICES

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Traction costs | (1,182) | (1,212) |
| – Traction fuel (diesel) | (403) | (403) |
| – Traction electricity | (779) | (809) |
| Payment for the use of railway route | (1,222) | (1,271) |
| Other purchased consumables and services | (3,291) | (3,058) |
| – Consumed material | (297) | (273) |
| – Consumed other energy | (83) | (84) |
| – Consumed fuel | (8) | (7) |
| – Repairs and maintenance | (226) | (179) |
| – Travel costs | (39) | (38) |
| – Telecommunication, data and postal services | (51) | (50) |
| – Other rental | (131) | (117) |
| – Rental for rail vehicles | (623) | (664) |
| – Transportation charges | (1,251) | (1,113) |
| – Services associated with the use of buildings | (39) | (39) |
| – Operational cleaning of rail vehicles | (5) | (4) |
| – Border area services | (178) | (175) |
| – Advertising and promotion costs | (17) | (11) |
| – Leases | (10) | (8) |
| – Infrastructure capacity allocation | (26) | (28) |
| – Operation, maintenance and other services related to IT | (109) | (100) |
| – Performance of fire brigade services | (10) | (10) |
| – Environmental services | (7) | (9) |
| – Other services | (181) | (149) |
| **Total purchased consumables and services** | **(5,695)** | **(5,541)** |

Traction electricity in the period from 1 January 2017 to 31 December 2017 includes traction electricity purchased from České dráhy, a.s., in the amount of CZK 779 million. In the period from 1 January 2016 to 31 December 2016 includes traction electricity purchased from České dráhy, a.s., in the amount of CZK 809 million.

Other services predominantly include the costs of healthcare, advisory and costs of commissions paid for cross-border representation.

The following table reflects the cost of services provided by the statutory auditor - PricewaterhouseCoopers.

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Obligatory audit of annual financial statements | (2) | (1) |
| Other services* | (3) | - |
| **Total** | **(5)** | **(1)** |

* projects in warehouse optimisation

## 24. EMPLOYEE BENEFIT COSTS

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Payroll costs | (2,775) | (2,651) |
| Statutory health insurance | (132) | (126) |
| Statutory social insurance | (812) | (773) |
| Contributions to the pension insurance and capital life insurance | (159) | (161) |
| Benefits resulting from the collective agreement | (21) | (13) |
| Other employees benefit costs | (32) | (35) |
| **Total employee benefit costs** | **(3,931)** | **(3,759)** |

Other costs of employee benefits include mainly employee training costs.

Average recalculated registered number of employees:

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Employees | 6,976 | 6,978 |
| Key management | 13 | 13 |
| **Total average recalculated registered number of employees** | **6,989** | **6,991** |

Key management consists of the Board of Directors, the Supervisory Board and the Audit Committee. For more detailed information, see Note 1.5.

## 25. DEPRECIATION AND AMORTISATION

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Depreciation of property, plant and equipment | (1,060) | (964) |
| Amortisation of intangible assets | (85) | (60) |
| **Total depreciation and amortisation** | **(1,145)** | **(1,024)** |

## 26. OTHER OPERATING EXPENSES

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Change in other provisions related to property, plant and equipment | (39) | - |
| Contractual fines and default interest expenses | (23) | (20) |
| Taxes and fees | (8) | (7) |
| Exchange rate losses – operational | (86) | (14) |
| Insurance | (79) | (72) |
| Deficits, damages | (21) | (26) |
| Other | (57) | (26) |
| **Total other operating expenses** | **(313)** | **(165)** |

Other operating expenses primarily include costs of loans written off and membership fees.

## 27. FINANCIAL EXPENSES

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Interest on finance lease payables and leasebacks | (95) | (123) |
| Interest expense – bonds | (18) | (35) |
| Other interest expense | (20) | (28) |
| Unwinding of the discount of provisions | (2) | (1) |
| Exchange rate losses – financial | (102) | (45) |
| Bank expenditures | (3) | (2) |
| Other financial expenses | (2) | (1) |
| **Total financial expenses** | **(242)** | **(235)** |

## 28. FINANCIAL INCOME

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Exchange rate gains – financial | 82 | 45 |
| Interest received | - | 3 |
| Other financial income | 4 | 5 |
| **Total financial income** | **86** | **53** |

## 29. INCOME TAXATION

### 29.1. Income tax reported in profit or loss

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Current income tax for the period reported in the statement of profit or loss | (5) | (5) |
| Deferred tax recognised in the statement of profit or loss | (147) | (169) |
| **Total income tax expense related to continuing operations** | **(152)** | **(174)** |

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

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Profit for the period from continuing operations before tax | 886 | 970 |
| Statutory tax rate on corporate income in the Czech Republic | 19% | 19% |
| Expected income tax expense | (168) | (184) |
| **Adjustments:** | | |
| Income on dividends | 27 | 8 |
| Other non-deductible income | (109) | 10 |
| Tax non-deductible expense | 103 | (3) |
| Income tax related to prior periods | (5) | (5) |
| **Income tax reported in profit or loss** | **(152)** | **(174)** |

### 29.2. Deferred tax

| | Unutilised tax losses (CZK million) | Receivables (CZK million) | Provisions (CZK million) | Non-current assets (CZK million) | Leases (CZK million) | Other (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|---|
| **Balance at 1 Jan 2016** | **(98)** | **(32)** | **(184)** | **1 104** | **384** | **(17)** | **1 157** |
| Deferred tax reported in Profit or Loss | 72 | 15 | 16 | 2 | 72 | (8) | 169 |
| Deferred tax recognised in other comprehensive income | - | - | - | - | - | 14 | 14 |
| **Balance at 31 Dec 2016** | **(26)** | **(17)** | **(168)** | **1 106** | **456** | **(11)** | **1 340** |
| Deferred tax reported in Profit or Loss | 26 | (1) | 24 | 33 | 61 | 4 | 147 |
| Deferred tax recognised in other comprehensive income | - | - | - | - | - | 13 | 13 |
| **Balance at 31 Dec 2017** | **-** | **(18)** | **(144)** | **1 139** | **517** | **6** | **1 500** |

## 30. RELATED PARTY TRANSACTIONS

### 30.1. Trade receivables and payables at the end of reporting period end

| 31 Dec 2017 | Receivables (CZK million) | Payables (CZK million) |
|---|---|---|
| České dráhy a.s. | 6 | 235 |
| **Parent company** | **6** | **235** |
| CD Cargo Germany GmbH | 23 | 53 |
| CD Cargo Austria GmbH | - | 1 |
| CD Cargo Poland Sp. z o.o. | 44 | 47 |
| CD Cargo Slovakia, s.r.o. | 34 | 20 |
| ČD Logistics, a.s. | 83 | 2 |
| Terminal Brno, a.s. | - | 3 |
| **Subsidiaries** | **184** | **126** |
| RAILLEX, a.s. | 4 | - |
| BOHEMIAKOMBI, spol. s r.o. | 1 | - |
| Ostravská dopravní společnost, a.s. | 17 | - |
| Ostravská dopravní společnost - Cargo, a.s | 9 | 11 |
| **Joint ventures and associated companies** | **31** | **11** |
| ČD - Telematika, a.s. | - | 6 |
| ČD - Informační Systémy, a.s. | - | 109 |
| DPOV, a.s. | 1 | 25 |
| ČD travel, s.r.o. | - | 1 |

| 31 Dec 2017 | Receivables (CZK million) | Payables (CZK million) |
|---|---|---|
| ČD Relax, s.r.o. | - | 1 |
| Dopravní vzdělávací institut, a.s. | - | 2 |
| Výzkumný Ústav Železniční, a.s. | 6 | - |
| **Other companies in the České dráhy Group** | **7** | **144** |
| **Total** | **228** | **516** |

| 31 Dec 2016 | Receivables (CZK million) | Payables (CZK million) |
|---|---|---|
| České dráhy a.s. | 3 | 229 |
| **Parent company** | **3** | **229** |
| CD Cargo Germany GmbH | 31 | 4 |
| CD Cargo Austria GmbH | - | 1 |
| CD Cargo Poland Sp. z o.o. | 17 | 24 |
| CD Cargo Slovakia, s.r.o. | 13 | 2 |
| ČD Logistics, a.s. | 74 | 1 |
| Terminal Brno, a.s. | - | 2 |
| **Subsidiaries** | **135** | **34** |
| RAILLEX, a.s. | 3 | - |
| BOHEMIAKOMBI, spol. s r.o. | 1 | - |
| Ostravská dopravní společnost, a.s. | 44 | 12 |
| **Joint ventures and associated companies** | **48** | **12** |
| ČD - Telematika, a.s. | - | 5 |
| ČD - Informační Systémy, a.s. | - | 56 |
| DPOV, a.s. | 1 | 83 |
| ČD travel, s.r.o. | - | 6 |
| Dopravní vzdělávací institut, a.s. | - | 2 |
| Výzkumný Ústav Železniční, a.s. | 5 | - |
| **Other companies in the České dráhy Group** | **6** | **152** |
| **Total** | **192** | **427** |

| 1 Jan 2016 | Receivables (CZK million) | Payables (CZK million) |
|---|---|---|
| České dráhy a.s. | 11 | 483 |
| **Parent company** | **11** | **483** |
| CD Cargo Germany GmbH | 22 | 3 |

| 1 Jan 2016 | Receivables (CZK million) | Payables (CZK million) |
|---|---|---|
| CD Cargo Austria GmbH | - | 5 |
| CD Cargo Poland Sp. z o.o. | 5 | 12 |
| CD Cargo Slovakia, s.r.o. | 11 | - |
| ČD Logistics, a.s. | 71 | - |
| Terminal Brno, a.s. | - | 1 |
| **Subsidiaries** | **109** | **21** |
| RAILLEX, a.s. | 4 | - |
| BOHEMIAKOMBI, spol. s r.o. | 2 | - |
| Ostravská dopravní společnost, a.s. | 35 | 11 |
| **Joint ventures and associated companies** | **41** | **11** |
| ČD - Telematika, a.s. | - | 6 |
| ČD - Informační Systémy, a.s. | - | 58 |
| DPOV, a.s. | 1 | 30 |
| ČD travel, s.r.o. | - | 6 |
| Dopravní vzdělávací institut, a.s. | - | 2 |
| Výzkumný Ústav Železniční, a.s. | 4 | 1 |
| **Other companies in the České dráhy Group** | **5** | **103** |
| **Total** | **166** | **618** |

Related party transactions were conducted on an arm's length basis reflecting the amount of purchased goods and relationships between parties. Outstanding balances are not collateralised and are paid in cash. No guarantees were received or provided.

### 30.2. Income generated with related parties

| 2017 | Sale of tangible FA (CZK million) | Sale of services (CZK million) | Other income (CZK million) | Financial income (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|
| České dráhy a.s. | 3 | 18 | 2 | - | 23 |
| ČD - Telematika, a.s. | - | 1 | - | - | 1 |
| DPOV, a.s. | - | 3 | - | - | 3 |
| Výzkumný Ústav Železniční, a.s. | - | 31 | - | - | 31 |
| CD Cargo Germany GmbH | - | 364 | - | - | 364 |
| CD Cargo Poland Sp. z o.o. | - | 140 | 21 | 1 | 162 |
| CD Cargo Slovakia, s.r.o. | 15 | 130 | - | - | 145 |
| ČD Logistics, a.s. | - | 523 | - | - | 523 |
| RAILLEX, a.s. | - | 22 | - | - | 22 |
| BOHEMIAKOMBI, spol. s r.o. | - | 10 | - | - | 10 |

| 2017 | Sale of tangible FA (CZK million) | Sale of services (CZK million) | Other income (CZK million) | Financial income (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|
| Ostravská dopravní společnost, a.s. | - | 54 | - | - | 54 |
| Ostravská dopravní společnost - Cargo, a.s | - | 74 | - | - | 74 |
| **Total** | **18** | **1 370** | **23** | **1** | **1 412** |

| 2016 | Sale of tangible FA (CZK million) | Sale of services (CZK million) | Other income (CZK million) | Financial income (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|
| České dráhy a.s. | - | 18 | 3 | - | 21 |
| ČD - Telematika, a.s. | - | 1 | - | - | 1 |
| DPOV, a.s. | - | 4 | 2 | - | 6 |
| Výzkumný Ústav Železniční, a.s. | - | 21 | - | - | 21 |
| CD Cargo Germany GmbH | - | 312 | - | - | 312 |
| CD Cargo Austria GmbH | - | 5 | - | - | 5 |
| CD Cargo Poland Sp. z o.o. | - | 107 | - | 2 | 109 |
| ČD Cargo Slovakia, s.r.o. | - | 81 | - | - | 81 |
| ČD Logistics, a.s. | - | 487 | - | - | 487 |
| RAILLEX, a.s. | - | 31 | - | - | 31 |
| BOHEMIAKOMBI, spol. s r.o. | - | 17 | - | - | 17 |
| Ostravská dopravní společnost, a.s. | - | 201 | - | - | 201 |
| **Celkem** | **-** | **1 285** | **5** | **2** | **1 292** |

## 30.3. Purchase from related parties

| 2017 | Assets (CZK million) | Material and energy (CZK million) | Services (CZK million) | Other expenses (CZK million) | Financial expenses (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| České dráhy a.s. | 67 | 1 318 | 95 | 8 | 5 | 1 493 |
| ČD - Telematika, a.s. | - | 3 | 14 | - | - | 17 |
| ČD - Informační Systémy, a.s. | 80 | 6 | 101 | - | - | 187 |
| DPOV, a.s. | 61 | 23 | 22 | - | - | 106 |
| Dopravní vzdělávací institut, a.s. | - | - | 19 | - | - | 19 |
| ČD Relax, s.r.o. | - | - | 15 | - | - | 15 |
| JLV, a.s. | - | - | 1 | - | - | 1 |
| CD Cargo Germany GmbH | - | - | 133 | - | 1 | 134 |
| CD Cargo Austria GmbH | - | - | 4 | - | - | 4 |
| CD Cargo Poland Sp. z o.o. | - | - | 345 | - | 2 | 347 |

| 2017 | Assets (CZK million) | Material and energy (CZK million) | Services (CZK million) | Other expenses (CZK million) | Financial expenses (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| CD Cargo Slovakia, s.r.o. | - | - | 82 | - | - | 82 |
| ČD Logistics, a.s. | - | 1 | 13 | - | - | 14 |
| Terminal Brno, a.s. | - | - | 22 | - | - | 22 |
| RAILLEX, a.s. | - | - | 1 | - | - | 1 |
| Ostravská dopravní společnost - Cargo, a.s | - | - | 58 | - | - | 58 |
| **Total** | **208** | **1 351** | **925** | **8** | **8** | **2 500** |

Purchases from České dráhy, a. s., in 2017 represented mainly purchased traction energy in the amount of CZK 779 million and motor diesel oil worth CZK 408 million.

| 2016 | Assets (CZK million) | Material and energy (CZK million) | Services (CZK million) | Other expenses (CZK million) | Financial expenses (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| České dráhy a.s. | 110 | 1 324 | 97 | 2 | - | 1 533 |
| ČD - Telematika, a.s. | - | 3 | 13 | - | - | 16 |
| ČD - Informační Systémy, a.s. | 45 | 5 | 89 | - | - | 139 |
| DPOV, a.s. | 109 | 14 | 14 | - | - | 137 |
| ČD travel, s.r.o. | - | - | 18 | - | - | 18 |
| Dopravní vzdělávací institut, a.s. | - | - | 19 | - | - | 19 |
| Výzkumný Ústav Železniční, a.s. | - | - | 1 | - | - | 1 |
| JLV, a.s. | - | - | 1 | - | - | 1 |
| CD Cargo Germany GmbH | - | - | 111 | - | - | 111 |
| CD Cargo Austria GmbH | - | - | 6 | - | - | 6 |
| CD Cargo Poland Sp. z o.o. | - | - | 247 | - | - | 247 |
| ČD Cargo Slovakia, s.r.o. | - | - | 17 | - | - | 17 |
| ČD Logistics, a.s. | - | - | 11 | - | - | 11 |
| ČD-DUSS Terminal, a.s. | - | - | - | - | - | - |
| Terminal Brno, a.s. | - | - | 17 | - | - | 17 |
| RAILLEX, a.s. | - | - | 1 | 1 | - | 2 |
| Ostravská dopravní společnost, a.s. | - | - | 55 | - | - | 55 |
| **Total** | **264** | **1 346** | **717** | **3** | **-** | **2 330** |

Purchases from České dráhy, a. s., in 2016 represented mainly purchased traction energy in the amount of CZK 809 million and motor diesel oil worth CZK 377 million.

### 30.4. Purchases of intangible, tangible and financial assets with related parties

#### 30.4.1 Sales

The most important items sold in 2017 were 4 electric vehicles of class 230 - these were sold to CD Cargo Slovakia, s.r.o., in the amount of CZK 15 million and the sale of a motorized driving vehicle to České dráhy, a.s., in the amount of CZK 3 million.

#### 30.4.2. Purchases

| Purchases | Intangible assets 2017 (CZK million) | Property, plant and equipment 2017 (CZK million) | Intangible assets 2016 (CZK million) | Property, plant and equipment 2016 (CZK million) |
|---|---|---|---|---|
| České dráhy, a.s. | - | 67 | - | 110 |
| ČD - Informační Systémy, a.s. | 63 | 17 | 45 | - |
| DPOV, a.s. | - | 61 | - | 109 |
| **Total** | **63** | **145** | **45** | **219** |

In 2017 the largest item of the purchase of České dráhy, a.s., assets represent the investments in rail vehicles components of CZK 39 million and the purchase of land and buildings in the amount of CZK 19 million. In 2016, the biggest item of purchases from this company was the purchase of 163 locomotives in the amount of CZK 81 million. Purchases of long-term assets from DPOV, a.s. represent rail vehicles components investments. Purchases from ČD-Informační systémy, a.s. mainly represent the development of information systems.

### 30.5. Loans to related parties

As of 31 December 2017 and as of 31 December 2016 we do not record any loan.

### 30.6. Loans from related parties

On 17 October 2016, the Company drew a loan from České dráhy, a.s., in the total amount of CZK 540 million, to finance the purchase of class 383 (Vectron) traction vehicles. As at 31 December 2016, the loan balance is divided into a long-term portion of CZK 450 million and a short-term portion of CZK 77 million. As at 31 December 2017, the loan balance is divided into a long-term portion of CZK 352 million and a short-term portion of CZK 73 million. The loan is shown in Note 15. “Loans, borrowings and bonds“.

### 30.7. Relations with SŽDC

The costs incurred in relation to Správa železniční dopravní cesty, s.o. predominantly include the fees for the allocation of capacity and use of the railway route in the years 2017 and 2016. The costs for the years 2017 and 2016 are disclosed in Note 23.

The income of the Company predominantly includes sales from intrastate vehicle transportation of CZK11 million. In 2016 it was CZK 13 million.

Expenses and income of the Company resulting from the transactions conducted with SŽDC in 2017 and 2016 were as follows:

| 31 Dec 2017 | Expenses (CZK million) | Income (CZK million) |
|---|---|---|
| Operation of railway route | 2 | - |
| Use of the railway route and allocated route capacity | 1,244 | - |
| Property rental | 10 | - |
| Revenues from freight transportation | 1 | 11 |
| Performance of firefighter emergency services | 10 | - |
| Telecommunication services | 41 | - |
| Contractual fines and default interest | 25 | - |
| Compensation of damages | 14 | 10 |
| Extraordinary events investigation | 3 | - |
| Repairs and maintenance | 2 | - |
| Other | 9 | 4 |
| **Total** | **1,361** | **25** |

| 31 Dec 2016 | Expenses (CZK million) | Income (CZK million) |
|---|---|---|
| Operation of railway route | 2 | - |
| Use of the railway route and allocated route capacity | 1,294 | - |
| Property rental | 2 | - |
| Revenues from freight transportation | - | 13 |
| Performance of firefighter emergency services | 10 | - |
| Telecommunication services | 41 | - |
| Contractual fines and default interest | 20 | - |
| Compensation of damages | 25 | 9 |
| Extraordinary events investigation | 3 | - |
| Repairs and maintenance | 2 | - |
| Other | 9 | 5 |
| **Total** | **1,408** | **27** |

Given the above activities, the Company records the following receivables from and payables to the SŽDC:

| Receivables | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Revenues from freight transportation | 4 | 5 | 1 |
| Estimated receivables | 4 | 4 | 2 |
| Other | 5 | 8 | 6 |
| **Total** | **13** | **17** | **9** |

| Payables | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Use of railway route and allocated capacity of the railway – freight transport | 138 | 153 | 487 |
| Property rental – expenses and income | 2 | 2 | - |
| Court settlement – traction energy | 152 | 215 | 271 |
| Settlement Agreement – exclusions | 30 | 42 | 59 |
| Court verdict - exclusions | - | 23 | 76 |
| Radio communication technology | 12 | 12 | 10 |
| Other | 17 | 1 | - |
| Estimated payables | 123 | 159 | 47 |
| The fee for the use of transport infrastructure | 85 | 107 | - |
| Compensation of damaged caused by extraordinary events | 2 | 22 | 26 |
| Uncollected capacity ŽDC | 16 | 12 | 9 |
| Performance of HZS | 10 | 10 | 10 |
| Heat supply | 7 | 5 | 2 |
| Office space rental | 1 | 1 | - |
| Other estimated payables | 2 | 2 | - |
| **Total** | **474** | **607** | **950** |

An amount of CZK 30 million relates to the settlement of the liability for damages caused by the SŽDC's exclusions by court decision from 15 January 2014. The liability is divided into a short-term part payable within one year of CZK 12 million and a long-term part of CZK 18 million.

The amount of CZK 152 million relates to the settlement of the liability from an out-of-court agreement conclusion on a dispute about the price of traction energy taken during the financial year 2009. The liability is divided into a short-term part payable within one year of CZK 64 million and a long-term payable in the amount of CZK 88 million.

### 30.8. Relations with the ČEZ Group

The expenses incurred in relation to the ČEZ Group primarily include the payments for electricity. The income primarily includes the sales of freight transportation.

| 31 Dec 2017 | Expenses (CZK million) | Income (CZK million) |
|---|---|---|
| Use of railway route and allocated capacity of the railway | 1 | - |
| Revenues from freight transportation | - | 308 |
| Thermal energy | - | - |
| Other | 9 | 2 |
| **Total** | **10** | **310** |

| 31 Dec 2016 | Expenses (CZK million) | Income (CZK million) |
|---|---|---|
| Use of railway route and allocated capacity of the railway | 1 | - |
| Revenues from freight transportation | - | 388 |
| Thermal energy | 8 | - |
| Other | 1 | - |
| **Total** | **10** | **388** |

Given the above activities, the Company records the following receivables from the ČEZ Group:

| Receivables | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Revenues from freight transportation | 30 | 68 | 71 |
| **Total** | **30** | **68** | **71** |

The Company does not record any significant payables to the ČEZ Group.

### 30.9. Relations with other related parties

As a part of other relations with the state, state-owned companies and organisations, the Company also carried transactions, mainly relating to taxes and fees (VAT, current tax, customs duties and charges, etc.).

# 31. FINANCIAL INSTRUMENTS

## 31.1. Capital risk management

The Company manages its capital to ensure that it is able to continue as a going concern while optimising the debt and equity balance between liabilities and equity. According to bank requirements the maximum target ratio between foreign and own funds is 75% (according to the internal targets set at 55%).

The capital structure of the Company consists of net debt (borrowings offset by cash and bank balances) and equity of the Company (comprising share capital, funds, retained earnings).

| | | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|---|
| Loans, borrowings and bonds | 15 | 4,140 | 4,557 | 4,618 |
| Cash and bank accounts | 12 | (465) | (763) | (864) |
| **Total net debt** | | **3,675** | **3,794** | **3,754** |

| | | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|---|
| Share capital | 13 | 8,494 | 8,494 | 8,494 |
| Capital funds | 13 | 423 | 315 | 245 |
| Accumulated losses | | (512) | (1,206) | (1,995) |
| **Total equity** | | **8,405** | **7,603** | **6,744** |

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 subject to approval by the Company's statutory bodies, i.e. the Board of Directors and the Supervisory Board.

## 31.2. 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.

## 31.3. Categories of financial instruments

| Categories of financial assets | Classes of financial assets | | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|---|---|
| Loans and receivables | Cash and cash equivalents | 12 | 465 | 763 | 864 |
| | Trade receivables | 9 | 1,581 | 1,553 | 1,572 |
| | Other financial assets | 10 | 291 | 309 | 131 |
| Financial assets at fair value presented in profit or loss statement | Other financial assets – derivatives used in hedge accounting | 10 | 96 | 37 | 1 |
| **Total** | | | **2,433** | **2,662** | **2,568** |

| Categories of financial assets | Classes of financial assets | | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|---|---|
| Financial liabilities at fair value presented in profit or loss statement | Other financial liabilities – derivatives used in hedge accounting | 17 | 5 | 15 | 54 |
| | Other financial liabilities – other derivatives | 17 | 1 | 5 | 5 |
| Financial liabilities at amortised cost | Finance lease and leaseback liabilities | 15 | 1,714 | 2,031 | 2,444 |
| | Issued bonds | 15 | 2,001 | 1,999 | 2,174 |
| | Loans | 15 | 425 | 527 | - |
| | Trade payables | 14 | 1,735 | 1,778 | 2,170 |
| | Liabilities from supplier credits | 17 | 145 | 301 | 467 |
| | Liabilities from Settlement Agreements | 17 | 169 | 280 | 406 |
| | Other financial liabilities | 17 | 76 | 37 | 45 |
| **Total** | | | **6,271** | **6,973** | **7,765** |

Financial instruments are measured at fair value (level 2). This measurement is 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), as described in Note 31.11.3.

Income from individual classes of financial assets is as follows:

| Class of financial asset | 2017 (CZK million) | 2016 (CZK million) | Presented in profit or loss statement |
|---|---|---|---|
| Interest on cash and cash equivalents | - | 3 | Financial income |
| **Total** | **-** | **3** | |

Impairment losses on financial assets are presented in the Note "Trade receivables" (Note 9) and "Other financial assets" (Note 10). No impairment was noted with regard to any other class of financial assets.

## 31.4. Financial risk management objectives

The financial management and risk management function provides services to the Company, monitors and manages the financial risks relating to the operations of the Company. Financial risks include market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

## 31.5. Currency risk management

The Company, in the context of its market position and business strategy, is in a position where inputs are purchased primarily in CZK, but services (particularly on income from international transport and services) are widely sold in foreign currency, primarily in EUR. This leads to disproportion between monetary inputs and outputs (surplus of EUR). Company in accordance with the risk management strategy concludes currency forwards and options to cover future payments received (monetary balance) denominated in foreign currencies.

The carrying amounts of the Company's foreign currency denominated monetary assets, net of the impact of currency hedging, at the end of the reporting period are as follows:

| 31 Dec 2017 | EUR (CZK million) | USD (CZK million) | Other (CZK million) | Total (CZK million) |
|---|---|---|---|---|
| Financial assets | 1,320 | 3 | - | 1,323 |
| Financial liabilities | (1,014) | (8) | (3) | (1,025) |
| **Total** | **306** | **(5)** | **(3)** | **298** |

| 31 Dec 2016 | EUR (CZK million) | USD (CZK million) | Other (CZK million) | Total (CZK million) |
|---|---|---|---|---|
| Financial assets | 1,744 | 3 | - | 1,747 |
| Financial liabilities | (1,169) | (10) | (3) | (1,182) |
| **Total** | **575** | **(7)** | **(3)** | **565** |

| 1 Jan 2016 | EUR (CZK million) | USD (CZK million) | Other (CZK million) | Total (CZK million) |
|---|---|---|---|---|
| Financial assets | 1,380 | 3 | - | 1,383 |
| Financial liabilities | (522) | (11) | (3) | (536) |
| **Total** | **858** | **(8)** | **(3)** | **847** |

### 31.5.1. 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 unhedged 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 with regard to the relevant foreign currencies would have on the profit and other comprehensive income. A positive number indicates an increase in the profit and other comprehensive income:

| | 2017 (CZK million) | 2016 (CZK million) | 2015 (CZK million) |
|---|---|---|---|
| Translation of item denominated in foreign currencies at the end of the period | (12) | (24) | (31) |
| Change in the fair value of derivatives at the end of the period | (9) | 2 | (13) |
| **Total impact on the profit for the period** | **(21)** | **(22)** | **(44)** |
| Change in the fair value of derivatives at the end of the period | 79 | 102 | 32 |
| **Total impact on other comprehensive income** | **79** | **102** | **32** |

### 31.5.2. Currency forward and options

In line with its principles, the Company enters into currency forwards and options to cover the future received payments denominated in foreign currencies.

The table shows outstanding foreign currency forwards and options for the sale of the foreign currency as of:

#### Foreign currency forwards

| Sale | Average currency exchange rate | Foreign currency | Nominal value in EUR million. | Fair value (CZK million) |
|---|---|---|---|---|
| 31 Dec 2017 | 26.641 | EUR | 84 | 86 |
| 31 Dec 2016 | 26.868 | EUR | 96 | 6 |
| 1 Jan 2016 | 26.950 | EUR | 24 | 1 |

#### Foreign currency forwards – collar

As of 31 December 2017, the Company has no open foreign currency option for sale.

| Sale | Average currency exchange rate | Foreign currency | Nominal value in EUR million. | Fair value (CZK million) |
|---|---|---|---|---|
| 31 Dec 2016 | 26.65 – 27.05 | EUR | 12 | - |
| 1 Jan 2016 | 26.50 – 27.15 | EUR | 12 | (1) |

Open foreign currency forwards and options on purchase of foreign currency were not closed in 2015, 2016 and 2017.

**Expected realization of hedged items by foreign currency forwards and options**

Expected cash flows of hedged future sales in EUR have the following structure:

| 31 Dec 2017 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1 year to 5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Hedged future sales in EUR | 128 | 255 | 1,149 | 613 | - | **2 145** |

| 31 Dec 2016 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1 year to 5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Hedged future sales in EUR | 162 | 324 | 1,459 | 973 | - | **2 918** |

| 1 Jan 2016 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1 year to 5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Hedged future sales in EUR | 81 | 162 | 730 | - | - | 973 |

### 31.6. Interest rate risk management

The Company is exposed to the risk of interest rate changes because it borrows funds at both fixed and floating interest rates. The Company manages the interest rate risk by maintaining an appropriate mix between fixed and floating rate financing.

Concurrently, the Company concludes interest rate swap contracts in order to hedge future cash flows resulting from loans and borrowings with variable rates. The hedging is regularly assessed to align the opinions on the development of interest rates with the defined level of acceptable risk. This treatment provides for the application of the economically most effective hedging strategies.

### 31.6.1. 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 200 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:

| | 2017 (CZK million) | 2016 (CZK million) | 2015 (CZK million) |
|---|---|---|---|
| Interest from loans and lease with variable rate for the period | (44) | (60) | (46) |
| Change in the fair value of derivatives at the end of the period | 2 | 6 | 10 |
| **Total impact on the profit for the period** | **(42)** | **(54)** | **(36)** |
| Change in the fair value of derivatives at the end of the period | 1 | 6 | 12 |
| **Total impact on other comprehensive income** | **1** | **6** | **12** |

### 31.6.2. Interest rate Swaps

Based on interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to eliminate the risk of changing cash flows on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows. The fair value of interest rate swaps is disclosed in the table below.

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

**IRS**

| 31 Dec 2017 | Average contracted fixed interest rate | Principal CZK million | Fair value of assets (liabilities) CZK million |
|---|---|---|---|
| Less than 1 year | 3.265% | 112 | (4) |
| 1 to 5 years | 3.265% | 95 | (1) |
| **Total** | | | **(5)** |

| 31 Dec 2016 | Average contracted fixed interest rate | Principal CZK million | Fair value of assets (liabilities) CZK million |
|---|---|---|---|
| Less than 1 year | 3.265% | 109 | (8) |
| 1 to 5 years | 3.265% | 207 | (6) |
| **Total** | | | **(14)** |

| 1 Jan 2016 | Average contracted fixed interest rate | Principal CZK million | Fair value of assets (liabilities) CZK million |
|---|---|---|---|
| Less than 1 year | 3.265% | 106 | (10) |
| 1 to 5 years | 3.265% | 304 | (13) |
| 5 years and more | 3.265% | 13 | - |
| **Total** | | | **(23)** |

This is related to interest payments insurance on leases of class 753 locomotives.

The Company will settle the difference between the fixed and variable interest rate on a net basis. Exchanges of payments under interest rate swaps and payments of the interest on loans are concurrent and the amount accumulated in equity is reclassified to the profit or loss in the period in which variable interest rates from the loan impact the profit or loss.

### 31.6.3. Interest rate option

In 2011, the Company concluded hedging of interest rates with regard to three lease transactions with floating interest rates. The hedging took the form of a collar, in three individual tranches. The hedging will be effective from 2013 to 2019.

| 31 Dec 2017 | Hedged range | Principal CZK million | Fair value of assets (liabilities) CZK million |
|---|---|---|---|
| Less than 1 year | 1.13% - 3.13% | 107 | (1) |
| 1 to 5 years | 1.13% - 3. 13% | 178 | - |
| **Total** | | | **(1)** |

| 31 Dec 2016 | Hedged range | Principal CZK million | Fair value of assets (liabilities) CZK million |
|---|---|---|---|
| Less than 1 year | 1.13% - 3.13% | 100 | (3) |
| 1 to 5 years | 1.13% - 3.13% | 284 | (2) |
| **Total** | | | **(5)** |

| 1 Jan 2016 | Hedged range | Principal CZK million | Fair value of assets (liabilities) CZK million |
|---|---|---|---|
| Less than 1 year | 1.13% - 3.13% | 94 | (2) |
| 1 to 5 years | 1.13% - 3.13% | 385 | (3) |
| **Total** | | | **(5)** |

This is related to interest payments on leases 1,145 rail wagons (Rils + Habbillns + Falls + Zaes + Eas + Roos).

**Expected realization of hedged items by interest rate swaps and options:** the expected hedged cash flows from interest on variable-rate loans are presented in the Note 32.9.1. Tables with remaining contractual maturities of financial liabilities are presented in rows "Finance lease liabilities" and 'Instruments with a variable interest rate'.

## 31.7. 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, is a significant cost item of the Company. The Company manages this risk using a combination of several instruments as follows:

- conclusion of mid-term hedging derivative for oil purchase,
- the risk arising from the purchase of electricity from the relevant supplier is eliminated by the purchase of the annual consumption for the maximum fixed price

### 31.7.1. 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 prices of commodities due to:

- change in the fair value of concluded financial derivatives.

The following table shows the impact that an increase in the oil price of 10% 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:

| | 2017 (CZK million) | 2016 (CZK million) | 2015 (CZK million) |
|---|---|---|---|
| Change in the fair value of derivatives at the end of the period | - | - | - |
| **Total impact on the profit for period** | **-** | **-** | **-** |
| Change in the fair value of derivative at the end of the period | 12 | 16 | 8 |
| **Total impact on other comprehensive income** | **12** | **16** | **8** |

### 31.7.2. Commodity derivatives

The table shows outstanding commodity contracts for the purchase of oil at the end of the accounting period:

| Purchase of oil | Edged average price (CZK/mt)) | Volume of contracts (mt) | Fair value (CZK million) |
|---|---|---|---|
| 31 Dec 2017 | 11,118 | 9,600 | 11 |
| 31 Dec 2016 | 10,822 | 13,200 | 28 |
| 1 Jan 2016 | 12,713 | 8,400 | (30) |

**Expected realization of hedged items by commodity derivatives**

The following table shows the expected cash flows of the hedged future purchases of diesel:

| 31 Dec 2017 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1 year to 5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Hedged future purchases of diesel | 8 | 16 | 70 | 31 | - | 125 |

| 31 Dec 2016 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1 year to 5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Hedged future purchases of diesel | 9 | 18 | 81 | 62 | - | 170 |

| 1 Jan 2016 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1 year to 5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Hedged future purchases of diesel (with FWD) | 6 | 11 | 52 | - | - | 69 |

## 31.8. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company.

The Company seeks to trade only with creditworthy counterparties whom the Company reviews on an ongoing basis using publicly available information and internal data. The Company's exposure and credit ratings of its counterparties are continuously monitored.

Standard instruments (deposits, payment terms, customer tracking, internal tools etc.) are used in various combinations for additional hedge of potential risk receivables. The offsetting policy for receivables and liabilities is being actively applied to improve the liquidity of the ČD Cargo, a.s. At the same time, ČD Cargo, a.s. is applying continuous monitoring of receivables by individual companies and by default periods with special attention to receivables with more than 15 days overdue. Individual responsible employees of the Company and the senior staff of the receivables Commission are continuously engaged in past due receivables development.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned (the investment grade is required) see Note 12.

The net book value of financial assets is recognised in the financial statements on a net basis, which is net of impairment losses, represents the Company's maximum exposure to credit risk. The most significant item in 2017 is 'Restricted cash' in the total amount of CZK 276 million. (2016: CZK 292 million.) Presenting the advance payment provided within the subsidy project to equip traction vehicles with the on-board part of the European train Control system (ETCS). For a detailed overview, see Note 10.

### Financial assets

| 31 Dec 2017 | Within due date (CZK million) | | After due date (CZK million) | | Impairment (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| | Not impaired | Impaired | Not impaired | Impaired | | |
| Trade receivables * | 1,446 | 24 | 135 | 114 | (138) | 1,581 |
| Cash and cash equivalents | 465 | - | - | - | - | 465 |
| Other | 8 | - | 5 | 26 | (26) | 13 |
| Other financial assets - current – Restricted cash | 276 | - | - | - | - | 276 |
| Cashpooling | 2 | - | - | - | - | 2 |
| Financial derivatives used in hedge accounting | 96 | - | - | - | - | 96 |
| **Total** | **2,293** | **24** | **140** | **140** | **(164)** | **2 433** |

* For age structure, see Note 9. Trade receivables

| 31 Dec 2016 | Within due date (CZK million) | | After due date (CZK million) | | Impairment (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| | Not impaired | Impaired | Not impaired | Impaired | | |
| Trade receivables * | 1,471 | - | 82 | 151 | (151) | 1 553 |
| Cash and cash equivalents | 763 | - | - | - | - | 763 |
| Other | 5 | - | 9 | 23 | (23) | 14 |
| Other financial assets - current – Restricted cash | 292 | - | - | - | - | 292 |
| Cashpooling | 3 | - | - | - | - | 3 |
| Financial derivatives used in hedge accounting | 37 | - | - | - | - | 37 |
| **Total** | **2,571** | **-** | **91** | **174** | **(174)** | **2 662** |

* For age structure, see Note 9. Trade receivables

| 1 Jan 2016 | Within due date (CZK million) | | After due date (CZK million) | | Impairment (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| | Not impaired | Impaired | Not impaired | Impaired | | |
| Trade receivables * | 1 483 | 2 | 89 | 146 | (148) | 1 572 |
| Cash and cash equivalents | 864 | - | - | - | - | 864 |
| Other | 103 | - | 18 | 95 | (89) | 127 |
| Cashpooling | 4 | - | - | - | - | 4 |
| Financial derivatives used in hedge accounting | 1 | - | - | - | - | 1 |
| **Total** | **2 455** | **2** | **107** | **241** | **(237)** | **2 568** |

* For age structure, see Note 9. Trade receivables

The credit quality of the receivables, that are not overdue or their value is not reduced in any way, is good and corresponds to the book value.

The following table shows trade receivables of the Company's trade receivables that are not overdue and are not impaired. The Company regularly carries out processes of risk management of receivables and impairments clearly reflect the credit risk of all customers.

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| **By category** | | | |
| – within the České dráhy Group | 178 | 140 | 117 |
| – other domestic buyers | 886 | 968 | 1 026 |
| – other foreign buyers | 382 | 363 | 340 |
| **Total** | **1,446** | **1,471** | **1,483** |

### 31.9. Liquidity risk management

The liquidity risk in the Company is managed with regard to the permanent provision of a sufficient volume of available funds necessary for the settlement of financial liabilities.

On a daily basis, the Company assesses the available funds and cash flows and liquidity development. Pursuant to these assessments, the Company decides on an optimal use of operating financial sources, consisting primarily of overdraft loans and the cash-pool limit. In order to strengthen its financial stability, the Company secures long-term financial sources on a continuous basis. As of 31 December 2017, the Company issued bonds in the aggregate volume of CZK 2,000 million. In 2016, ČD Cargo, a.s. has drawn an in-house loan from the parent Company České dráhy, a.s. in amount of EUR 19,975 million with the maturity of 7 years, provided for financing newly acquired interoperable trains. The Company still has a promissory notes programme available in the aggregate amount of CZK 1,500 million and has contracted the possibility of drawing funds of up to CZK 400 million beyond the cash pooling limit from the parent Company. During the years 2016 and 2017, the promissory notes program and drawing beyond the cash pooling limit were not used by the Company.

#### 31.9.1. Liquidity and Interest Rate Risk Tables

The following tables detail 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 rate, the undiscounted amount is derived from the interest rate valid at the end of the reporting period. The contractual maturity is based on the earliest date on which the Company may be required to pay.

| 31 Dec 2017 | Less than 1 month (CZK million) | 1 month to 3 months (CZK million) | 3 months to 1 year (CZK million) | 1 year to 5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Trade liabilities and other financial liabilities not covered below | 1,292 | 534 | 168 | 131 | - | 2,125 |
| Non-hedging derivatives | 1 | - | - | - | - | 1 |
| Hedging derivatives – net | 1 | 1 | 2 | 1 | - | 5 |
| Gross outgoing cash flows | 1 | 1 | 2 | 1 | - | 5 |
| Gross incoming cash flows | - | - | - | - | - | - |
| Liabilities from finance and leaseback | 43 | 86 | 384 | 1,218 | 191 | 1,922 |
| Variable interest rate instruments | 3 | 13 | 60 | 295 | 64 | 435 |
| Fixed interest rate instruments | - | - | 31 | 1,570 | 507 | 2,108 |
| **Total** | **1,340** | **634** | **645** | **3,215** | **762** | **6,596** |

| 31 Dec 2016 | Less than 1 month (CZK million) | 1 month to 3 months (CZK million) | 3 months to 1 year (CZK million) | 1 year to 5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Trade liabilities and other financial liabilities not covered below | 1,288 | 562 | 235 | 310 | - | 2,395 |
| Non-hedging derivatives | - | - | 3 | 2 | - | 5 |
| Hedging derivatives – net | 1 | 2 | 6 | 6 | - | 15 |
| Gross outgoing cash flows | 243 | 108 | 486 | 324 | - | 1,161 |
| Gross incoming cash flows | (242) | (106) | (480) | (318) | - | (1,146) |
| Liabilities from finance and leaseback | 46 | 90 | 377 | 1,453 | 358 | 2,324 |
| Variable interest rate instruments | 7 | 13 | 61 | 318 | 142 | 541 |
| Fixed interest rate instruments | - | - | 30 | 1,592 | 513 | 2,135 |
| **Total** | **1,342** | **667** | **712** | **3,681** | **1,013** | **7,415** |

| 1 Jan 2016 | Less than 1 month (CZK million) | 1 month to 3 months (CZK million) | 3 months to 1 year (CZK million) | 1 year to 5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Trade liabilities and other financial liabilities not covered below | 1,006 | 949 | 584 | 549 | - | 3,088 |
| Non-hedging derivatives | - | - | 2 | 3 | - | 5 |
| Hedging derivatives – net | 4 | 8 | 29 | 13 | - | 54 |
| Gross outgoing cash flows | 27 | 54 | 243 | 13 | - | 337 |
| Gross incoming cash flows | (23) | (46) | (214) | - | - | (283) |
| Liabilities from finance and leaseback | 45 | 90 | 405 | 1,732 | 577 | 2,849 |
| Variable interest rate instruments | - | - | 672 | - | - | 672 |
| Fixed interest rate instruments | - | - | 551 | 1,060 | - | 1,611 |
| **Total** | **1,055** | **1,047** | **2,243** | **3,357** | **577** | **8,279** |

The following tables present the Company's expected maturity for its financial assets. The tables have been drawn up based on the undiscounted residual maturities of financial assets including the interest received from these assets. The disclosure of the information on financial assets is necessary for understanding of how the Company manages its liquidity risks as it manages the liquidity based on net assets and liabilities.

| 31 Dec 2017 | Less than 1 month (CZK million) | 1 month to 3 months (CZK million) | 3 months to 1 year (CZK million) | 1 year to 5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Financial assets at amortised cost | 1,674 | 355 | 31 | 277 | - | 2,337 |
| Hedging derivatives | 7 | 13 | 55 | 21 | - | 96 |
| **Total** | **1,681** | **368** | **86** | **298** | **-** | **2,433** |

| 31 Dec 2016 | Less than 1 month (CZK million) | 1 month to 3 months (CZK million) | 3 months to 1 year (CZK million) | 1 year to 5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Financial assets at amortised cost | 2,008 | 323 | 35 | 261 | - | 2,627 |
| Hedging derivatives | 2 | 3 | 20 | 11 | - | 36 |
| **Total** | **2,010** | **326** | **55** | **272** | **-** | **2,663** |

| 1 Jan 2016 | Less than 1 month (CZK million) | 1 month to 3 months (CZK million) | 3 months to 1 year (CZK million) | 1 year to 5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Financial assets at amortised cost | 1,374 | 811 | 381 | 1 | - | 2,567 |
| Hedging derivatives | - | - | 1 | - | - | 1 |
| **Total** | **1,374** | **811** | **382** | **1** | **-** | **2,568** |

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

### 31.9.2. Financing Facilities

The following table shows changes in financing commitments, including changes not only from cash flows but also from non-monetary changes.

| | Loans - Short-term (CZK million) | Loans - Long-term (CZK million) | Liabilities from financial leases - Short-term (CZK million) | Liabilities from financial leases - Long-term (CZK million) | Issued bonds - Short-term (CZK million) | Issued bonds - Long-term (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|---|
| **Liabilities from financing as at 1 Jan 2016** | **-** | **-** | **429** | **2,015** | **1,174** | **1,000** | **4,618** |
| Cash flows from financing | - | 527 | (413) | - | (1,159) | 1,000 | (45) |
| Non-monetary flows: | | | | | | | |
| Consequences of changes in exchange rates | - | - | - | - | - | - | - |
| Loans and borrowings classified as long-term as at 1 January 2016 that became short-term in 2016 | 77 | (77) | 405 | (405) | - | - | - |
| Other non-monetary movements | - | - | - | - | (13) | (3) | (16) |
| **Liabilities from financing as at 31 Dec 2016** | **77** | **450** | **421** | **1,610** | **2** | **1,997** | **4,557** |
| Cash flows from financing | (77) | - | (317) | - | - | - | (394) |
| Non-monetary flows: | | | | | | | |
| Consequences of changes in exchange rates | (4) | (21) | - | - | - | - | (25) |
| Loans and borrowings classified as long-term as at 31 December 2016 that became short-term in 2017 | 77 | (77) | 335 | (335) | - | - | - |
| Other non-monetary movements | - | - | - | - | 2 | - | 2 |
| **Liabilities from financing as at 31 Dec 2017** | **73** | **352** | **439** | **1,275** | **4** | **1,997** | **4,140** |

The Company uses the following financing facilities:

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| **Cash-pooling:** | | | |
| – loan facility at | 600 | 600 | 600 |
| **Overdraft loans:** | | | |
| – loan facility at | 1,200 | 1,200 | 1,200 |
| **Promissory note programme:** | | | |
| – loan facility at | 1,500 | 1,500 | 1,500 |
| **Total** | **3,300** | **3,300** | **3,300** |

### 31.10. Strategy for the Company's financing in subsequent years

#### 31.10.1. Finance Leases

A new lease agreement was concluded in 2017 to finance the new Siemens Vectron locomotive. In connection with the planned investments, it is assumed that ČD Cargo, a.s., will, as long as it remains to its advantage, continue to use financing in the form of a finance lease.

#### 31.10.2. Operating Bank Loans

In funding its operating needs, ČD Cargo, a.s., has a set limit of overdraft loans in the maximum amount of CZK 1,200 million provided by four banks and the a limit of possible drawings as part of the involvement of the Company in the Company's cash-pooling in the amount of CZK 600 million. The stratification of the lending to several financing entities sufficiently diversifies related risks.

#### 31.10.3. Promissory Note Programme

If necessary, it is possible for the the Company to use a promissory note programme approved by the Supervisory Board. The programme has been approved with a maximum amount of CZK 1,500 million being available. The promissory note programme can be covered by a combination of drawdowns from two banks in the total amount of CZK 2,000 million (ČSOB CZK 500 million and Komerční banka CZK 1,500 million). The Supervisory Board of ČD Cargo, a.s., should be informed about the intention of drawing over CZK 1,000 million. The promissory note programme was not used during 2016 and 2017, but the promissory note framework is left as the form of short-term financing provisions, directly independent of bank resources.

#### 31.10.4. Possibility of a Loan Being Provided by České dráhy, a.s.

The Company has contracted the possibility of drawing funds of up to CZK 400 million from the parent Company beyond the cash pooling limit. During the years 2016 and 2017, this loan was not used.

#### 31.10.5. Bonds

With a view to securing the mid-term and long-term sources of funding to increase the stability of the Company's cash flows, the relevant bodies of ČD Cargo, a.s., approved the bond programme in the aggregate amount of CZK 6 billion for 10 years which was updated in 2015 to the current legal status (effective for new placements). On the basis of this programme, the first, second (1st tranche) and third issues were gradually realized in 2011 with the aggregate nominal value of CZK 2 billion. In 2012, two other tranches as part of the second issue of bonds were realized with the total nominal value of CZK 500 million. In 2015, a new issue of bonds, the fourth already, was realized with the total nominal value of CZK 1 billion and maturing bonds of CZK 1 billion were redeemed. In 2016, there was the fifth issue of bonds in the amount of CZK 500 million and the sixth issue of bonds in the amount of CZK 500 million. The sixth bond issue was carried out under separate issuance conditions and these bonds were tradable on a regulated market of the Prague stock exchange. In 2016, the remaining part of the first issue of CZK 658.3 million was repaid, as well as the third issue in the nominal amount of CZK 500 million. No new bond issues were carried out in 2017.

In total, ČD Cargo, a.s., has issued bonds worth CZK 2,000 million as of 31 December 2017. Funding in the form of bonds increases the liquidity and financial stability of the Company. In connection with the planned investments, it is expected that ČD Cargo, a.s., will continue to use bonds as a matter of convenience.

#### 31.10.6. Supplier loans

The Company plans to use supplier loans for individual investments where this form of financing is effective.

#### 31.10.7. Other loans

In 2016, there was a loan agreement for the amount of CZK 540 million (EUR 19,975 million) concluded with the parent Company ČD Cargo, a.s., with a maturity of 7 years, for the purpose of financing the purchase of 5 Siemens Vectron locomotives.

#### 31.10.8. Summary

The structure of the funding above creates a desired framework that allows ČD Cargo, a.s., to maintain financial stability with the possibility of flexibly using individual forms as deemed appropriate or necessary.

Based on the planned funding structure, the Company will achieve a sufficient volume of available sources for funding its operating and investment activities with a sufficient reserve for potential unfavourable developments (shortfall in sales, change in the payment discipline, payment terms, legislative changes, etc.).

### 31.11. Fair value of financial instruments

#### 31.11.1. Fair value of financial instruments carried at amortised cost

The Company considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values, except leases and bonds.

The fair value of the lease as of 31 December 2017 amounts to CZK 1,839 million. The fair value of leases calculated with the fixed rate is determined by the recalculation according to the current rate. This up-to-date rate is generated based on the margin of the most recent lease transactions and market interest rate applicable as of the year-end which is subsequently used to recalculate the remaining payable of fixed leases. The fair value of bonds of ČD Cargo, a.s., as of 31 December 2017 amounted to CZK 2,015 million. As of 31 December 2016 it amounted to CZK 2,005 million. The fair value of bonds is recalculated based on the up-to date issue rate communicated by individual banks.

| Financial assets | Level | Fair value as at 31 Dec 2017 (CZK million) | Book value as at 31 Dec 2017 (CZK million) | Fair value as at 31 Dec 2016 (CZK million) | Book value as at 31 Dec 2016 (CZK million) | Fair value as at 1 Jan 2016 (CZK million) | Book value as at 1 Jan 2016 (CZK million) |
|---|---|---|---|---|---|---|---|
| Financial derivatives used in hedge accounting | level 2 | 96 | 96 | 37 | 37 | 1 | 1 |
| Loans, other financial assets | level 2 | 277 | 277 | 259 | 259 | 1 | 1 |
| **Total** | | **373** | **373** | **296** | **296** | **2** | **2** |

| Financial liabilities | Level | Fair value as at 31 Dec 2017 (CZK million) | Book value as at 31 Dec 2017 (CZK million) | Fair value as at 31 Dec 2016 (CZK million) | Book value as at 31 Dec 2016 (CZK million) | Fair value as at 1 Jan 2016 (CZK million) | Book value as at 1 Jan 2016 (CZK million) |
|---|---|---|---|---|---|---|---|
| Financial derivatives used in hedge accounting | level 2 | 5 | 5 | 15 | 15 | 54 | 54 |
| Other financial derivatives | level 2 | 1 | 1 | 5 | 5 | 5 | 5 |
| Issued bonds | level 2 | 2 015 | 2 001 | 2 005 | 1 999 | 2 195 | 2 174 |
| Liabilities from finance lease and leaseback | level 2 | 1 839 | 1 714 | 2 294 | 2 031 | 2 846 | 2 444 |
| **Total** | | **3 860** | **3 721** | **4 319** | **4 050** | **5 100** | **4 677** |

Cash and cash equivalents, trade receivables and payables and other financial liabilities not shown in the table above are not stated because their fair value is the same as the book value, especially due to their short-term maturity. Furthermore, the table does not include loan from České dráhy, a.s., where the fair value is also the same as the book value.

#### 31.11.2. Valuation techniques applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices,
- the fair values of other financial assets and financial liabilities (except for financial derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions, dealer quotes for similar instruments and an appropriate yield curve with the corresponding duration as appropriate,

- the fair values of financial derivatives are calculated using quoted prices. If these prices are not available, linear derivatives are measured using discounted cash flows by means of quoted foreign exchange currency rates, quoted prices of commodities and an appropriate yield curve corresponding to the validity of contracts. An option valuation model is used for derivatives that include an option.

### 31.11.3. Fair value measurements recognised in the statement of financial position

Financial instruments measured at fair value are grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities,

- level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices),

- level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments measured at fair value recognised by the Company as of 31 December 2017, 31 December 2016 and 1 January 2016 are included in level 2.

## 32. POST BALANCE SHEET EVENTS

On 13 February 2018 ČD Cargo, a.s., as the sole shareholder of ČD Cargo Slovakia, s.r.o., in the exercise of the General Meeting powers, decided to increase the share capital of the subsidiary to the amount of CZK 69 million (EUR 2.7 million).

## 33. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Board of Directors on 10 April 2018.

# 15 Consolidated Financial Statements (IFRS)

## Separate Financial Statement for the Year Ending 31 December 2017 prepared under IFRS as adopted by the EU

ČD Cargo

**Consolidated Financial Statements for the Year Ended 31 December 2017**

Prepared in accordance with IFRS as adopted by the EU

| | |
|---|---|
| Name of the Group: | ČD Cargo |
| Name of the Parent Company: | ČD Cargo, a.s. |
| Registered Office: | Praha 7, Holešovice, Jankovcova 1569/2c, 170 00 |
| Legal Form: | Joint Stock Company |
| Corporate ID: | 281 96 678 |

**Components of the Consolidated Financial Statements:**

Statement of Financial Position (Balance Sheet)
Statement of Profit or Loss
Statement of Comprehensive Income
Statement of Changes in Equity
Cash Flow Statement
Notes to the financial statements

In Prague on 10 April 2018

Ing. Martin Šimek
Chief Financial Officer

**Statutory body of the reporting entity:**

Ivan Bednárik, MBA
Chairman of the Board of Directors

Bohumil Rampula
Member of the Board of Directors

## STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DecEMBER 2017

| | | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|---|
| Property, plant and equipment | 5 | 14,682 | 14,463 | 14,116 |
| Intangible assets | 6 | 444 | 366 | 322 |
| Investments in subsidiaries and associates | 7 | 58 | 40 | 40 |
| Deferred tax assets | 30 | 20 | 21 | 23 |
| Other financial assets | 10 | 422 | 388 | 86 |
| Other assets | 11 | 1 | 1 | 1 |
| **Total non-current assets** | | **15,627** | **15,279** | **14,588** |
| Inventories | 8 | 187 | 142 | 130 |
| Trade receivables | 9 | 1,697 | 1,656 | 1,695 |
| Prepaid income tax | 30 | - | 22 | 24 |
| Other financial assets | 10 | 100 | 75 | 17 |
| Other assets | 11 | 169 | 120 | 326 |
| Cash and cash equivalents | 12 | 690 | 877 | 962 |
| **Total current assets** | | **2,843** | **2,892** | **3,154** |
| **TOTAL ASSETS** | | **18,470** | **18,171** | **17,742** |
| Share capital | 13 | 8,494 | 8,494 | 8,494 |
| Capital funds | 13 | 450 | 343 | 273 |
| Accumulated losses | | (461) | (1,161) | (2,078) |
| Equity attributable to owners of the Company | | 8,483 | 7,676 | 6,689 |
| Non-controlling interests | | 46 | 41 | 38 |
| **Total equity** | | **8,529** | **7,717** | **6,727** |
| Loans, borrowings and bonds | 15 | 3,985 | 4,397 | 3,414 |
| Deferred tax liability | 30 | 1,500 | 1,340 | 1,157 |
| Provisions | 16 | 489 | 538 | 672 |
| Other financial liabilities | 17 | 132 | 318 | 565 |
| Other liabilities | 18 | 395 | 377 | 141 |
| **Total non-current payables** | | **6,501** | **6,970** | **5,949** |
| Trade payables | 14 | 1,806 | 1,780 | 2,173 |
| Loans, borrowings and bonds | 15 | 657 | 577 | 1,675 |
| Tax payables | 30 | 19 | 3 | - |
| Provisions | 16 | 246 | 326 | 303 |
| Other financial liabilities | 17 | 266 | 319 | 412 |
| Other liabilities | 18 | 446 | 479 | 503 |
| **Total current payables** | | **3,440** | **3,484** | **5,066** |
| **TOTAL LIABILITIES** | | **18,470** | **18,171** | **17,742** |

## STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DecEMBER 2017

| | | Year ending 31 Dec 2017 (CZK million) | Year ending 31 Dec 2016 (CZK million) |
|---|---|---|---|
| Revenue from principal operations | 22 | 11,923 | 11,760 |
| Other operating income | 23 | 807 | 622 |
| Purchased consumables and services | 24 | (6,018) | (5,875) |
| Employee benefit costs | 25 | (4,076) | (3,869) |
| Depreciation and amortisations | 26 | (1,196) | (1,079) |
| Other operating expenses | 27 | (343) | (188) |
| **Operating profit before tax** | | **1,097** | **1,371** |
| Financial expenses | 28 | (284) | (301) |
| Financial income | 29 | 122 | 71 |
| Share in the profit of associates and joint ventures | 7 | 13 | 11 |
| **Profit before tax** | | **948** | **1,152** |
| Income tax | 30 | (203) | (218) |
| **Profit for the period** | | **745** | **934** |
| Attributable to equity holders of the parent Company | | 740 | 931 |
| Attributable to non-controlling interests | | 5 | 3 |

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DecEMBER 2017

| | Year ending 31 Dec 2017 (CZK million) | Year ending 31 Dec 2016 (CZK million) |
|---|---|---|
| Profit for the period | 745 | 934 |
| Actuarial gains / losses on liabilities related to employee benefits | 11 | 3 |
| **Other comprehensive income for the year (items that are not subsequently reclassified to profit or loss)** | **11** | **3** |
| Foreign currency translation reserve fund | (1) | (7) |
| Cash flow hedging | 70 | 74 |
| Relating deferred income tax | (13) | (14) |
| **Other comprehensive income for the year (items that may be reclassified to profit or loss)** | **56** | **53** |
| **Total comprehensive income for the year** | **812** | **990** |
| Attributable to equity holders of the parent Company | 807 | 987 |
| Attributable to non-controlling interests | 5 | 3 |

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DecEMBER 2017

| | Share capital (CZK million) | Share premium (CZK million) | Reserve fund (CZK million) | Fund from cash flow hedge (CZK million) | Actuarial cash flow hedges (CZK million) | Other funds (CZK million) | Accumulated losses (CZK million) | Equity attributable to owners of the Company (CZK million) | Non-controlling interests (CZK million) | Total equity (CZK million) |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 Jan 2016** | **8,494** | **197** | **129** | **(43)** | **(18)** | **8** | **(2,078)** | **6,689** | **38** | **6,727** |
| Profit for the period | - | - | - | - | - | - | 931 | 931 | 3 | 934 |
| Other comprehensive income for the period | - | - | - | 60 | 3 | (7) | - | 56 | - | 56 |
| Total comprehensive income for the period | - | - | - | 60 | 3 | (7) | 931 | 987 | 3 | 990 |
| Allocation to the reserve fund | - | - | 14 | - | - | - | (14) | - | - | - |
| Total transactions with owners for the period | - | - | 14 | - | - | - | (14) | - | - | - |
| **Balance at 31 Dec 2016** | **8,494** | **197** | **143** | **17** | **(15)** | **1** | **(1,161)** | **7,676** | **41** | **7,717** |
| Profit for the period | - | - | - | - | - | - | 740 | 740 | 5 | 745 |
| Other comprehensive income for the period | - | - | - | 57 | 11 | (1) | - | 67 | - | 67 |
| Total comprehensive income for the period | - | - | - | 57 | 11 | (1) | 740 | 807 | 5 | 812 |
| Allocation to the reserve fund | - | - | 40 | - | - | - | (40) | - | - | - |
| Total transactions with owners for the period | - | - | 40 | - | - | - | (40) | - | - | - |
| **Balance at 31 Dec 2017** | **8,494** | **197** | **183** | **74** | **(4)** | **-** | **(461)** | **8,483** | **46** | **8,529** |

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DecEMBER 2017

| | | Year ending 31 Dec 2017 (CZK million) | Year ending 31 Dec 2016 (CZK million) |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit for the year before tax | | 948 | 1,152 |
| Financial expenses | | 146 | 200 |
| Profit from the sale of non-current assets | | (151) | (3) |
| Depreciation and amortisation of non-current assets | 26 | 1,196 | 1,079 |
| Changes in impairment of non-current assets | | 39 | 3 |
| Changes in impairment of trade receivables | | 3 | (3) |
| Change in provisions | | (113) | (85) |
| Foreign exchange rate (gains) losses | | (9) | 1 |
| Other | | 40 | 12 |
| **Cash flow from operating activities before changes in working capital** | | **2,099** | **2,356** |
| Change in trade receivables | | (94) | 95 |
| Increase in inventories | | (54) | (16) |
| Decrease (increase) in other assets | | (47) | 167 |
| Decrease in trade payables | | (15) | (287) |
| Decrease in other payables | | (86) | (240) |
| **Total changes in working capital** | | **(296)** | **(281)** |
| **Cash flows from operating activities** | | **1,803** | **2,075** |
| Interests paid | | (149) | (218) |
| Income tax paid | | (25) | (42) |
| **Net cash flow from operating activities** | | **1,629** | **1,815** |
| CASH FLOWS FROM INVESTMENT ACTIVITIES | | | |
| Payments for purchase of property, plant and equipment | | (1,513) | (1,691) |
| Income from property, plant and equipment sold | | 182 | 4 |
| Costs of acquisition of intangible assets | | (164) | (116) |
| Interests received | 29 | - | 1 |
| Payments for purchase of associates and joint ventures | | (15) | - |
| **Net cash flows from investment activities** | | **(1,510)** | **(1,802)** |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from bonds issue | | - | 1,000 |
| Proceeds from loans and borrowings | | 176 | 581 |
| Repayments of loans, borrowings and bonds | | (485) | (1,679) |

| | | Year ending 31 Dec 2017 (CZK million) | Year ending 31 Dec 2016 (CZK million) |
|---|---|---|---|
| **Net cash flow from financing activities** | | **(309)** | **(98)** |
| **Net decrease in cash and cash equivalents** | | **(190)** | **(85)** |
| Cash and cash equivalents at the beginning of the reporting period | 12 | 880 | 965 |
| **Cash and cash equivalents at the end of the reporting period** | **12** | **690** | **880** |

# 1. GENERAL INFORMATION

## 1.1. General information

ČD Cargo, a.s. (hereinafter the "parent Company" or "ČDC") was formed following its registration in the Register of Companies held by the Municipal Court in Prague, section B, Insert 12844, on 1 December 2007 through the investment of a business part of České dráhy, a.s.

The parent Company's registered office is located at Jankovcova 1569/2c, Prague 7, Holešovice.

As of 31 December 2017, the parent Company's reported share capital of CZK 8,494 million which was fully paid in.

The sole shareholder of the parent Company is České dráhy, a.s., and the ultimate owner of the company is the Czech Republic.

The company is the parent company of the ČD Cargo group (the "group"). The consolidated financial statements have been prepared as of and for the year ending 31 December 2017. The reporting period is the calendar year, from 1 January 2017 to 31 December 2017.

## 1.2. Principal operations

The principal activities of the group include the provision of railway transportation of goods with the set of relating services. The aim of the group involves improving its leading position, and being the driving force, on the freight transportation market both in the Czech Republic and in the Central European region.

The principal business activity – railway transportation of goods – is structured into two principal segments:
- transportation of complete trains; and,
- transportation of individual wagon loads.

The above segments are structured by the type of transportation as follows:
- local,
- export,
- import,
- transit.

Based on the structure referred to above, it is appropriate to structure principal activities by commodities, i.e. by the nature of transported goods with respect to capacity requirements, requirements for vehicles, demands for operating technologies or special care of shipments:
- transportation of solid fuels,
- transportation of ores, metals and machinery products,
- transportation of chemical products and liquid fuels,
- transportation of construction material;
- transportation of wood and paper;
- transportation of food and agricultural products;
- combined transportation,
- logistical solutions for transportation of shipments using intermodal transportation units, predominantly containers;
- automotive;
- transportation of other non-classified commodities.

In terms of the volume of transportation, ČD Cargo, a.s., is one of the ten most significant railway companies in Europe and the European Union.

## 1.3. Organisational structure of the Parent Company

The organisational structure is composed of divisions directly reporting to the Chairman of the Board of Directors or divisional directors:
- sales Director division;
- operations Director division;
- finance Director division.

In addition, the organisational structure includes operational units and repair centres for rail vehicles, settlement department for transportation sales in Olomouc, and operations management department in Česká třebová.

The internal organisation of the Company (principles of the organisational hierarchy, organisational structure, principal management system and authorities of organisational structure units including the responsibility and authority of managers) is determined in the Organisational Policy of ČD Cargo, a.s., and the Signing Authority Rules of ČD Cargo, a.s.

## 1.4. Relations with related parties

In accordance with IAs 24 'Related party Disclosures', an entity shall ensure that its financial statements include disclosures necessary to identify the possibility that its financial position and profit or loss is affected by the existence of related parties and transactions and outstanding balances, including liabilities with such parties. In line with this standard, such relationships are described in detail in note 31.

### 1.4.1. České dráhy Group

The Company ČD Cargo, a.s., is a part of České dráhy group, which is led by the parent company České dráhy, a.s.
The Consolidated Group of České dráhy for the financial year 2017 consists of following companies:

| Name of the entity | Ownership of ČD, a. s. (%) | Type of influence | Registered office | Corporate ID |
|---|---|---|---|---|
| ČD - Informační Systémy, a.s. | 100.00 | Control | Pernerova 2819/2a, 130 00 Prague 3 | 24829871 |
| ČD-Telematika, a. s. | 69.18 | Control | Pernerova 2819/2a, 130 00 Prague 3 | 61459445 |
| Výzkumný Ústav Železniční, a.s. | 100.00 | Control | Novodvorská 1698, 142 01 Prague 4 | 27257258 |
| JLV, a. s. | 38.79 | Significant | Chodovská 3/228, 141 00 Prague 4 | 45272298 |
| DPOV, a. s. | 100.00 | Control | Husova 635/1b, 751 52 Přerov | 27786331 |
| ČD Cargo, a. s. | 100.00 | Control | Jankovcova 1569/2c, 170 00 Prague 7 | 28196678 |
| Dopravní vzdělávací institut, a.s. | 100.00 | Control | Husitská 42/22, 130 00 Prague 3 | 27378225 |
| ČD travel, s.r.o. | 51.72 | Control | 28.října 372/5, 110 00 Prague 1 | 27364976 |
| ČD Relax, s. r.o. | 51.72 | Control | 28.října 372/5, Staré město,110 00 Prague 1 | 05783623 |
| ODP-software, spol.s r.o. | 100.00 | Control | Pernerova 2819/2a, 130 00 Prague 3 | 61683809 |
| CHAPS spol. s r.o. | 100.00 | Control | Bráfova 1617/21, 616 00 Brno | 47547022 |
| ČSAD SVT Praha, s.r.o. | 100.00 | Control | Křižíkova 4-6, 186 00 Prague 8 | 45805202 |
| SVT Slovakia s.r.o. | 80.00 | Control | Partizánska 97, 974 01 Banská Bystrica, Slovakia | 36620602 |
| INPROP, s.r.o. | 100.00 | Control | Rosinská cesta 12, 010 08 Žilina, Slovakia | 31609066 |
| Smíchov Station Development, a.s. | 51.00 | Joint Control | U Sluncové 666/12a, 186 00 Prague 8 – Karlín | 27244164 |
| Žižkov Station Development, a.s. | 51.00 | Joint Control | U Sluncové 666/12a 186 00 Prague 8 – Karlín | 28209915 |
| Masaryk Station Development, a.s. | 34.00 | Significant | Na Florenci 2116/15, 110 00 Prague 1 | 27185842 |
| CD Cargo Germany GmbH | 100.00 | Control | Kaiserstrasse 60, 603 29 Frankfurt on Main, FRG | DE 814191687 |
| CD Cargo Austria GmbH | 100.00 | Control | Rotenturmstraße 22/24, 1010 Vienna, Austria | FN 291407s |
| CD Cargo Poland Sp. z o.o. | 100.00 | Control | Ul. Grzybowska 4/3, 00-131 Warsaw, Poland | 140769114 |
| CD Cargo Slovakia, s.r.o. | 100.00 | Control | Seberíniho 1, 821 03 Bratislava, Slovakia | 44349793 |
| ČD Logistics, a.s. | 78.00 | Control | Opletalova 1284/37, 110 00 Prague 1 | 27906931 |
| Terminal Brno, a.s. | 66.94 | Control | K terminálu 614/11, 619 00 Brno | 28295374 |
| ČD-DUSS Terminál, a.s. | 51.00 | Control | Lukavecká 1189, 410 02 Lovosice | 27316106 |
| RAILLEX, a.s. | 50.00 | Joint Control | Trnkovo náměstí 3, čp. 1112, 152 00 Prague 5 | 27560589 |
| BOHEMIAKOMBI, spol. s r.o. | 30,00 | Significant | Opletalova 6, 110 00 Praha 1 | 45270589 |
| Ostravská dopravní společnost, a.s. | 50.00 | Joint Control | U Tiskárny 616/9, 702 00 Ostrava | 60793171 |
| Ostravská dopravní společnost - Cargo, a.s. | 20.00 | Significant | U Tiskárny 616/9, 702 00 Ostrava | 05663041 |
| Auto Terminal Nymburk, s.r.o. | 100.00 | Control | Jankovcova 1569/2c, 170 00 Prague 7 | 24234656 |
| České dráhy, a. s. | - | - | Nábřeží L.Svobody 12/1222, 110 15 Prague 1 | 70994226 |

ČD Cargo group is defined in note 1.6. Its relationships within the consolidated financial statements are eliminated.

### 1.4.2. Key management

The concept of key management mainly concerns the members of the statutory and supervisory Bodies of the individual group companies. The listing of individual organs is presented in Note 1.5.

### 1.4.3. Relationship with SŽDC and ČEZ Group

The sole shareholder, the company České dráhy, a.s., is fully owned by the state. In accordance with exemptions specified in paragraphs 25-27 of IAs 24, the parent Company and the entire group does not treat other state-owned companies as their related parties. These financial statements present only transactions with SŽDC and ČEZ group, due to their significant impact on the group's activities. The most significant transactions carried out with these entities include the use of infrastructure, purchase of electricity and revenues from freight transport. Detailed relationships are disclosed in notes 31.6 and 31.7.

## 1.5. Statutory Bodies of the parent Company

The sole owner is České dráhy, a.s., which in the capacity as the sole shareholder acts as the General Meeting, the supreme body of the parent Company. The statutory body of the parent Company comprises the three-member Board of Directors; the supervisory body is the seven-member supervisory Board. The parent Company established a three-member Audit Committee, the members of which were appointed by the sole shareholder.

The composition of the ČD Cargo, a.s. Bodies, as of 31 December 2017 was as follows:

| Board of Directors | |
|---|---|
| Chairman | Ivan Bednárik |
| Member | Zdeněk Škvařil |
| Member | Bohumil Rampula |

| Supervisory Board | |
|---|---|
| Chairman | Pavel Krtek |
| Member | Miroslav Kupec |
| Member | Jan Kasal |
| Member | Jindřich Nohal |
| Member | Radek Nekola |
| Member | Roman Onderka |
| Member | Jiří Švachula |

České dráhy, a.s., as sole shareholder of ČD Cargo, a.s., in the exercise of the powers of the General Meeting has decided about appointment of Miroslav Kupec, as a member of the Supervisory Board of ČD Cargo, a.s., with the effective date of 22 March 2017 on 21 March 2017.

České dráhy, a.s., as sole shareholder of ČD Cargo, a.s., in the exercise of the powers of the General Meeting has decided about appointment of Roman Onderka, as a member of the Supervisory Board of ČD Cargo, a.s., with the effective date of 1 April 2017 on 28 March 2017.

České dráhy, a.s., as sole shareholder of ČD Cargo, a.s., in the exercise of the powers of the General Meeting has decided about appointment of Jiří Švachula, as a member of the Supervisory Board of ČD Cargo, a.s. with the effective date of 1 April 2017 on 28 March 2017.

| Audit Committee | |
|---|---|
| Chairman | Oldřich Vojíř |
| Member | Miroslav Zámečník |
| Member | Libor Joukl |

## 1.6. Definition of the Consolidation Group

### 1.6.1. Entities Included in the Consolidation of the Group ČD Cargo

| Name of the entity | Registered office | Corporate ID | Ownership percentage | Degree of influence |
|---|---|---|---|---|
| ČD Cargo, a. s. | Prague 7, Jankovcova 1569/2c | 28196678 | | Parent Company |
| CD Cargo Germany GmbH | Kaiserstrasse 60, 603 29 Frankfurt on Main, FRG | DE006635 | 100.00 | Control |
| CD Cargo Austria GmbH | Rotenturmstraße 22/24, 1010 Vienna, Austria | FN291407s | 100.00 | Control |
| CD Cargo Poland Sp. z o.o. | Ul. Grzybowska 4/3, 00-131 Warsaw, Poland | 140769114 | 100.00 | Control |
| CD Cargo Slovakia, s.r.o. | Seberíniho 1, 821 03 Bratislava, Slovakia | 44349793 | 100.00 | Control |
| Auto Terminal Nymburk, s.r.o. | Jankovcova 1569/2c, 170 00 Prague 7 | 24234656 | 100.00 | Control |
| Terminal Brno, a.s. | Brno, K terminálu 614/11, ZIP 619 00 | 28295374 | 66.93 | Control |
| ČD-DUSS Terminál, a.s. | Lovosice, Lukavecká 1189, ZIP 410 02 | 27316106 | 51.00 | Control |
| ČD Logistics, a.s. | Prague 1, Opletalova 1284/37, ZIP 110 00 | 27906931 | 78.00 | Control |
| RAILLEX, a.s. | Prague 5, Trnkovo náměstí 3, ZIP 152 00 | 27560589 | 50.00 | Joint Control |
| BOHEMIAKOMBI, spol. s r.o. | Prague 1, Opletalova 6, ZIP 110 00 | 45270589 | 30.00 | Significant |
| Ostravská dopravní společnost, a.s. | Ostrava - Přívoz, U Tiskárny 616/9, ZIP 702 00 | 60793171 | 50.00 | Joint Control |
| Ostravská dopravní společnost – Cargo, a.s. | Ostrava - Přívoz, U Tiskárny 616/9, ZIP 702 00 | 05663041 | 20.00 | Significant |

| Name of the entity | Principal activities |
|---|---|
| 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 |
| CD Cargo Slovakia, s.r.o. | Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and 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 |
| ČD Logistics, a.s. | Shipping |
| Auto Terminal Nymburk, s.r.o. | Shipping and technical services in transportation |
| RAILLEX, a.s. | Cargo handling and technical services in transportation, shipping |
| BOHEMIAKOMBI, spol. s r.o. | Mediation of services in transportation except for the transportation by own vehicles |
| Ostravská dopravní společnost, a.s. | Railway transportation and lease of locomotives and wagons |
| Ostravská dopravní společnost – Cargo, a.s. | Railway transportation and lease of locomotives and wagons |

The consolidation group is hereinafter referred to as the "Group".

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1. General information

The group prepares the separate financial statements under International Financial Reporting Standards (hereinafter IFRS) as adopted by the European Union.

### 2.2. Statement of compliance

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

### 2.3. Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Group presents three balance sheets in the financial statements, therefore one additional reporting period.

Unless otherwise stated, all values are expressed in Czech crowns.

#### 2.3.1. Changes in Accounting and Reporting Method

In the consolidated financial statements for the year 2017, the Company changed its presentation of the change in the provision. The unused portion of the provision that was cancelled over the reference period and for which there is no actual expenditure is recognised in Other operating income instead of Other operating expenses. The creation and drawing of provisions is allocated to the specific types of costs for which the provisions have actually been created. The comparable period ended 31 December 2016 was adjusted as follows:

- within Revenue from principal operations it was CZK (5) million,
- within Other operating income it was CZK 22 million,
- within Purchased consumables and services it was CZK (1) million,
- within Employees benefits costs it was CZK (3) million,
- within Other operating expenses it was CZK (13) million.

In the consolidated financial statements for the year 2017, the presentation of employee benefits was changed. Employee benefits will be newly presented under the headings: Wage expenses, Statutory social and health insurance and other social expenses, instead of the original item Benefits arising from a collective agreement. The comparable period ended 31 December 2016 was also adjusted, the change was reflected mainly in the segment statement and in Note 25 (Employee Benefits Costs):

- within Payroll costs it was CZK (30) million,
- within Benefits resulting from the collective agreement it was CZK 46 million,
- within Other employee benefit costs it was CZK (16) million.

The following table presents the summary of the above-mentioned modification:

| Period ended 31 December 2016 | | Previously presented (CZK million) | Reclassification (CZK million) | Adjusted (CZK million) |
|---|---|---|---|---|
| Revenue from principal operations | 22 | 11,765 | (5) | 11,760 |
| Other operating income | 23 | 600 | 22 | 622 |
| Purchased consumables and services | 24 | (5,874) | (1) | (5,875) |
| Employees benefits costs | 25 | (3,866) | (3) | (3,869) |
| Other operating expenses | 27 | (175) | (13) | (188) |

In the consolidated financial statements for the year 2017, the presentation of deposits paid in instalments for assets acquired under finance leases (items related to the subsidiary CD Cargo Poland) was changed. Due to better disclosure capabilities and due to the nature of the item, these deposits are newly reported in Other financial assets instead of Property, plant and equipment. The comparable periods as at 31 December 2016 and as at 1 January 2016 were also adjusted. CZK 123 million was transferred to Other financial assets (non-current) and CZK 13 million was transferred to Other financial assets (current) as at 31 December 2017. CZK 118 million was transferred to Other financial assets (non-current) as at 31 December 2016 and CZK 85 million was transferred to Other financial assets (non-current) as at 1 January 2016.

### 2.4. Basis of consolidation

The consolidated Financial Statements incorporate the Financial Statements of the Parent Group and entities controlled by the Group (its subsidiaries). The Company controls those entities in which it has the power to control their financial and operating policies so that they can benefit from their activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the acquisition date to the date of disposal. The total comprehensive income is attributed to the Company's owners and non-controlling interests even if the result is the negative balance of non-controlling interests.

The financial statements of the subsidiaries have been adjusted, as appropriate, to bring their accounting policies into line with the rules applied by other companies within the Group.

All intragroup transactions, balances, revenues and costs were excluded during consolidation.

### 2.5. Business combinations

Acquisitions of business are being accounted based on the acquisition method. The consideration transferred in a business combination are 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 commitments 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 firm or agreements on share-based payments are replacing the agreement on share-based payments in the target firm at the date of acquisition valued 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 firm and the fair value of any acquirer's previously held equity interest in the target firm over the amount 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 firm exceeds the aggregate of the consideration transferred, the amount of any non-controlling interest in the target firm and the fair value of any acquirer's previously held equity interest in the target firm, the amount of surplus is recognised once in profit or loss as a bargain purchase profit.

Non-controlling interests, which are current ownership interests of third parties and entitle the holders to the proportionate share of the entity'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. Valuation basis can be selected individually for each specific acquisition. Other types of non-controlling interests are evaluated at fair value or, if possible, on the basis set by another IFRS.

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 "finishing 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, depend on the classification of contingent consideration. Contingent consideration that is classified as the equity, and is not revalued to the data of the subsequent Financial Statements and its subsequent payment is charged to equity. Contingent consideration that is classified as the equity or liability, is revalued to the data of the subsequent Financial Statements and its subsequent payment is charged to equity. Contingent consideration that is classified as the asset or liability is revalued to zero point subsequent of financial Statements in accordance with relevant standards IAS 39 and IAS 37 Provisions, Contingent Liabilities Contingent liabilities related to the capture of gains or losses to make profit.

If the business combination is achieved in stages, the shares in the acquired entity to which the previously revalued to fair value at the acquisition date (i.e.

to date when obtains control) any resulting gain or loss is recognised in profit or loss. Results of amounts from shares subject to the target firm before the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss if it was correct such a procedure if, it was participation.

Unless the initial accounting for a business combination is resolved to make ends meet of the reporting period in which the combination took place, the Group recognises outstanding item in the provisional value. That provisional amount are adjusted during the finishing period (see above) or additional assets liabilities are captured, in order to reflect new information obtained about new facts and circumstances that existed at the acquisition date and which, if it were known, affected the amounts provided at that date.

The above procedure is used in all business combinations performed on or after 1 January 2010.

### 2.6. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods and other assets is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Sales of services are recognised when services are rendered to counterparties. Revenues related to transportation services are recognised in the period in which the services are provided by reference to the stage of completion of the service contract (e.g. period of validity of long-term travel documents).

Dividend revenue from investments is recognised when the right to receive payment has been established.

Interest revenue is recognised when it is probable that the economic benefits will flow into the Group 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.

Income from international freight shipments are posted from the OPT information system to SAP when processing the data provided by national carriers in the data exchange in accordance with international regulations UIC for billing shares of the carriage is finished. Besides the significant volume revenues include billing charges for the use of wagons in international railway transport with national and local carriers.

### 2.7. Lease

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

In all finance leases, the Company acts 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 statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and 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 in more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating lease are recognised as an expense in the period in which they are incurred.

#### 2.7.1. Sale and leaseback

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

If the leaseback is a finance lease, the lessor cash transactions with tenants leased asset as a guarantee.
For this reason, the excess proceeds from the sale and the carrying amount is considered as income.

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.

### 2.8. 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 Group.

Transactions denominated in foreign currencies are recorded at the ruling fixed exchange rate announced by the Czech National Bank. If the ruling 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 ruling 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.

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).

### 2.9. 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.

### 2.10. Grants

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

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

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 without future related costs are recognised in profit or loss in the period in which they become receivable.

### 2.11. Employee Benefit Costs

Employee benefit costs predominantly include payroll costs, payments of the employer portion of statutory health insurance, social security, pension insurance and costs of other employee benefits resulting from the collective agreement.

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

Provision for long-term employee benefits is the present value of the future cash outflows that will need to spend on their payment. 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. Currency and terms of these bonds are consistent with the currency and the respective other long-term benefits. The value of this provision is determined annually based on independent qualified actuaries. Gains or losses arising from changes in actuarial assumptions for benefits at retirement are included in other comprehensive income, changes in reserve for other benefits are included in the income statements.

### 2.12. Taxation

The income tax includes current tax payable and deferred tax.

#### 2.12.1. Current tax payable

The tax currently payable 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 or substantively enacted by the end of the reporting period.

#### 2.12.2. Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial Statements and the corresponding tax bases used in the computation of 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 utilise.

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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

#### 2.12.3. Current Tax Payables 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 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.

### 2.13. Property, Plant and Equipment

Property, plant and equipment are carried at cost reduced by accumulated losses from impairment, and by accumulated depreciation in respect of property and equipment. Freehold land is not depreciated.

Properties 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 (with the exception of some components, which are amortized using the power of depreciation).

The main component repairs and berthing for driving rail vehicles repairs and inspection on driving rail vehicles and passenger cars are regarded in the Company. Beginning from 2015, other components of wheelsets for freight cars and radios for driving rail vehicles were also singled out.

The Company determined a depreciation plan for components of railway vehicles which is based on a plan of major and general repairs of traction vehicles and inspection repairs and replacement of wheelsets of wagons. With regard to traction vehicles and wagons, the mileage depreciation is based on the actual mileage per month (i.e. actual kilometers). The amount of depreciation in the particular reporting period is calculated as the number of kilometers in the reporting period multiplied by the rate per one kilometer. The rate per one kilometer is determined as a share of the acquisition cost of the relevant component and the maximum mileage which is determined for the specific type of major and general repair of traction vehicles and inspection repair of wagons. After reaching the maximum mileage, it is necessary to undertake a new major or general repair of a traction vehicle and a new inspection repair or replacement of wheelsets of a wagon. Depreciation method for radio stations is a linear depreciation over their useful life.

Major repairs of traction vehicles involve activities made in the general repair; for this reason, these activities corresponding to the general repair are separated from major repairs and are recorded as general repairs.

In the modernising or reconstruction of freight cars (extending their useful lives to 20 years) which also involves activities relating to inspection repairs, these activities are separated and recorded as new components with regard to the relevant freight car. This approach also applies to wheelsets. Those components are subsequently depreciated in line with the accounting policy disclosed above.

Wagons and traction vehicles without components are depreciated to the estimated residual value. The estimated residual value means the estimated justifiable positive amount that the Company can acquire upon the expected disposal of assets after deducting the estimated costs associated with their disposal. The estimated residual value at the wagon and driving railway vehicles based on the scrap value that could be gained at the disposal. 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.

## 2.14. Intangible assets

### 2.14.1. Separately acquired 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 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, 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. 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 that there is worth reduced for assets. If any such indication exists, to determine the extent of any losses of the impairment, the amount of the asset is recoverable. If it is not possible to determine the recoverable amount of an individual asset, 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 it can determine a reasonable and consistent basis of allocation. Otherwise, corporate assets are allocated to the smallest 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 at any sign of potential impairment.

The recoverable amount is equal to the fair value reduced of costs to sell or value in use, whichever is higher. In assessing value in use, the future cash flow is 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 the asset (or generating unit) is lower than its carrying amount, the carrying amount of the asset (or generating unit) 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 so that the increased carrying amount does not exceed the carrying amount that would have been determined, in previous years did not show any loss of the impairment (or generating unit). Cancellation of an impairment loss is recognised immediately in profit or loss.

## 2.16. Investments in joint ventures and associates

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controlled entities.

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 financial and operating policy, where were invested, but is not control or joint control over those policies.

The economic outcome, 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 are initially measured in joint ventures and associates are carried in the consolidated statements of financial position at cost 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 share 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.

If the Group's entities trade joint venture or with associated Group of the Group, profits and losses arising from transactions with joint venture or associate are recognised in the consolidated financial Statements of the Group in the amount of shares in joint ventures or associated companies that do not belong to the Group.

When the acquisition cost is higher than the equity share of joint ventures or associates, the Company recognises a provision reducing the acquisition cost. The provision is calculated as the difference between the acquisition cost and the equity interest in the company.

### 2.17. 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.

### 2.18. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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 reimbursement will be received by the Group and the amount of the receivable can be measured reliably.

### 2.19. 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 upon initial recognition attributable to the fair value of financial assets, respectively are deducted from the fair value of financial liabilities. The exceptions are the 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.

Financial assets are classified into the following four categories: financial assets at fair value through profit or loss, held to maturity investments, available for sale financial assets and loans and receivables. The classification depends on the nature of financial assets and purpose, and is determined at initial recognition.

Purchases or sales of financial assets with a usual term of delivery are recognised or not recognised at the transaction date. Purchases or sales with a habitual date of delivery are purchase or financial assets, which require delivery of assets within the terms of time established by regulation or convention in the marketplace.

Debt and equity instruments are classified as financial liabilities or as equity in accordance with the content of the contractual agreement.

Financial liabilities are classified as financial liabilities at fair value through profit or loss or other financial liabilities.

#### 2.19.1. Effective interest method

The effective interest method is a method of calculating the amortized 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 receipts / expenditures (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 life of the debt instrument, other net carrying amount on initial recognition.

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

#### 2.19.2. Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Upon initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment. As at the date of the financial statements, the Group does not recognise such investments.

#### 2.19.3. Realisable financial assets

Sale financial assets are non-derivative financial assets that are either designated as available for sale or are not classified as a) loans and receivables, b) investments held to maturity or c) financial assets at fair value through profit or loss.

The Group holds equity investments that are not traded in an active market are classified as available for sale and financial instruments designated at cost reduced with impairment losses because their fair value cannot be reliably determined.

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

#### 2.19.4. Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables and bank balances) are measured at amortised cost using 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.

#### 2.19.5. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is 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 amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

As of the date of the financial statements for the temporary impairment for the estimated recoverability of receivables based on an individual assessment of the claim.

In addition to AFS equity instruments, if in a subsequent period the impairment loss decreases and the decrease can be related objectively to an event occurring after recognition of the impairment loss, the previously recognised impairment loss is cancelled through profit or loss. The carrying value of the investment at the date of cancellation of the impairment must not be higher than it would be in its residual value if the impairment has not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit will not disturb through profit or loss. Any increase in fair value after recognition of the impairment loss is recognised in other comprehensive result.

#### 2.19.6. 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 retains substantially 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 retains substantially 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 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.

### 2.19.7. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

### 2.19.8. Financial liabilities at fair value through Profit and Loss

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL recognised in profit or loss.

In this category, the Group reports financial derivatives.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on revaluation recognised in profit or loss.

### 2.19.9. Derecognition of Financial Liabilities

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

### 2.19.10. Derivative financial instruments

The Group enters into a variety of derivative financial instruments 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 revaluated 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.

### 2.19.11. Hedge accounting

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

At the inception 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 inception of the hedge and on an ongoing basis, the Group documents 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.

### 2.19.12. 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 the cash flow hedging reserve. 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 statements 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 when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

### 2.19.13. Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statements of profit or loss relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date. As at the date of the financial statements, the Group does not recognise such derivative financial instruments.

### 2.19.14. Financial derivatives held for trading

All derivative transactions that the Group concludes are agreed 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 Annual Periods Ended 31 December 2017

During the year ended 31 December 2017 the following standards, amendments and interpretations came into force:

| Amendments, new and revised standards and interpretations | Effective for annual periods beginning on or after |
|---|---|
| IAS 7 – Amendments IAS 7 – Disclosure Initiative | 1 January 2017 |
| IAS 12 - Amendments IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 |
| IFRS 12 – Amendments IFRS 12 (included in Annual improvements to IFRS – cycle 2014 – 2016) | 1 January 2017*) |

*) Standards, adaptations and interpretations that have not yet been approved for use in the EU

Mentioned improvements and interpretations have no impact on the reporting or disclosure. As required by IAS 7, a table of changes in financing commitments was added to Note 33.9.2

### 3.2. Standards and interpretations early adopted

The Group used no standards or interpretations before their effective dates.

### 3.3. Standards and interpretations in issue not yet adopted

At the balance sheet date, the following standards and interpretations were issued but not yet effective and they were not early-adopted by the Group.

| Amendments, new and revised standards and interpretations | Effective for annual periods beginning on or after |
|---|---|
| IFRS 9 – Financial instruments | 1 January 2018 |
| IFRS 15 – Revenue from Contracts with Customers | 1 January 2018 |

| Amendments, new and revised standards and interpretations | Effective for annual periods beginning on or after |
|---|---|
| IFRS 16 – Leases | 1 January 2019 |
| IFRS 17 – Insurance contracts | 1 January 2021*) |
| IFRS 2 – Amendments to IFRS 2 – Classification and valuation of share-based payment transactions | 1 January 2018*) |
| IFRS 4 – Amendments to IFRS 4 – using IFRS 9 Financial instruments together with IFRS 4 Insurance Contracts | 1 January 2018 |
| IFRS 9 – Amendments to IFRS 9 – Prepayment Features with Negative Compensation | 1 January 2019*) |
| IFRS 10, IAS 28 – Amendment to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Date will be determined*) |
| IAS 28 – Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures | 1 January 2019*) |
| IAS 40 – Amendments to IAS 40 – Transfers of Investment Property | 1 January 2018*) |
| Annual improvements to the IFRS – cycle 2014 – 2016 | 1 January 2017/ 1 January 2018*) |
| Annual improvements to the IFRS – cycle 2015 – 2017 | 1 January 2019*) |
| IFRIC 22 – Foreign Currency Transactions and Advance Consideration | 1 January 2018*) |
| IFRIC 23 – Uncertainty over Income Tax Treatments | 1 January 2019*) |

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

The Group expects that the adoption of most of these standards, amendments and interpretations in future periods will have no material effect on the company, except IFRS 16. For IFRS 9 and 15, the Company expects greater scope of disclosed information. Earlier adoption is not considered in respect of any of the above standards. For the implementation of IFRS 9 and IFRS 15, the Group uses a modified retrospective method.

IFRS 15 will have no material impact on the Group's financial statements. After adoption of this standard as at 1 January 2018, reclassification of some items presented in Profit and Loss Statement will occur. These include, for example, compensation for customer claims that are now reported as a part of "Other operating expenses". From 1 January 2018, these costs will be reduced to "Freight sales". The value of these reclassifications will be presented in millions of crowns.

On the basis of the analysis, implementation of IFRS 9 will also have no significant impact on the Group's presentation of the Group's financial results or financial statements.

IFRS 9 affects two areas:

- provisions for receivables,
- derivative transactions, including hedging documentation for these transactions.

In the case of the implementation of IFRS 9 in accounting policies related to the creation of adjustments to receivables, it was assessed that there would be a slight increase in the value of adjustments to receivables at maturity. An increase in the value of adjustments will be presented in millions of Czech crowns and, as of 1 January 2018, this value will be recognised in retained earnings. In the following years, changes in the value of provisions will affect the results of the current period. During the IFRS 9 Impact Analysis, no correlation between the growth of outstanding claims and economic indicators (e.g. GDP development) was recognised. The accounting policy for provisions for receivables at maturity was changed with respect to the estimated share of bad debt receivable in the value of the services provided. This share was also set with respect to the change of the value of provisions in the last 5 years.

IFRS 9 will apply to hedge accounting for the financial statements for the year 2018 in their entirety. At the same time, hedge documentation, determination of efficiency tests and sensitivity analysis will be restated. Additionally, the Group will proceed with a change in accounting and reporting of derivative financial instruments under the new IFRS 9. However, significant impacts on the financial result are not expected.

With respect to IFRS 16, the Group anticipates the need to disclose a significant number of concluded lease agreements in the balance sheet. IFRS 16 is effective for the annual period beginning on 1 January 2019. The Group is currently assessing the impact of the new standard and assumes that it will be adopted when it becomes effective, i.e. on 1 January 2019. The current analysis of the effects shows that the value of the Group's assets and liabilities will increase by several hundred million CZK as a result of the implementation of IFRS 16. The Group's financial results are also expected to be affected by tens of millions of CZK.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group'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. Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Although the Company identified no changes in the useful lives of property, plant and equipment, the situation may change in the following periods.

### 4.2. 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.

### 4.3. Income taxation

The Group records significant deferred tax assets (see Note 30). The determination of the recoverable value of these assets depends on the estimate of their future realisation.

## 5. PROPOERTY, PLANT AND EQUIPMENT

| Cost | Balance at 1 Jan 2016 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Exchange differences (CZK million) | Balance at 31 Dec 16 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Exchange differences (CZK million) | Balance at 31 Dec 17 (CZK million) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Land | 131 | - | - | - | - | 131 | 21 | - | - | - | 152 |
| Constructions | 1,572 | 33 | (1) | - | - | 1,604 | 48 | (1) | 2 | - | 1,653 |
| Individual movable assets | 38,642 | 1,300 | (939) | 56 | (27) | 39,032 | 1,244 | (1,332) | 68 | (3) | 39,009 |
| - Machinery, equipment, and furniture and fixtures | 408 | 42 | (5) | - | - | 445 | 33 | (4) | 5 | - | 479 |
| - Vehicles* | 38,037 | 1,256 | (934) | 102 | (27) | 38,434 | 1,210 | (1,327) | 61 | (3) | 38,375 |
| - Vehicles acquired under finance leases | 189 | 1 | - | (46) | - | 144 | - | - | 2 | - | 146 |
| - Other | 8 | 1 | - | - | - | 9 | 1 | (1) | - | - | 9 |
| Assets under construction | 116 | 111 | (38) | (54) | - | 135 | 163 | (5) | (71) | - | 222 |
| Prepayments | - | - | - | - | - | - | 30 | - | - | - | 30 |
| **Total** | **40,461** | **1,444** | **(978)** | **2** | **(27)** | **40,902** | **1,506** | **(1,338)** | **(1)** | **(3)** | **41,066** |

| Accumulated depreciation | Balance at 1 Jan 2016 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Exchange differences | Impairment (CZK million) | Balance at 31 Dec 16 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Impairment (CZK million) | Balance at 31 Dec 17 (CZK million) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Constructions | 819 | 40 | (1) | - | - | - | 858 | 40 | (1) | - | - | 897 |
| Individual movable assets | 25,522 | 975 | (918) | - | - | (1) | 25,578 | 1,069 | (1,202) | - | 37 | 25,482 |
| - Machinery, equipment, and furniture and fixtures | 303 | 16 | (5) | - | - | - | 314 | 21 | (4) | - | - | 331 |
| - Vehicles* | 25,168 | 952 | (913) | 18 | - | (1) | 25,224 | 1,041 | (1,197) | - | 37 | 25,105 |
| - Vehicles acquired under finance leases | 44 | 7 | - | (18) | - | - | 33 | 6 | - | - | - | 39 |
| - Other | 7 | - | - | - | - | - | 7 | 1 | (1) | - | - | 7 |
| Assets under construction | 4 | - | - | - | - | (1) | 3 | - | - | - | 2 | 5 |
| **Total** | **26,345** | **1,015** | **(919)** | **-** | **-** | **(2)** | **26,439** | **1,109** | **(1,203)** | **-** | **39** | **26,384** |

| Net book value | Balance at 1 Jan 2016 (CZK million) | Balance at 31 Dec 2016 (CZK million) | Balance at 31 Dec 2017 (CZK million) |
|---|---|---|---|
| Land | 131 | 131 | 152 |
| Constructions | 753 | 746 | 756 |

| Net book value | Balance at 1 Jan 2016 (CZK million) | Balance at 31 Dec 2016 (CZK million) | Balance at 31 Dec 2017 (CZK million) |
|---|---|---|---|
| Individual movable assets | 13,120 | 13,454 | 13,527 |
| - Machinery, equipment, and furniture and fixtures | 105 | 131 | 148 |
| - Vehicles* | 12,869 | 13,210 | 13,270 |
| - Vehicles acquired under finance leases | 145 | 111 | 107 |
| - Other | 1 | 2 | 2 |
| Assets under construction | 112 | 132 | 217 |
| Prepayments | - | - | 30 |
| **Total** | **14,116** | **14,463** | **14,682** |

* Vehicles purchased for leaseback are presented in the financial statements under the „Vehicles". Their net book value amounted to CZK 3,613 million as at 31 December 2015, CZK 3,525 million as at 31 December 2016 and CZK 3,471 million as at 31 December 2017. Liabilities arising from these financial leasebacks are part of Note 15.2"Liabilities from financial lease and leaseback". The Groups' liabilities from leaseback transactions are secured by the lessor against the leased assets. These assets are not classified as finance leases under IFRS, however, their legal nature is that of a lease agreement and therefore from a legal point of view they classify as leased assets.

Properties are represented mainly buildings and land. Land and buildings do not include railway routes, which are owned by the state.

Vehicles principally comprise rail vehicles (driving rail vehicles, freight cars) used for the railway freight transport. These assets have been provisioned as equal to the difference between the carrying amount and the recoverable amount of CZK 195 million.

In 2017, the biggest increases on separate movable tangible assets at ČD Cargo, a.s., formed the purchase of freight wagons Series Sggrrs - innowagon 80 ft of CZK 312 million, major repairs and berthing (components) of the drive rail vehicles in the amount of CZK 300 million, revision repairs (components) trucks in the amount of CZK 233 million, acquisition drive rail vehicles Series 383 (Vectron) of CZK 104 million, technical inspection of drive rail vehicles of CZK 83 million and acquisition wheelset (components) freight wagons of CZK 67 million. In 2017 the company ČD Cargo, a.s., sold its subsidiary CD Cargo Slovakia 4 drive rail vehicles which were repaired by it and sold to leasing company and sold on lease of CZK 83 million. In 2017, the Company CD Cargo Poland purchased 88 freight wagons in total of CZK 80 million on leaseback, in March 2016 in the same way it purchased 29 freight wagons of CZK 20 million.

Furthermore, in 2016 the Parent Company received a deposit within the grant project to equip traction vehicles with the on-board part of the European Train Control System (ETCS), which will be implemented during the year 2019. The funds received are recorded as restricted cash within other financial assets. In 2017 the deposit was not used and the whole amount of CZK 276 million is reported as a non-current. For more information see Note 10 Other financial assets.

Railway vehicles are depreciated according to the below useful lives to the estimated residual value. Components of these railway vehicles are depreciated by actual mileage. When calculating other depreciation, the following useful lives were used:

| | Number of years |
|---|---|
| Buildings | 20–50 |
| Constructions | 20–50 |
| Locomotives (without components) | 20–25 |
| Wagons (without components) | 30 |
| Machinery and equipment | 8–20 |

### 5.1. Assets pledged as collateral

The Group's property was used as collateral in the case of CD Cargo Poland for 3 locomotives acquired on loan in the value of CZK 38 mil. As at 31 December 2017 and CZK 45 million as at 31 December 2016. The Group's liabilities from leaseback transactions are secured by the lessor right to the leased assets.

## 6. INTANGIBLE ASSETS

| Cost | Balance at 1 Jan 2016 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Exchange differences (CZK million) | Balance at 31 Dec 16 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Exchange differences | Balance at 31 Dec 17 (CZK million) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Software | 514 | 96 | - | 52 | - | 662 | 87 | - | 29 | - | 778 |
| Royalties | 111 | 4 | (1) | 2 | - | 116 | 1 | (6) | (11) | - | 100 |
| Assets under construction | 69 | 14 | (1) | (61) | - | 21 | 77 | - | (19) | - | 79 |
| **Total** | **694** | **114** | **(2)** | **(7)** | **-** | **799** | **165** | **(6)** | **(1)** | **-** | **957** |

| Accumulated amortisation | Balance at 1 Jan 2016 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Exchange differences (CZK million) | Balance at 31 Dec 16 (CZK million) | Additions (CZK million) | Disposals (CZK million) | Transfers (CZK million) | Exchange differences (CZK million) | Balance at 31 Dec 17 (CZK million) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Software | 285 | 60 | - | - | - | 345 | 79 | - | - | - | 424 |
| Royalties | 87 | 1 | - | - | - | 88 | 7 | (6) | - | - | 89 |
| **Total** | **372** | **61** | **-** | **-** | **-** | **433** | **86** | **(6)** | **-** | **-** | **513** |

| Net book value | Balance at 1 Jan 2016 (CZK million) | Balance at 31 Dec 2016 (CZK million) | Balance at 31 Dec 2017 (CZK million) |
|---|---|---|---|
| Software | 229 | 317 | 354 |
| Royalties | 24 | 28 | 11 |
| Assets under construction | 69 | 21 | 79 |
| **Total** | **322** | **366** | **444** |

Transfers in particular represent transfers of asset between asset groups (IAS 38) relating to software and royalties. Amortization costs have been recognised in the line Depreciation and amortisations in the statement of profit and loss. Assets under construction include items that are developed in cooperation with supply companies, but do not represent an internally developed software.

As at 31 December 2017 the valuable rights include licenses for a total net book value of CZK 12 million. The most significant items are SAP licenses in the amount of CZK 4 million, Altworx licenses in the amount of CZK 4 million, Microsoft EA licenses, Exchange, Sharepoint in the amount of CZK 1 million and licenses Microsoft in the amount of 1 million CZK. In 2017, licenses were capitalized in the amount of CZK 1 million.

In 2017, the development of business systems with acquisition cost of CZK 33 million, the development of BI solutions in the amount of CZK 20 million, operational information systems in the amount of CZK 16 million, adjustments of IS SAP in the amount of 14 million and the IT Security Program in the amount CZK 12 million has continued. The remaining amount of the total is attributable to other economic or operational purposes.

The length of amortization of intangible assets:

| | Number of years |
|---|---|
| Software | 3–10 |
| Royalties | 6–10 |

### 6.1. Software

| Net book value | Balance at 1 Jan 2016 (CZK million) | Balance at 31 Dec 2016 (CZK million) | Balance at 31 Dec 2017 (CZK million) |
|---|---|---|---|
| Operational and business tasks under the project PROBIS | 168 | 188 | 219 |
| SAP | 39 | 48 | 41 |
| IT Security Program | - | 31 | 25 |
| Other | 22 | 50 | 69 |
| **Total** | **229** | **317** | **354** |

Software predominantly includes the SAP system and the operational business information system – PROBIS. Software additionally includes the information system supporting the activities of the freight transporter, development of the SAP information system, the Microsoft Enterprise Agreement licence, OPT information system, the system for the support of office work and other systems used by ČD Cargo, a.s.

Additions to software in the year 2017 primarily include the costs of adjustments and upgrades of the current Parent Company's systems. Dispatching Information System under the computerized project of cost calculation in amount of CZK 40 million, Central forming of trains in amount of CZK 12 million, Altworx which monitors evaluation of Company's basic capacities (operating personnel, traction vehicles and freight wagons) in amount of CZK 11 million.

## 7. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

### 7.1. Information on joint ventures and associates

| Name of the entity | Registered office | Category |
|---|---|---|
| BOHEMIAKOMBI, spol. s r.o. | Opletalova 6, 110 00 Prague 1 | Associate |
| Ostravská dopravní společnost, a.s. | U Tiskárny 616/9, 702 00 Ostrava - Přívoz | Joint venture |
| RAILLEX a.s. | Trnkovo nám. 3, 152 00 Prague 5 | Joint venture |
| Ostravská dopravní společnost – Cargo, a.s. | U Tiskárny 616/9, 702 00 Ostrava - Přívoz | Associate |

| Name of the entity | Principal operations | Ownership interest as at 31 Dec 2017 | Ownership interest as at 31 Dec 2016 | Ownership interest as at 1 Jan 2016 |
|---|---|---|---|---|
| BOHEMIAKOMBI, spol. s r.o. | Mediation of transportation services except for the transportation by own vehicles | 30% | 30% | 30% |
| Ostravská dopravní společnost, a.s. | Railway transportation and lease of locomotives and railway vehicles. | 50% | 20% | 20% |
| RAILLEX a.s. | Cargo handling and technical services in transportation. | 50% | 50% | 50% |
| Ostravská dopravní společnost – Cargo, a.s. | Railway transportation and lease of locomotives and wagons | 20% | - | - |

On 1 January 2017, the company Ostravská dopravní společnost – Cargo, a.s. was established by separation from the Ostravská dopravní společnost, a.s. ČD Cargo, a.s., increased its share in Ostravská dopravní společnost, a.s. from 20% to 50% for CZK 15.2 million. ČD Cargo, a.s., retained a share of 20% in the split-off company Ostrava Cargo, a.s.

### 7.2. Summary of financial information on joint ventures and associates

| 31 Dec 2017 | RAILLEX a.s. (CZK million) | BOHEMIAKOMBI, spol. s r.o. (CZK million) | Ostravská dopravní společnost, a.s. (CZK million) | Ostravská dopravní společnost – Cargo, a.s. (CZK million) |
|---|---|---|---|---|
| **Total assets** | **54** | **38** | **153** | **158** |
| Current assets | 54 | 35 | 153 | 92 |
| Non-current assets | - | 3 | - | 66 |
| **Total liabilities** | **31** | **28** | **112** | **46** |
| Current liabilities | 31 | 28 | 112 | 46 |
| Non-current liabilities | - | - | - | - |
| Net assets | 23 | 10 | 41 | 112 |
| **Share of net assets** | **12** | **3** | **21** | **22** |

| 31 Dec 2016 | RAILLEX a.s. (CZK million) | BOHEMIAKOMBI, spol. s r.o. (CZK million) | Ostravská dopravní společnost, a.s. (CZK million) |
|---|---|---|---|
| **Total assets** | **51** | **41** | **387** |
| Current assets | 50 | 38 | 311 |
| Non-current assets | 1 | 3 | 76 |
| **Total liabilities** | **27** | **28** | **267** |
| Current liabilities | 27 | 28 | 267 |
| Non-current liabilities | - | - | - |
| Net assets | 24 | 13 | 120 |
| **Share of net assets** | **12** | **4** | **24** |

| 1 Jan 2016 | RAILLEX a.s. (CZK million) | BOHEMIAKOMBI, spol. s r.o. (CZK million) | Ostravská dopravní společnost, a.s. (CZK million) |
|---|---|---|---|
| **Total assets** | **62** | **53** | **318** |
| Current assets | 60 | 49 | 228 |
| Non-current assets | 2 | 4 | 90 |
| **Total liabilities** | **37** | **42** | **196** |
| Current liabilities | 35 | 42 | 194 |
| Non-current liabilities | 2 | - | 2 |
| Net assets | 25 | 11 | 122 |
| **Share of net assets** | **13** | **3** | **24** |

| | 2017 (CZK million) | 2016 (CZK million) | 2015 (CZK million) |
|---|---|---|---|
| Total income | 1,299 | 1,504 | 1,398 |
| Profit for the period | 42 | 35 | 25 |
| **The Company's share of the profit for the period** | **13** | **11** | **7** |

## 8. INVENTORIES

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Spare parts and other components for rail vehicles and locomotives | 95 | 41 | 40 |
| Other machinery, tools and equipment and their spare parts | 62 | 85 | 75 |
| Fuels, lubricants and other oil products | 3 | 3 | 4 |
| Work clothes, work shoes, protective devices | 2 | 1 | 1 |
| Other | 25 | 16 | 14 |
| **Total costs** | **187** | **146** | **134** |
| Write-down of inventories to their net realisable value | - | (4) | (4) |
| **Total net book value** | **187** | **142** | **130** |

Following the inventory count, the value of inventories decreased by CZK 4 million in 2016. In 2017, a write-down was reduced due to the scrapping of unnecessary inventories.

## 9. TRADE RECEIVABLES

| | Category | Before due date (CZK million) | Past due date (days) 1–30 (CZK million) | 31–90 (CZK million) | 91–180 (CZK million) | 181–365 (CZK million) | 365 and more (CZK million) | Total past due date (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|---|---|---|
| 31 Dec 2017 | Gross | 1,556 | 129 | 30 | 13 | 8 | 103 | 283 | 1,839 |
| | Allowances | (24) | - | (4) | (5) | (7) | (102) | (118) | (142) |
| | **Net** | **1,532** | **129** | **26** | **8** | **1** | **1** | **165** | **1,697** |
| 31 Dec 2016 | Gross | 1,561 | 74 | 18 | 7 | 4 | 154 | 257 | 1,818 |
| | Allowances | - | (1) | (5) | (5) | (4) | (147) | (162) | (162) |
| | **Net** | **1,561** | **73** | **13** | **2** | **-** | **7** | **95** | **1,656** |
| 1 Jan 2016 | Gross | 1,584 | 87 | 11 | 9 | 11 | 152 | 270 | 1,854 |
| | Allowances | - | (1) | (3) | (3) | (6) | (146) | (159) | (159) |
| | **Net** | **1,584** | **86** | **8** | **6** | **5** | **6** | **111** | **1,695** |

## 10. OTHER FINANCIAL ASSETS

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Derivative financial instruments | 21 | 12 | - |
| Receivables from damages and losses | - | - | 1 |
| Restricted cash | 276 | 258 | - |
| Other financial assets | 125 | 118 | 85 |
| **Other non-current financial assets** | **422** | **388** | **86** |
| Derivative financial instruments | 75 | 25 | 1 |
| Group cash pooling | 2 | 3 | 4 |
| Receivables from damages and losses | 16 | 19 | 17 |
| Receivables from damages and losses - allowances | (13) | (9) | - |
| Restricted cash | - | 34 | - |
| Other financial assets | 33 | 18 | 85 |
| Other financial assets - allowances | (13) | (15) | (90) |
| **Other current financial assets** | **100** | **75** | **17** |
| **Total** | **522** | **463** | **103** |

Restricted cash' represents an advance payment in the total amount of CZK 292 million, provided in 2016 within the subsidy project to equip traction vehicles with the on-board part of the European Train Control System (ETCS). This item is split into non-current part of CZK 258 million and the current part of CZK

34 million. The advance payment is held by Komerční Banka on the subsidy account. In 2017, the subsidy value amounted to CZK 276 million. In 2017, the subsidy was not drawn and the decrease in the amount is due to the revaluation of the amount denominated in Euros. As at 31 December 2017, the subsidy is classified as long-term. Funds received within the accepted deposit from European grant program CEF for implementation of ETCS (European train security system) according to current assumptions, will be used to supply prototypes of selected locomotives in 2019. There is a time shift, because ČD Cargo a.s., within the tender for supply and installation mobile part ETCS for selected drive rail vehicles did not receive any offer and the tender has been cancelled. A new tender is currently prepared.

## 11. OTHER ASSETS

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Prepayments | 1 | 1 | 1 |
| **Total non-current assets** | **1** | **1** | **1** |
| Prepayments | 25 | 50 | 76 |
| Tax receivables - VAT | 58 | 27 | 122 |
| Tax receivable – other (except for taxes on corporate income) | - | 2 | 94 |
| Prepaid expenses | 40 | 39 | 30 |
| Other | 46 | 2 | 4 |
| **Total current assets** | **169** | **120** | **326** |
| **Total** | **170** | **121** | **327** |

Prepayments represents amounts paid to domestic and foreign suppliers in connection with business relations.

## 12. CASH AND CASH EQUIVALENTS

For cash flow statement purposes, cash and cash equivalents include cash on hand, cash at bank and investments in the 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:

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Cash on hand and cash in transit | 4 | 2 | 2 |
| Cash at bank | 686 | 875 | 960 |
| Cash on the cash-pooling account | - | 3 | 3 |
| **Total** | **690** | **880** | **965** |

Since 2017 the cashpooling account of České dráhy, a.s., is not presented as part of cash and cash equivalents.

Total bank balances in bank institutions of the Companies within the Group are presented in the following table:

| Bank | Short-term rating | Long-term rating | Bank balances as at 31 Dec 2017 (CZK million) | Bank balances as at 31 Dec 2016 (CZK million) | Bank balances as at 1 Jan 2016 (CZK million) |
|---|---|---|---|---|---|
| Komerční banka | P-1 | A1 | 37 | 49 | 138 |
| ČSOB | P-1 | A2 | 287 | 498 | 569 |
| Citibank | P-1 | A2 | 74 | 5 | 14 |
| ING bank | P-1 | Aa3 | 134 | 153 | 64 |
| Česká spořitelna | P-1 | A2 | 1 | 1 | 1 |
| UniCredit Bank | P-2 | A3 | 1 | 81 | 85 |
| Raiffeisenbank,a.s. | P-2 | Baa1 | - | 1 | - |
| Všeobecná úvěrová banka a.s. | P-1 | A2 | 42 | 45 | 28 |
| Allior* | B | BB | 0 | 1 | 11 |
| Millenium bank | P-3 | Baa3 | 7 | 24 | 34 |
| Deutsche Bank | P-2 | A3 | 11 | 8 | 11 |
| Frankfurter Sparkasse* | A+ | F1+ | 4 | 4 | 4 |
| Bank Austria | P-2 | Baa1 | 8 | 5 | 1 |
| Slovenská sporiteľňa* | F1 | A- | 80 | - | - |
| **Total** | | | **686** | **875** | **960** |

* the table presents Moody's bank rating at the end of 2017, except for the designated banks with a bank rating from Fitch

## 13. EQUITY

### 13.1. Share capital

As of 31 December 2009, the share capital of the Parent Company is composed of the non-cash investment of a business part of České dráhy, a.s., as the sole shareholder and amounted to CZK 8,800 million.

On 2 June 2009, České dráhy, a.s., acting in the capacity of the General Meeting, adopted the resolution on the decrease of the share capital of ČD Cargo, a.s., from CZK 8,800 million to CZK 8,494 million in accordance with Section 213a of the Commercial Code. As of 31 December 2017, the Company reports the share capital of CZK 8,494 million in a form of 100 dematerialized shares. The share capital was fully paid.

### 13.2. Capital funds

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Share premium | 197 | 197 | 197 |
| Statutory reserve fund | 183 | 143 | 129 |
| Cash flow hedging reserve | 74 | 17 | (43) |
| Actuarial losses | (4) | (15) | (18) |
| Foreign currency translation fund | - | 1 | 8 |
| **Total** | **450** | **343** | **273** |

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

#### 13.2.1. Cash flow hedge reserve

| | 2017 (CZK million) | 2016 (CZK million) | 2015 (CZK million) |
|---|---|---|---|
| **Balance at the beginning of the year** | **17** | **(43)** | **(82)** |
| Profit (loss) from revaluation | 86 | 34 | (30) |
| Reclassifications to profit or loss upon settlement | (16) | 40 | 78 |
| **Total change in the cash flow hedging reserve** | **70** | **74** | **48** |
| Relating income tax | (13) | (14) | (9) |
| **Balance at the end of the year** | **74** | **17** | **(43)** |

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.

## 14. TRADE PAYABLES

| Year | Category | Before due date (CZK million) | Past due date (days) 1–30 (CZK million) | 31–90 (CZK million) | 91–180 (CZK million) | 181–365 (CZK million) | 365 and more (CZK million) | Total past due date (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|---|---|---|
| 31 Dec 2017 | Short-term | 1,764 | 37 | 4 | 1 | - | - | 42 | **1,806** |
| 31 Dec 2016 | Short-term | 1,733 | 41 | 5 | - | - | 1 | 47 | **1,780** |
| 1 Jan 2016 | Short-term | 2,150 | 20 | 2 | - | - | 1 | 23 | **2,173** |

The average maturity of invoices is 90 days. The Group does not recognise any non-current trade payables.

## 15. LOANS, BORROWINGS AND BONDS

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Liabilities from leaseback | 1,584 | 1,877 | 2,320 |
| Liabilities from finance leases | 50 | 59 | 67 |
| Issued bonds | 1,997 | 1,997 | 1,000 |
| Borrowing from České dráhy, a.s. | 352 | 450 | - |
| Other received long-term loans and borrowings | 2 | 14 | 27 |
| **Total long-tem** | **3,985** | **4,397** | **3,414** |
| Liabilities from leaseback | 504 | 460 | 467 |
| Liabilities from finance leases | 25 | 25 | 21 |
| Issued bonds | 3 | 2 | 1,174 |
| Borrowing from České dráhy, a.s. | 73 | 77 | - |
| Other received short-term loans and borrowings | 52 | 13 | 13 |
| **Total short-term** | **657** | **577** | **1,675** |
| **Total** | **4,642** | **4,974** | **5,089** |

As of 17 October 2016, the Parent Company has drawn a borrowing from České dráhy, a.s., in the total amount of CZK 540 million for the purpose of financing the purchase of 383 series locomotives (Vectron). The remaining part of the borrowing is as of 31 December 2017 split into long-term part in amount of CZK 352 million and short-term part in amount of CZK 73 million.

Portions of long-term loans and borrowings, due within one year from the consolidated financial statements date are recognised as short-term loans and borrowings.

The Parent Company or subsidiaries breached no loan covenants in the reporting period.

### 15.1. Issued bonds

On 4 May 2011, the resolution of the Czech National Bank, ref. no 2011/4833/570, File no. Sp/2011/50/572, approved the bond programme of the Parent Company. The highest volume of outstanding bonds issued under the bond programme may amount up to CZK 6,000 mil. With the term of the bond programme being ten years. The above resolution of the Czech National Bank took effect on 5 May 2011.

The following issues of bonds were placed under the bond programme or under separate issuance conditions as at 31 December 2017:

| | |
|---|---|
| **Administrator** | Unicredit Bank Czech Republic and Slovakia, a.s. |
| **Date of issue** | 26 November 2015 |
| **Total nominal value** | CZK 1,000,000,000 |
| **Nominal value of the bond** | CZK 5,000,000 |
| **Interest rate** | fixed interest income 1.40% |
| **Issue rate** | 99.617 % |
| **Payment of interest income** | Date of interest payment |
| **Date of interest payment** | 26 November each year |
| **Date of the final maturity** | 26 November 2020 |

| | |
|---|---|
| **Administrator** | Raiffeisenbank, a.s. |
| **Date of issue** | 17 June 2016 |
| **Total nominal value** | CZK 500,000,000 |
| **Nominal value of the bond** | CZK 100,000 |
| **Interest rate** | fixed interest income 1.28% |
| **Issue rate** | 100 % |
| **Payment of interest income** | annually retrospectively |
| **Date of interest payment** | 17 June each year |
| **Date of the final maturity** | 17.6.2021 |

| | |
|---|---|
| **Administrator** | Unicredit Bank Czech Republic and Slovakia, a.s. |
| **Date of issue** | 29 December 2016 |
| **Released under separate issuance conditions** | Prospect of book-entry bonds, ISIN CZ0003515611 with a fixed interest rate of 1.26% pa, approved by the Czech National Bank under Ref.: 2016/148032/CNB/570, S-Sp-2016/00057/CNB/572 as of 23 December 2016 took effect on 24 December 2016 |
| **Trading** | Bonds admitted to trading on a regulated market of the Prague Stock Exchange |
| **Total nominal value** | CZK 500,000,000 |
| **Nominal value of the bond** | CZK 5,000,000 |
| **Interest rate** | fixed interest income 1.26% |
| **Issue rate** | 100 % |
| **Payment of interest income** | annually retrospectively |
| **Date of interest payment** | 29 December each year |
| **Date of the final maturity** | 29 December 2023 |

ČD Cargo, a.s., recorded calls for a premature redemption of part of the first issue of the bonds placed through KB, a.s. with the total nominal value of CZK 341.7 million within the due period. This amount was redeemed as of 20 June 2014. ČD Cargo, a.s., repaid the remaining nominal value (after applying for early repayment) of bonds at KB in the amount of CZK 658.3 million as of 20 June 2016.

The third issue of bonds at Raiffeisenbank, a.s. in nominal value of CZK 500 million was repaid by ČD Cargo, a.s., as of 21 December 2016.

In 2015, the fourth issue of bonds with the aggregate nominal value of CZK 1,000 million was placed through the administrator UniCredit Bank Czech Republic and Slovakia, a.s.

In 2016, the fifth issue of bonds with the aggregate nominal value of CZK 500 million was placed through the administrator Raiffeisenbank, a.s.

In 2016, the sixth issue of bonds with the aggregate nominal value of CZK 500 million was placed through the administrator UniCredit Bank Czech Republic and Slovakia, a.s.

Currently, the bonds are issued in an aggregate nominal value of CZK 2,000 million. In the financial statements as of 31 January 2017, these bonds are split, according to their maturity, into short-term and long-term part.

### 15.2. Financial lease and leaseback liabilities

The Company concluded several lease contracts for the purchase of railway vehicles. The loans mature in 10 and more years. Pursuant to a lease contract, the Company has the ability to buy these vehicles upon the expiration of the lease. The Company's payables arising from finance leases are collateralised by the lessor's ownership title to the leased assets.

The value of finance lease and leaseback liability is as follows:

| | Minimum lease payments | | | Present value of minimum lease payments | | |
|---|---|---|---|---|---|---|
| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
| Less than 1 year | 613 | 587 | 610 | 529 | 485 | 488 |
| From 1 to 5 years | 1,552 | 1,792 | 2,116 | 1,412 | 1,595 | 1,842 |
| 5 years and more | 229 | 359 | 587 | 222 | 341 | 545 |
| **Total** | **2,394** | **2,738** | **3,313** | **2,163** | **2,421** | **2,875** |
| Less future finance expenses | (231) | (317) | (438) | | | |
| **Present value of minimum lease payments** | **2,163** | **2,421** | **2,875** | **2,163** | **2,421** | **2,875** |
| In the statement of financial position as: | | | | | | |
| – short-term loans | | | | 529 | 485 | 488 |
| – long-term loans | | | | 1,634 | 1,936 | 2,387 |
| **Total** | | | | **2,163** | **2,421** | **2,875** |
| In the statement of financial position as: | | | | | | |
| – financial lease liabilities | | | | 75 | 84 | 88 |
| – leaseback liabilities | | | | 2,088 | 2,337 | 2,787 |
| **Total** | | | | **2,163** | **2,421** | **2,875** |

Finance lease and leaseback liabilities are presented within Financial Instruments in the Note 33.3. and in the Note 33.11.1.

## 16. PROVISIONS

| | Balance as at 1 Jan 2016 (CZK million) | Creation (CZK million) | Use (CZK million) | Cancellation (CZK million) | Transfers** (CZK million) | Balance as at 31 Dec 2016 (CZK million) | Creation (CZK million) | Use (CZK million) | Cancellation (CZK million) | Balance as at 31 Dec 2017 (CZK million) |
|---|---|---|---|---|---|---|---|---|---|---|
| Provision for legal disputes | 43 | - | (1) | - | - | 42 | 11 | (4) | - | 49 |
| Provisions for business risks | 24 | - | - | - | - | 24 | - | - | (24) | - |
| Provisions for employee benefits | 120 | 4 | (6) | - | - | 118 | 80 | (49) | - | 149 |
| - Of which long-term part | 75 | | | | | 72 | | | | 80 |
| Provisions for restructuring | 140 | - | (17) | (13) | - | 110 | - | (42) | (18) | 50 |
| - Of which long-term part | 73 | | | | | - | | | | - |
| Provision for loss-making transactions | 580 | - | (55) | - | - | 525 | - | (63) | - | 462 |
| - Of which long-term part | 524 | | | | | 466 | | | | 409 |
| Other provisions* | 68 | 114 | (102) | (4) | -31 | 45 | 35 | (40) | (15) | 25 |
| **Total provisions** | **975** | **118** | **(181)** | **(17)** | **-31** | **864** | **126** | **(198)** | **(57)** | **735** |
| **– Long-term** | **672** | | | | | **538** | | | | **489** |
| **– Short-term** | **303** | | | | | **326** | | | | **246** |

* in 2017, other provisions include mainly provisions for complaints and levelling, damages and repairs

** the balance of the provision for unused vacations was in 2016 reclassified to the line Other payables

The management of ČD Cargo, a.s.'s Parent Company, after careful consideration of all existing legal analyses and the results of negotiations in existing litigation and after evaluating all potential risks, present developments and disputes in accordance with the natural rate of prudence, decided to update the provision to cover potential litigation costs of CZK 49 million (in 2016: CZK 42 million).

During 2012, the management of ČD Cargo, a.s., decided to implement organisational changes drawn up on the basis of a restructuring plan whose main features were communicated within the Parent Company. The nature of the plan, adopted in 2012 by the management of ČD Cargo, a.s., was a series of measures aimed at strengthening liquidity in the short term and medium term to create the conditions to achieve favourable operating results and ensure the stability of the Parent Company in the coming years. The adopted measures became a prerequisite for the establishment of the medium-term business plan. Future cash outflows associated with the restructuring plan were estimated at CZK 535 mil.

In the period from 2012 to 2017, the provision was used in the amount of CZK 485 million for reimbursement of costs associated with the restructuring and optimisation process. There were mainly the costs associated with the payoff or severance pay. According with the original plan, the optimisation process should be completed as at 31 December 2017, which was also stated in the last financial statements. The process of optimising and streamlining the internal processes has been prolonged for a year and will be completed as at 31 December 2018 based on a decision made by the Company management. In accordance with this decision, the unused part of the restructuring provision as at 31 December 2017 will be used to cover costs related to the completion of the optimisation process in 2018 in the amount of CZK 50 million.

Again, this will be mainly costs associated with the severance or severance pay. The most important reason for not using the provision or not completing the optimisation process in 2017 was that the Company was focusing primarily on strengthening business activities not only for the Company ČD Cargo, a.s., but mainly for its foreign subsidiaries.

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate important birthdays, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. The provision was calculated at the amount of CZK 149 million as at 31 December 2017. In comparison with 2016, it slightly increased due to the creation of several new benefits under the collective bargaining agreement in 2018. One of them is, for example, a reward for a 60-year anniversary of employees.

In calculating the provision, the Company used an actuarial model which is based on 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 in the number of employees, anticipated increase in salaries, anticipated inflation level, likelihood of death or disablement according to the data of the Czech Statistical Office. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

During 2014, the Parent Company made a provision for loss-making transactions. The provision amount is determined by a qualified estimate of the amount of the estimated future liability arising from loss. The value is the difference between the expected discounted net revenue and discounted expected expenditure. For the calculation, the yield rate of 7% was used. When discounting costs, the Group used the discount rate at the expense of long-term foreign capital. The total amount of the provision as of 31 December 2015 was CZK 580 million. At the end of 2016 and after the update, it was worth CZK 525 million. At the end of 2017, the total amount is CZK 462 million. The provision will be gradually released against expenses until 2025.

'Other provisions' consists mainly of the provision for claims and levelling. By 2015, it also included the provision for untaken holiday. The provision for claims in freight transportation is created using a reasonable estimate of the amount of estimated future cash outflows that make up the expected value of credit notes for the complaints from customers. The value of the reserve as of 31 December 2017 amounted to CZK 10 million; the total amount as of 31 December 2016 was CZK 18 million. The provision for levelling is created using a reasonable estimate of the amount of estimated future cash outflows. Estimated costs are the result of expected summarisation amounts to be charged to the subject of the Group's levelling in received deductions from foreign carriers. The value of the reserve as of 31 December 2017 amounted to CZK 1 million; as of 31 December 2016, it was CZK 4 million.

## 17. OTHER FINANCIAL LIABILITIES

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Hedging derivatives | 1 | 8 | 16 |
| Liability arising from supplier loans | 24 | 128 | 269 |
| Other | 107 | 182 | 280 |
| **Total long-term** | **132** | **318** | **565** |
| Hedging derivatives | 5 | 12 | 43 |
| Liability arising from supplier loans | 121 | 173 | 197 |
| Other | 140 | 134 | 172 |
| **Total short-term** | **266** | **319** | **412** |
| **Total** | **398** | **637** | **977** |

The items "Other" include, in particular, the liabilities of the Parent Company 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. More detailed overview of the relationship with SŽDC is presented in Note 31.6.

## 18. OTHER LIABILITIES

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Other | 395 | 377 | 141 |
| **Total long-term** | **395** | **377** | **141** |
| Advances received | 1 | 2 | 3 |
| Payables to employees | 262 | 258 | 237 |
| Liabilities for social security and health insurance | 127 | 124 | 106 |
| Tax liabilities - tax withheld employees | 39 | 38 | 38 |
| Tax liabilities - VAT | 7 | 9 | 105 |
| Other | 10 | 48 | 14 |
| **Total short-term** | **446** | **479** | **503** |
| **Total** | **841** | **856** | **644** |

The parent Company received the advance granted in 2016, in the amount of CZK 292 million under the grant project equipment powered board part vehicles of European safety system RTCS. The subsidy for acquisition long-term assets is presented as item "Other". In 2017 its long-term part amounted to CZK 276 million (2016: CZK 258 million – long-term part; CZK 34 million – short-term part).

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

The Group does not recognise payables to taxation authorities, social security authorities or health insurers past their due dates.

Short-term liabilities to employees within the Group represent a liability for unpaid December salaries.

## 19. CONTRACTS FOR OPERATING LEASES

### 19.1. The Group as a Lessee

Group's expenses arising from the leasing of railway wagons on the basis of individual contracts in 2017 amounted to CZK 610 million (in 2016: CZK 597 million).

Group as lessee paid for the rental of buildings and land in the Logistics Center in Lovosice in 2017 and 2016 the amount of CZK 84 million.

### 19.2. The Group as a Lessor

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

Income from operating leases of movable assets in 2017 amounts to CZK 383 million (in 2016: CZK 439 million).

The Company as a lessor concluded no uncancellable contracts for operating leases.

### 19.3. Contractual obligations to expenditure

| | Total of contracts at as 31 Dec 2017 (CZK million) | Already paid (CZK million) | Liability (CZK million) |
|---|---|---|---|
| Investments in rail vehicles | 1,892 | 750 | 1,142 |
| Other (buildings, IT) | 229 | 2 | 227 |
| **Total** | **2,121** | **752** | **1,369** |

As of the balance sheet date, the Company concluded contracts for the purchase of property, plant and equipment and investment property in the amount of CZK 2,121 million, of which CZK 1,396 million relates to unpaid supplies. The remaining amount of CZK 752 million was paid as of 31 December 2017. A significant part of the obligations relating to expenses of CZK 1,142 million include investments in railway vehicles.

| | Total of contracts at as 31 Dec 2016 (CZK million) | Already paid (CZK million) | Liability (CZK million) |
|---|---|---|---|
| Investments in rail vehicles | 934 | 294 | 640 |
| Other (buildings, IT) | 242 | - | 242 |
| **Total** | **1,176** | **294** | **882** |

As of the balance sheet date, the Company concluded contracts for the purchase of property, plant and equipment and investment property in the amount of CZK 1,176 million, of which CZK 596 million relates to supplies agreed for 2016 and CZK 286 million relates to supplies agreed for the following years. The remaining amount of CZK 294 million was paid as of 31 December 2016. A significant part of the obligations relating to expenses of CZK 640 million include investments in railway vehicles.

Another item not presented in the table above is the contractual obligation in the total amount of CZK 718 million ((as at 31 December 2016: CZK 802 million), related to the Parent Company rents based on the Agreement on the lease of buildings and land in the Logistics Center in Lovosice. The obligation will be repaid annually on an ongoing basis until 2025.

## 20. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

### 20.1. Bank guarantees issued

Bank guarantees as of 31 December 2017 issued by the parent company in Komerční banka, a.s., from the contractual limit of CZK 50 million.

| List of active bank guarantees issued by ČD Cargo, a.s., the date of 31 December 2017 | | | | | |
|---|---|---|---|---|---|
| **In behalf of** | **Type of guarantee** | **Amount** | **Currency** | **Termination date** | **Reason for bank guarantee** |
| WestInvest Waterfront Towers s.r.o., Jankovcova 1569/2c, 170 00 Prague 7, Holešovice, Corporate ID 26178338 | Warranty for rent | 227,267.17 | EUR | 30 September 2018 | 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 Prague 8, Corporate ID 27626130 | Warranty for rent | 16,517,056 | CZK | 30 June 2018 | Bank guarantee in the event that ČD Cargo, Inc., 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 | No limits | 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. |

### 20.2. Bank guarantees received

| List of active bank guarantees received by ČD Cargo, a.s., as at the date of 31 December 2017 | | | | | |
|---|---|---|---|---|---|
| **In behalf of** | **Type of guarantee** | **Amount** | **Currency** | **Termination date** | **Reason for bank guarantee** |
| AVE sběrné suroviny, a.s., Cvokařská 164/3, 301 00 Pilsen, Corporate ID 006 71 151 | Unicredit Bank Czech Republic and Slovakia, a.s. | 20,274,000 | CZK | 30 June 2018 | In accordance with the contract 04454-2015-O01 for the purchase parts of 1000 pieces of rolling wagons |
| Siemens, s.r.o., Prague 13, Siemensova 1, ZIP 155 00, Corporate ID 002 68 577 | Unicredit Bank Czech Republic and Slovakia, a.s. | 1,997,500 | EUR | 28 February 2019 | In accordance with the contract no. 05012-2016-O01 dated 13 April 2016 providing supplies interoperable driving railway vehicles for the needs of ČD Cargo, Inc. and operability under warranty |

| List of active bank guarantees received by ČD Cargo, a.s., as at the date of 31 December 2017 | | | | | |
|---|---|---|---|---|---|
| **In behalf of** | **Type of guarantee** | **Amount** | **Currency** | **Termination date** | **Reason for bank guarantee** |
| Siemens, s.r.o., Praha 13, Siemensova 1, ZIP 155 00, Corporate ID 002 68 577 | Unicredit Bank Czech Republic and Slovakia, a.s. | 1,191,000 | EUR | 31 July 2020 | In accordance with amendment no. 2 (providing additional supplies of 3 pc. interoperable driving railway vehicles) dated 28 April 2017 to the contract 05012-2016-O01 dated 13 April 2016 providing supplies interoperable driving railway vehicles for the needs of ČD Cargo, Inc. and operability under warranty |
| ESTATE & INVESTMENT a.s. | Raiffaisenbank, a.s. | 2,500,000 | CZK | 30 October 2018 | In accordance with the invitation to tender for the tender contract "Supply of brake blocks" |

### 20.3. The proceedings relating to Italia Express train at the Office for the Protection of Competition

In the autumn of 2016, the Office for the Protection of Competition ("ÚOHS") initiated administrative proceedings with the companies České dráhy, a.s., and ČD Cargo, a.s., relating to potential infringement of the Law on the Protection of Competition and Treaty on the Functioning of the European Union. The infringement was allegedly committed by the companies České dráhy, a.s., and ČD Cargo, a.s., in providing freight and forwarding services by cargo block trains, including the provision of related freight and forwarding services related to transfer of goods to train's loading station and transfer from loading station to the place of destination. According to ÚOHS, this infringement should have occured more than 10 years ago. The matter has not yet been decided. However, the Office for the Protection of Competition suspended the administrative proceedings against ČD Cargo, a.s., by a decision of 19 June 2017. Therefore, the proceeding is only directed against České dráhy, a.s.

In the financial statements as at 31 December 2017, ČD Cargo, a.s., does not recognise any potential liability in this respect (for example: a provision) because the Management of the Company is not aware that České dráhy, a.s., as the sole proceedings' participant would have requested ČD Cargo, a.s., to cover any potential costs incurred in the future.

## 21. SEGMENT INFORMATION

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:

ČD Cargo offers its customers transportation of a broad variety of commodities within the transportation segment, these are: iron and engineering products, brown and black coal, building materials, food and agricultural products, chemicals and liquid fuels, wood and paper products, automotive, and also combined transportation and shipping of other consignments including those indicated as being extraordinary. Transportation of these goods is conducted in two types of products: individual wagon loads and complete trains. Complete trains are the most convenient type of transportation for larger shipments that go directly from the sender to the recipient without any shift work. Conversely, transportation of cargo by individual wagon or group of wagons is used by the customer for shipping of smaller volumes of goods. Among railway carriers in the Czech Republic, only ČD Cargo, a.s., offers individual wagon loads within the entire railway network, because it is technologically more demanding in comparison to complete trains. Individual wagon loads from the sender are delivered to the nearest marshalling station by a so-called handling train. With the use of the long-range train, wagons are then sent to the marshalling station that is the closest to the recipient, and then delivered to him again using the handling train.

Within the segment of complementary services for transportation, additional services for the handling of goods are offered, which are directly related to the shipping of goods by rail, meaning collection and loading of goods including storage, shuttle service, i.e. parking and removal of wagons to and from the factory siding, ensuring the shift to siding, shifting cars before furnishing the siding, forwarding operations, complex customs procedures for all types of transportation, including contact with government authorities, etc. Lease of unused capacity of locomotives and wagons to external entities is also offered within this segment. Last but not least, there is also the repair and maintenance of locomotives and wagons for the internal needs of ČD Cargo Group, as well as for external customers, which is performed in different rail vehicles repair centres.

Additional information on the breakdown required under IFRS 8 – 'Operating Segments' is in the case of geographical areas presented in Note 22. Revenue from principal activities is divided into domestic and foreign sales. In the case of product analysis, information about the Group is presented in Note 22 Sales from principal activities. Other information is not monitored by the Group.

| 2017 | Transportation (CZK million) | Additional services (CZK million) | Elimination (CZK million) | Total (CZK million) |
|---|---|---|---|---|
| **Revenue from principal operations** | **11,000** | **2,529** | **(1,606)** | **11,923** |
| Revenue from passenger transportation | 10,963 | 1,835 | (1,564) | 11,234 |
| Other revenues from principal operations | 37 | 694 | (42) | 689 |
| **Purchased consumables and services** | **(5,342)** | **(2,488)** | **1,812** | **(6,018)** |
| Traction costs | (1,257) | - | - | (1,257) |
| Payment for the use of the railway route | (1,345) | (4) | - | (1,349) |
| Other purchased consumables and services | (2,740) | (2,484) | 1,812 | (3,412) |
| **Personnel costs** | **(3,652)** | **(422)** | **(2)** | **(4,076)** |
| Payroll costs including insurance | (3,472) | (402) | (2) | (3,876) |
| Other social costs | (28) | (9) | - | (37) |
| Benefits arising from the collective agreement | (152) | (11) | - | (163) |
| Revenues from lease | 12 | 606 | (191) | 427 |
| Other operating revenues | 37 | 523 | (180) | 380 |
| Other operating expenses | (239) | (105) | 1 | (343) |
| Depreciation | (1,026) | (191) | 21 | (1,196) |
| Interest expense | (125) | (20) | - | (145) |
| other financial expenses | (106) | (20) | (13) | (139) |
| Other financial income | 80 | 41 | 14 | 135 |
| **Profit before tax** | **639** | **453** | **(144)** | **948** |
| Income tax | (147) | (56) | - | (203) |
| **Profit for the period** | **492** | **397** | **(144)** | **745** |
| Attributable to owners of the Parent Company | | | | 740 |
| Attributable to non-controlling interests | | | | 5 |

| 2016 | Transportation (CZK million) | Additional services (CZK million) | Elimination (CZK million) | Total (CZK million) |
|---|---|---|---|---|
| **Revenue from principal operations** | **10,622** | **2,417** | **(1,279)** | **11,760** |
| Revenue from passenger transportation | 10,581 | 1,732 | (1,249) | 11,064 |
| Other revenues from principal operations | 41 | 685 | (30) | 696 |
| **Purchased consumables and services** | **(5,113)** | **(2,210)** | **1,448** | **(5,875)** |
| Traction costs | (1,244) | - | - | (1,244) |
| Payment for the use of the railway route | (1,339) | - | - | (1,339) |
| Other purchased consumables and services | (2,530) | (2,210) | 1,448 | (3,292) |
| **Personnel costs** | **(3,483)** | **(386)** | **-** | **(3,869)** |
| Payroll costs including insurance | (3,306) | (359) | - | (3,665) |
| Other social costs | (29) | (10) | - | (39) |
| Benefits arising from the collective agreement | (148) | (17) | - | (165) |
| Revenues from lease | 4 | 572 | (169) | 407 |
| Other operating revenues | 18 | 229 | (32) | 215 |
| Other operating expenses | (150) | (32) | (6) | (188) |
| Depreciation | (964) | (114) | (1) | (1,079) |
| Interest expense | (185) | (17) | 2 | (200) |
| other financial expenses | (81) | (5) | (15) | (101) |
| Other financial income | 82 | - | - | 82 |
| **Profit before tax** | **750** | **454** | **(52)** | **1,152** |
| Income tax | (130) | (88) | - | (218) |
| **Profit for the period** | **620** | **366** | **(52)** | **934** |
| Attributable to owners of the Parent Company | | | | 931 |
| Attributable to non-controlling interests | | | | 3 |

## 22. REVENUE FROM PRINCIPAL OPERATIONS

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| **Revenue from freight transportation:** | **11,234** | **11,061** |
| – Revenue from freight transportation- local | 3,943 | 4,155 |
| – Revenue from freight transportation- foreign | 7,291 | 6,906 |
| **Other revenue from freight transportation:** | **505** | **508** |
| – Other revenue from freight transportation- local | 320 | 332 |
| – Other revenue from freight transportation- foreign | 185 | 176 |
| **Other revenue related to transportation** | **184** | **191** |
| **Total revenue from principal operations** | **11,923** | **11,760** |

The remaining part of revenues from freight transportation are mainly revenues from services performed in railway stations, supplementary services and rail siding agenda.

With respect to the volume of billed services, the principal local customers include the following:

- NH TRANS SE
- CARBOSPED, spol. s r.o.
- MORAVIA STEEL, a.s.
- Rail Cargo Logistics – Czech Republic, s.r.o.
- ČEZ, a.s.
- METRANS, a.s.

Foreign customers predominantly include railway transportation companies (national transporters) and other entities. With respect to the volume of billed services, the main companies are as follows:

Railway transportation companies (national transporters)

- Železničná spoločnost´ Cargo Slovakia, a.s.
- DB Cargo AG
- Rail Cargo Austria AG

Other companies

- STVA S.A.
- CD Cargo Germany GmbH
- Maersk Line A/S
- DB Cargo Logistics GmbH
- LKW WALTER INTERNATIONAL
- BLG AutoRail GmbH

## 23. OTHER OPERATING INCOME

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Gain from sale of property, plant and equipment and investment property | 8 | 3 |
| Gain from disposal of unnecessary assets | 142 | 94 |
| Revenues from lease | 427 | 407 |
| Compensations for deficits and damage | 44 | 52 |
| Contractual penalties and default interest | 11 | 9 |
| Foreign exchange gains - operational | 83 | 28 |
| Changes in provisions | 46 | 19 |
| Changes in provisions for receivables | 11 | 3 |
| Changes in provisions for inventories | 3 | - |
| Other | 32 | 7 |
| **Total other operating income** | **807** | **622** |

Revenues from lease includes income from short-term and occasional renting of trucks and traction vehicles.

## 24. PURCHASED CONSUMABLES AND SERVICES

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| **Traction costs** | **(1,257)** | **(1,212)** |
| – Traction fuel (diesel) | (404) | (403) |
| – Traction electricity | (853) | (809) |
| **Payment for the use of railway route** | **(1,322)** | **(1,271)** |
| **Other purchased consumables and services** | **(3,439)** | **(3,392)** |
| – Consumed material | (300) | (277) |
| – Consumed other energy | (84) | (117) |
| – Consumed fuel | (11) | (10) |
| – Repairs and maintenance | (244) | (185) |
| – Travel costs | (43) | (40) |
| – Telecommunication, data and postal services | (53) | (52) |
| – Other rental | (167) | (155) |
| – Rental for rail vehicles | (611) | (597) |
| – Transportation charges | (1,363) | (1,406) |
| – Services associated with the use of buildings | (39) | (39) |
| – Operational cleaning of rail vehicles | (5) | (4) |
| – Border area services | (175) | (173) |
| – Advertising and promotion costs | (17) | (11) |
| – Leasing | (10) | (8) |
| – Infrastructure capacity allocation | (28) | (72) |
| – IT | (113) | (103) |
| – Performances of fire brigade service | (10) | (10) |
| – Services in the field of ecology | (7) | (9) |
| – Other services | (159) | (124) |
| **Total purchased consumables and services** | **(6,018)** | **(5,875)** |

Traction electricity in the period from 1 January 2017 to 31 December 2017 includes traction electricity purchased from České dráhy, a.s., in the amount of CZK 779 mil. In the period from 1 January 2016 to 31 December 2016 it includes traction electricity purchased from České dráhy, a.s., in the amount of CZK 809 million.

Other services predominantly include the costs of healthcare, advisory and costs of commissions paid for cross-border representation.

Cost of services provided by the Company's statutory auditor – Pricewater-houseCoopers are presented in following table.

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Statutory audit of annual financial statements (including subsidiaries) | (3) | (3) |
| Other services ( including subsidiaries )* | (3) | - |
| **Total** | **(6)** | **(3)** |

* warehouse optimisation projects in the Parent company

## 25. EMPLOYEE BENEFIT COSTS

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Payroll costs | (2,888) | (2,738) |
| Statutory social security and health insurance | (136) | (128) |
| Statutory social insurance | (831) | (786) |
| Contributions to the pension insurance and capital life insurance | (163) | (165) |
| Emoluments to key management | (21) | (13) |
| Other employee benefit costs | (37) | (39) |
| **Total employee benefit costs** | **(4,076)** | **(3,869)** |

Other employee benefit costs mainly includes employee training costs.

Average recalculated total number of employees within the Group:

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Employees | 7,110 | 7,065 |
| Key management | 50 | 43 |
| **Average recalculated total number of employees** | **7,160** | **7,108** |

Key management consists of Board of Directors and Supervisory Board of separate companies. The parent Company's key management includes also the Audit Committee. More detailed information on Parent Company is disclosed in Note 1.5.

## 26. DEPRECIATION AND AMORTISATION

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Depreciation of property, plant and equipment | (1,109) | (1,018) |
| Amortisation of intangible assets | (87) | (61) |
| **Total depreciation and amortisation** | **(1,196)** | **(1,079)** |

## 27. OTHER OPERATING EXPENSES

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Change in other provisions related to other operating expenses | (39) | - |
| Contractual fines and default interest expenses | (23) | (20) |
| Taxes and fees | (10) | (8) |
| Exchange rate losses - operating | (108) | (30) |
| Insurance | (83) | (75) |
| Damages and losses | (21) | (27) |
| Other | (59) | (28) |
| **Total other operating expenses** | **(343)** | **(188)** |

Other operating expenses primarily include costs of loans written off and membership fees.

## 28. FINANCIAL EXPENSES

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Interest on finance lease payables and leaseback | (107) | (137) |
| Interest expense - bonds | (18) | (35) |
| Other interest expense | (20) | (28) |
| Unwinding of the discount of provisions | (2) | (1) |
| Exchange rate losses - financial | (120) | (82) |
| Bank expenditures | (3) | (3) |
| Other financial expenses | (14) | (15) |
| **Total financial expenses** | **(284)** | **(301)** |

## 29. FINANCIAL INCOME

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Exchange rate gains - financial | 116 | 66 |
| Interest received | - | 1 |
| Other financial income | 6 | 4 |
| **Total financial income** | **122** | **71** |

## 30. INCOME TAXATION

### 30.1. Income Tax Reported in Profit or Loss

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Current income tax for the period reported in the statement of profit or loss | (57) | (48) |
| Deferred tax recognised in the statement of profit or loss | (146) | (170) |
| **Total tax charge** | **(203)** | **(218)** |

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

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Profit for the period from continuing operations | 948 | 1,152 |
| Statutory tax rate on corporate income in the Czech Republic | 19 % | 19 % |
| Expected income tax expense | (180) | (219) |
| **Adjustments:** | | |
| Effect of the different income tax rate in other countries | (7) | (6) |
| Other non-taxable income | (104) | 15 |
| Tax non-deductible expense | 93 | (3) |
| Income tax related to prior periods | (5) | (5) |
| **Income Tax Reported in Profit or Loss** | **(203)** | **(218)** |

### 30.2. Income tax recognised in other comprehensive income

| | 2017 (CZK million) | 2016 (CZK million) |
|---|---|---|
| Revaluation of financial instruments recognised as cash flow hedges | (13) | (14) |
| **Total income tax recognised in other comprehensive income** | **(13)** | **(14)** |

### 30.3. Deferred tax

| | Unutilised tax losses (CZK million) | Non-current assets (CZK million) | Provisions (CZK million) | Leases (CZK million) | Receivables (CZK million) | Derivatives (CZK million) | Other (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 Jan 2016** | **(98)** | **1,099** | **(189)** | **368** | **(35)** | **(10)** | **(1)** | **1,134** |
| Deferred tax reported in Profit or Loss | 71 | - | 14 | 74 | 16 | - | (5) | **170** |
| Deferred tax recognised in other comprehensive income | - | - | - | - | - | 14 | - | **14** |
| Exchange differences | - | - | - | - | - | - | 1 | **1** |
| **Balance at 31 Dec 2016** | **(27)** | **1,099** | **(175)** | **442** | **(19)** | **4** | **(5)** | **1,319** |
| Deferred tax reported in Profit or Loss | 27 | 28 | 19 | 68 | 1 | - | 3 | **146** |
| Deferred tax recognised in other comprehensive income | - | - | - | - | - | 13 | - | **13** |
| Exchange differences | - | - | - | - | - | - | 2 | **2** |
| **Balance at 31 Dec 2017** | **-** | **1,127** | **(156)** | **510** | **(18)** | **17** | **-** | **1,480** |

## 31. RELATED PARTY TRANSACTIONS

### 31.1. Trade receivables and payables at the end of the reporting period

| 31 Dec 2017 | Receivables (CZK million) | Payables (CZK million) |
|---|---|---|
| **České dráhy, a.s.** | **6** | **235** |
| RAILLEX, a.s. | 4 | - |
| BOHEMIAKOMBI, spol. s r.o. | 1 | - |
| Ostravská dopravní společnost, a.s. | 17 | - |
| Ostravská dopravní společnost - Cargo, a.s | 9 | 11 |
| **Joint ventures and associates** | **31** | **11** |
| ČD - Telematika, a.s. | - | 6 |
| ČD - Informační Systémy, a.s. | - | 109 |
| DPOV, a.s. | 1 | 25 |

| 31 Dec 2017 | Receivables (CZK million) | Payables (CZK million) |
|---|---|---|
| ČD travel, s.r.o. | - | 1 |
| ČD Relax, s.r.o. | - | 1 |
| Dopravní vzdělávací institut, a.s. | - | 2 |
| Výzkumný Ústav Železniční, a.s. | 6 | - |
| **Other companies in České dráhy Group** | **7** | **144** |
| **Total** | **44** | **390** |

| 31 Dec 2016 | Receivables (CZK million) | Payables (CZK million) |
|---|---|---|
| **České dráhy, a.s.** | **3** | **229** |
| RAILLEX, a.s. | 3 | - |
| BOHEMIAKOMBI, spol. s r.o. | 1 | - |
| Ostravská dopravní společnost, a.s. | 44 | 12 |
| **Joint ventures and associates** | **48** | **12** |
| ČD - Telematika, a.s. | - | 5 |
| ČD - Informační Systémy, a.s. | - | 56 |
| DPOV, a.s. | 1 | 83 |
| ČD travel, s.r.o. | - | 6 |
| Dopravní vzdělávací institut, a.s. | - | 2 |
| Výzkumný Ústav Železniční, a.s. | 5 | - |
| **Other companies in České dráhy Group** | **6** | **152** |
| **Total** | **57** | **393** |

| 1 Jan 2016 | Receivables (CZK million) | Payables (CZK million) |
|---|---|---|
| **České dráhy, a.s.** | **11** | **483** |
| RAILLEX, a.s. | 4 | - |
| BOHEMIAKOMBI, spol. s r.o. | 2 | - |
| Ostravská dopravní společnost, a.s. | 35 | 11 |
| **Joint ventures and associates** | **41** | **11** |
| ČD - Telematika, a.s. | - | 6 |
| ČD - Informační Systémy, a.s. | - | 58 |
| DPOV, a.s. | 1 | 30 |
| ČD travel, s.r.o. | - | 6 |
| Dopravní vzdělávací institut, a.s. | - | 2 |
| Výzkumný Ústav Železniční, a.s. | 4 | 1 |
| **Other companies in České dráhy Group** | **5** | **103** |
| **Total** | **57** | **597** |

Related party transactions were conducted on an arm's length basis reflecting the amount of purchased goods and relationships between parties.

Outstanding balances are not collateralised and are paid in cash. No guarantees were received or provided.

### 31.2. Income generated with related parties

| 2017 | Sale of tangible fixed assets (CZK million) | Sale of services (CZK million) | Other income (CZK million) | Total (CZK million) |
|---|---|---|---|---|
| České dráhy, a.s. | 3 | 18 | 2 | 23 |
| ČD - Telematika, a.s. | - | 1 | - | 1 |
| DPOV, a.s. | - | 3 | - | 3 |
| Výzkumný Ústav Železniční, a.s. | - | 31 | - | 31 |
| 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** | **3** | **213** | **2** | **218** |

| 2016 | Sale of tangible fixed assets (CZK million) | Sale of services (CZK million) | Other income (CZK million) | Total (CZK million) |
|---|---|---|---|---|
| České dráhy, a.s. | - | 18 | 3 | 21 |
| ČD - Telematika, a.s. | - | 1 | - | 1 |
| DPOV, a.s. | - | 4 | 2 | 6 |
| Výzkumný Ústav Železniční, a.s. | - | 21 | - | 21 |
| RAILLEX, a.s. | - | 31 | - | 31 |
| BOHEMIAKOMBI, spol. s r.o. | - | 17 | - | 17 |
| Ostravská dopravní společnost, a.s. | - | 201 | - | 201 |
| **Total** | **-** | **293** | **5** | **298** |

## 31.3. Purchase from related parties

| 2017 | Assets (CZK million) | Material and energy (CZK million) | Services (CZK million) | Other expenses (CZK million) | Financial expenses (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| České dráhy, a.s. | 67 | 1,318 | 95 | 8 | 5 | 1,493 |
| ČD - Telematika, a.s. | - | 3 | 14 | - | - | 17 |
| ČD - Informační Systémy, a.s. | 80 | 6 | 101 | - | - | 187 |
| DPOV, a.s. | 61 | 23 | 22 | - | - | 106 |
| ČD travel, s.r.o. | - | - | - | - | - | - |
| ČD Relax, s.r.o. | - | - | 15 | - | - | 15 |
| Dopravní vzdělávací institut, a.s. | - | - | 19 | - | - | 19 |
| Výzkumný Ústav Železniční, a.s. | - | - | - | - | - | - |
| JLV, a.s. | - | - | 1 | - | - | 1 |
| RAILLEX, a.s. | - | - | 1 | - | - | 1 |
| Ostravská dopravní společnost - Cargo, a.s | - | - | 58 | - | - | 58 |
| **Total** | **208** | **1,350** | **326** | **8** | **5** | **1,897** |

In 2017, purchases from České dráhy, a.s., are mainly represented by purchases of traction energy amounting to CZK 779 million and diesel amounting to CZK 408 million.

| 2016 | Assets (CZK million) | Material (CZK million) | Services (CZK million) | Other expenses (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|
| České dráhy, a.s. | 110 | 1,324 | 97 | 2 | 1,533 |
| ČD - Telematika, a.s. | - | 3 | 13 | - | 16 |
| ČD - Informační Systémy, a.s. | 45 | 5 | 89 | - | 139 |
| DPOV, a.s. | 109 | 14 | 14 | - | 137 |
| ČD travel, s.r.o. | - | - | 18 | - | 18 |
| Dopravní vzdělávací institut, a.s. | - | - | 19 | - | 19 |
| Výzkumný Ústav Železniční, a.s. | - | - | 1 | - | 1 |
| JLV, a.s. | - | - | 1 | - | 1 |
| RAILLEX, a.s. | - | - | 1 | 1 | 2 |
| Ostravská dopravní společnost, a.s. | - | - | 55 | - | 55 |
| **Total** | **264** | **1,346** | **308** | **3** | **1,921** |

In 2016, purchases from České dráhy, a.s., are mainly represented by purchases of traction energy amounting to CZK 809 milion and diesel amounting to CZK 377 million.

### 31.4. Purchases of intangible, tangible and financial assets with related parties

#### 31.4.1 Sales

The most important items sold in 2017 consist of the sale of locomotives of České dráhy, a.s., in the amount of CZK 3 million.

#### 31.4.2. Purchases

| Purchases | Intangible assets 2017 (CZK million) | Property, plant and equipment 2017 (CZK million) | Intangible assets 2016 (CZK million) | Property, plant and equipment 2016 (CZK million) |
|---|---|---|---|---|
| České dráhy, a.s. | - | 67 | - | 110 |
| ČD - Informační Systémy, a.s. | 63 | 17 | 45 | - |
| DPOV, a.s. | - | 61 | - | 109 |
| **Total** | **63** | **145** | **45** | **219** |

In 2017, investment in rolling stock components of CZK 39 million and purchase of land and buildings in the amount of CZK 19 million were the largest item of purchases of the Parent company's assets from České dráhy, a.s. In 2016, the purchase of series 163 locomotives in the amount of CZK 81 million was the largest item within the 'Purchases of assets'. In 2015 it amounted to CZK 233 million. Purchases of fixed assets from DPOV, a.s. include purchases of railway vehicles components. Purchases from ČD-Informační systémy, a.s. mainly include the development of information systems.

### 31.5. Loans to related parties

As of 17 October 2016, the Parent Company has benefited the borrowing from Česke dráhy, a.s., in the total amount of CZK 540 million for the purpose of financing the purchase of series 383 locomotives (Vectron). The remaining part of the borrowing is, as of 31 December 2016, split into long-term part in amount of CZK 450 million and short-term part in amount of CZK 77 million. The remaining part of the borrowing is, as of 31 December 2017, split into long-term part in amount of CZK 352 million and short-term part in amount of CZK 73 million and is captured in the Note 15"Loans, borrowings and bonds".

### 31.6. Relations with SŽDC

The costs incurred in relation to Správa železniční dopravní cesty, s.o. predominantly include the fees for the allocation of capacity and use of the railway route in the accounting periods 2017 and 2016. The costs for the accounting periods 2017 and 2016 are disclosed in Note 24.

In 2017, the income of the Group predominantly includes sales from intrastate vehicle transportation of CZK 11 million (in 2016: CZK 13 million).

Expenses and income of the Group resulting from the transactions conducted with SŽDC in 2017 and 2016 were as follows:

| 31 Dec 2017 | Expenses (CZK million) | Income (CZK million) |
|---|---|---|
| Operation of the railway route | 2 | - |
| Use of the railway route and allocated route capacity | 1,244 | - |
| Property rental | 10 | - |
| Revenues from freight transportation | 1 | 11 |
| Performance of firefighter emergency services | 10 | - |
| Telecommunication services | 41 | - |
| Contractual fines and default interest | 25 | - |
| Compensation for damages | 14 | 1- |
| Extraordinary events investigation | 3 | - |
| Repairs and maintenance | 2 | - |
| Other | 9 | 4 |
| **Total** | **1,361** | **25** |

| 31 Dec 2016 | Expenses (CZK million) | Income (CZK million) |
|---|---|---|
| Operation of the railway route | 2 | - |
| Use of the railway route and allocated route capacity | 1,294 | - |
| Property rental | 2 | - |
| Revenues from freight transportation | - | 13 |
| Performance of firefighter emergency services | 10 | - |
| Telecommunication services | 41 | - |
| Contractual fines and default interest | 20 | - |
| Compensation for damages | 25 | 9 |
| Extraordinary events investigation | 3 | - |
| Repairs and maintenance | 2 | - |
| Other | 9 | 5 |
| **Total** | **1,408** | **27** |

Given the above activities, the Group records the following receivables from and payables to the SŽDC:

| Receivables | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Revenues from freight transportation | 4 | 5 | 1 |
| Estimated receivables | 4 | 4 | 2 |
| Other | 5 | 8 | 6 |
| **Total** | **13** | **17** | **9** |

| Payables | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Use of railway route and allocated capacity of the railway - freight transport | 138 | 153 | 487 |
| Property rental – expenses and income | 2 | 2 | - |
| Court settlement - traction energy | 152 | 215 | 271 |
| Settlement Agreement - exclusions | 30 | 42 | 59 |
| Court verdict - exclusions | - | 23 | 76 |
| Radio communication technology | 12 | 12 | 10 |
| Other | 17 | 1 | - |
| Estimated payables | 123 | 159 | 47 |
| The fee for the use of transport infrastructure | 85 | 107 | - |
| Compensation for damages caused by extraordinary events | 2 | 22 | 26 |
| Uncollected capacity ŽDC | 16 | 12 | 9 |
| Performance of HZS | 10 | 10 | 10 |
| Heat supply | 7 | 5 | 2 |
| Office space rental | 1 | 1 | - |
| Other estimated payables | 2 | 2 | - |
| **Total** | **474** | **607** | **950** |

The settlement of a liability payable to the Parent Company in amount of CZK 30 million, is related to the compensation for damage caused by SŽDC exclusions based on a court decision from 15 January 2014. The liability is split into short-term part within 1 year in the amount of CZK 12 million and long-term part in the amount of CZK 18 million.

The settlement of a liability payable to the Parent Company in amount of CZK 152 million, is related to the conclusion of court agreement in a dispute about the price of consumed traction energy during 2009. The liability is split into short-term part within 1 year in the amount of CZK 64 million and long-term part in the amount of CZK 88 million.

### 31.7. Relations with ČEZ Group

The expenses incurred in relation to the ČEZ Group primarily include the payments for electricity. The income primarily includes the sales of freight transportation.

| 31 Dec 2017 | Expenses (CZK million) | Income (CZK million) |
|---|---|---|
| Use of railway route and allocated capacity of the railway | 1 | - |
| Revenues from freight transportation | - | 308 |
| Thermal energy | - | - |
| Other | 9 | 2 |
| **Total** | **10** | **310** |

| 31 Dec 2016 | Expenses (CZK million) | Income (CZK million) |
|---|---|---|
| Property rental | 1 | - |
| Revenues from freight transportation | - | 388 |
| Thermal energy | 8 | - |
| Other | 1 | - |
| **Total** | **10** | **388** |

Given the above activities, the Group records the following receivables from the ČEZ Group:

| Receivables | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Revenues from freight transportation | 30 | 68 | 71 |
| **Total** | **30** | **68** | **71** |

The Group does not record any significant payables to the ČEZ Group.

### 31.8. Relations with other related parties

As part of other relationships with the state, state-owned companies and organisations, the Company undertook transactions mainly relating to taxes and fees (VAT, tax payable, customs duties and charges, etc.).

## 32. NON-CONTROLLING INTERESTS

### 32.1. Equity – Non-Controlling Interests

| 31 Dec 2017 | ČD Logistics, a.s. (CZK million) | Terminal Brno, a.s. (CZK million) | ČD-DUSS Terminál, a.s. (CZK million) | Total (CZK million) |
|---|---|---|---|---|
| **Non-controlling interests percentage** | **22%** | **33.07%** | **49%** | |
| Share capital | 2 | 24 | 2 | 28 |
| Retained earnings – current period | 3 | 1 | 1 | 5 |
| Retained earnings | 11 | (1) | 3 | 13 |
| **Total** | **16** | **24** | **6** | **46** |

| 31 Dec 2016 | ČD Logistics, a.s. (CZK million) | Terminal Brno, a.s. (CZK million) | ČD-DUSS Terminál, a.s. (CZK million) | Total (CZK million) |
|---|---|---|---|---|
| **Share capital** | **2** | **24** | **2** | **28** |
| Retained earnings – current period | 2 | - | 1 | 3 |
| Retained earnings | 9 | (1) | 2 | 10 |
| **Total** | **13** | **23** | **5** | **41** |

| 1 Jan 2016 | ČD Logistics, a.s. (CZK million) | Terminal Brno, a.s. (CZK million) | ČD-DUSS Terminál, a.s. (CZK million) | Total (CZK million) |
|---|---|---|---|---|
| **Share capital** | **2** | **24** | **2** | **28** |
| Retained earnings – current period | 2 | - | - | 2 |
| Retained earnings | 7 | (1) | 2 | 8 |
| **Total** | **11** | **23** | **4** | **38** |

## 32.2. Summary of financial information – companies with non-controlling interests

| 31 Dec 2017 | ČD Logistics, a.s. (CZK million) | Terminal Brno, a.s. (CZK million) | ČD-DUSS Terminál, a.s. (CZK million) |
|---|---|---|---|
| **Total assets** | **172** | **78** | **12** |
| Long-term assets | 1 | 64 | - |
| Short-term assets | 171 | 14 | 12 |
| **Total liabilities** | **98** | **4** | **3** |
| Short-term liabilities | 98 | 4 | 3 |
| Net assets | 74 | 74 | 9 |
| **Share of net assets – non-controlling interests** | **16** | **26** | **4** |
| **Share of net assets – the Group** | **58** | **48** | **5** |

| 31 Dec 2016 | ČD Logistics, a.s. (CZK million) | Terminal Brno, a.s. (CZK million) | ČD-DUSS Terminál, a.s. (CZK million) |
|---|---|---|---|
| **Total assets** | **155** | **74** | **10** |
| Long-term assets | - | 63 | - |
| Short-term assets | 155 | 11 | 10 |
| **Total liabilities** | **95** | **3** | **2** |
| Short-term liabilities | 95 | 3 | 2 |
| Net assets | 60 | 71 | 8 |
| **Share of net assets – non-controlling interests** | **13** | **24** | **4** |
| **Share of net assets – the Group** | **47** | **47** | **4** |

| 1 Jan 2016 | ČD Logistics, a.s. (CZK million) | Terminal Brno, a.s. (CZK million) | ČD-DUSS Terminál, a.s. (CZK million) |
|---|---|---|---|
| **Total assets** | **133** | **70** | **10** |
| Long-term assets | 1 | 63 | 1 |
| Short-term assets | 132 | 7 | 9 |
| **Total liabilities** | **82** | **1** | **2** |
| Short-term liabilities | 82 | 1 | 2 |
| Net assets | 51 | 69 | 8 |
| **Share of net assets – non-controlling interests** | **11** | **23** | **4** |
| **Share of net assets – the Group** | **40** | **46** | **4** |

| | 2017 (CZK million) | 2016 (CZK million) | 2015 (CZK million) |
|---|---|---|---|
| Total income | 821 | 777 | 709 |
| Profit for the period | 18 | 13 | 9 |
| **Share of net assets – non-controlling interests** | **5** | **3** | **2** |
| **Share of net assets – the Group** | **13** | **10** | **7** |

# 33. FINANCIAL INSTRUMENTS

## 33.1. Capital risk management

The Group manages its capital to ensure that it is able to continue as a going concern while optimising the debt and equity balance between liabilities and equity. The Group's target maximum ratio between foreign and own resources is 75% (according to the internal targets set at 55%) according to bank requirements.

The Group's capital structure consists of net debt (borrowings less cash and cash equivalents) and the Group's equity (includes equity, funds, retained earnings).

| Receivables | | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|---|
| Loans, borrowings and bonds | 15 | 4,642 | 4,974 | 5,089 |
| Cash and cash equivalent | 12 | (690) | (877) | (962) |
| **Total net debt** | | **3,952** | **4,097** | **4,127** |

| Receivables | | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|---|
| Share capital | 13 | 8,494 | 8,494 | 8,494 |
| Capital funds | 13 | 450 | 343 | 273 |
| Accumulated loss | | (461) | (1,161) | (2,078) |
| **Total equity** | | **8,483** | **7,676** | **6,689** |

The Group is not subject to any externally imposed capital requirements.

The Board of Directors and the Supervisory Board of the Parent Company are regularly informed about the development of debt. Any additional debt is subject to approval by the Parent Company's statutory bodies, i.e. the Board of Directors and the Supervisory Board.

## 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

| Categories of financial assets | Classes of financial assets | | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|---|---|
| Classes of financial | Cash and cash equivalents | 12 | 690 | 877 | 962 |
| | Trade receivables | 9 | 1,697 | 1,656 | 1,695 |
| | Other financial assets | 10 | 426 | 426 | 102 |
| Financial assets at fair value presented in profit or loss statement | Other financial assets - derivatives used in hedge accounting | 10 | 96 | 37 | 1 |
| **Total** | | | **2,909** | **2,996** | **2,760** |

| Categories of financial liabilities | Classes of financial liabilities | | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|---|---|
| Financial liabilities at fair value presented in statement of profit or loss | Other financial liabilities - derivatives used in hedge accounting | 17 | 5 | 15 | 54 |
| | Other financial liabilities – other derivatives | 17 | 1 | 5 | 5 |
| Financial liabilities at amortized cost | Finance lease and leaseback liabilities | 15 | 2,164 | 2,421 | 2,875 |
| | Issued bonds | 15 | 2,001 | 1,999 | 2,174 |
| | Loans | 15 | 477 | 554 | 40 |
| | Trade payables | 14 | 1,806 | 1,780 | 2,173 |
| | Liabilities arising from supplier loans | 17 | 158 | 301 | 467 |
| | Liabilities from settlement agreements | 17 | 169 | 280 | 406 |
| | Other financial liabilities | 17 | 65 | 36 | 45 |
| **Total** | | | **6,846** | **7,391** | **8,239** |

Financial instruments are measured at fair value (level 2). This measurement is 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), as described in Note 32.11.3.

Income from individual classes of financial assets is as follows:

| Class of financial asset | 2017 (CZK million) | 2016 (CZK million) | Presented in statement of profit or loss |
|---|---|---|---|
| Interest on cash and cash equivalents | - | 1 | Financial income |
| **Total** | **-** | **1** | |

Impairment losses on financial assets are presented in the Note 'Trade receivables' (Note 9) and 'Other financial assets' (Note 10). No impairment was noted with regard to any other class of financial assets.

### 33.4. Financial risk management objectives

The financial management and risk management function provides services to the Group, monitors and manages the financial risks relating to the operations of the Group. Financial risks include market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

### 33.5. Currency risk management

The Group, in the context of its market position and business strategy, is in a position where inputs are purchased primarily in CZK, but services (particularly on income from international transport and services) are widely sold in foreign currency, primarily in EUR. This leads to disproportion between monetary inputs and outputs (surplus of EUR). Group in accordance with the risk management strategy concludes currency forwards and options to cover future payments received (monetary balance) denominated in foreign currencies.

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

| 31 Dec 2017 | EUR (CZK million) | USD (CZK million) | Other (CZK million) | Total (CZK million) |
|---|---|---|---|---|
| Financial assets | 1,711 | 18 | 31 | 1,760 |
| Financial liabilities | (1,579) | (9) | (40) | (1,628) |
| **Total** | **132** | **9** | **(9)** | **132** |

| 31 Dec 2016 | EUR (CZK million) | USD (CZK million) | Other (CZK million) | Total (CZK million) |
|---|---|---|---|---|
| Financial assets | 2,031 | 3 | 1 | 2,035 |
| Financial liabilities | (1,532) | (10) | (14) | (1,556) |
| **Total** | **499** | **(7)** | **(13)** | **479** |

| 1 Jan 2016 | EUR (CZK million) | USD (CZK million) | Other (CZK million) | Total (CZK million) |
|---|---|---|---|---|
| Financial assets | 1,516 | 3 | 9 | 1,528 |
| Financial liabilities | (991) | (11) | (8) | (1,010) |
| **Total** | **525** | **(8)** | **1** | **518** |

#### 33.5.1. 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 unhedged 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 with regard to the relevant foreign currencies would have on the profit and other comprehensive income. A positive number indicates an increase in the profit and other comprehensive income:

| | 2017 (CZK million) | 2016 (CZK million) | 2015 (CZK million) |
|---|---|---|---|
| Translation of items denominated in foreign currencies at the end of the period | (5) | (19) | (20) |
| Change in the fair value of derivatives at the end of the period | (9) | 2 | (13) |
| **Total impact on the profit for the period** | **(14)** | **(17)** | **(33)** |
| Change in the fair value of derivatives at the end of the period | 79 | 102 | 32 |
| **Change in the fair value of derivatives at the end of the period** | **79** | **102** | **32** |

### 33.5.2. Currency Forwards and options

In line with its principles, the Group enters into currency forwards and options to cover the future received payments denominated in foreign currencies.

The table shows outstanding foreign currency forwards and options for the sale of the foreign currency as of:

#### Foreign currency forwards

| Sale | Average currency exchange rate | Foreign currency | Nominal value in EUR million | Fair value (CZK million) |
|---|---|---|---|---|
| 31 Dec 2017 | 26.641 | EUR | 84 | 86 |
| 31 Dec 2016 | 26.868 | EUR | 96 | 6 |
| 1 Jan 2016 | 26.950 | EUR | 24 | 1 |

#### Foreign currency options – collar

As at 31 December 2017, the Group has no open foreign currency option for sale.

| Sale | Average currency exchange rate | Foreign currency | Nominal value in EUR million | Fair value (CZK million) |
|---|---|---|---|---|
| 31 Dec 2016 | 26.65 – 27.05 | EUR | 12 | - |
| 1 Jan 2016 | 26.50 – 27.15 | EUR | 12 | (1) |

Open foreign currency forwards and options on purchase of foreign currency were not closed in 2014, 2015 and 2016.

**Expected realization of hedged items by foreign currency forwards and options**
Expected cash flows of hedged future sales in EUR have the following structure:

| 31 Dec 2017 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1–5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Hedged future sales in EUR | 128 | 255 | 1,149 | 613 | - | **2,145** |

| 31 Dec 2016 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1–5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Hedged future sales in EUR | 162 | 324 | 1,459 | 973 | - | **2,918** |

| 1 Jan 2016 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1–5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Hedged future sales in EUR | 81 | 162 | 730 | - | - | **973** |

### 33.6. Interest rate risk management

The Group is exposed to the risk of interest rate changes because it borrows funds at both fixed and floating interest rates. The Group manages the interest rate risk by maintaining an appropriate mix between fixed and floating rate financing.

Concurrently, the Group concludes interest rate swap contracts in order to hedge future cash flows resulting from loans and borrowings with variable rates. The hedging is regularly assessed to align the opinions on the development of interest rates with the defined level of acceptable risk. This treatment provides for the application of the economically most effective hedging strategies.

#### 33.6.1. 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 200 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:

| | 2017 (CZK million) | 2016 (CZK million) | 2015 (CZK million) |
|---|---|---|---|
| Interest from loans and lease with variable rate for the period | (44) | (60) | (47) |
| Change in the present value of long-term provisions at the end of the period | 2 | 6 | 11 |
| **Total impact on the profit for the period** | **(42)** | **(54)** | **(36)** |
| Change in the fair value of derivatives at the end of the period | 1 | 6 | 12 |
| **Total impact on other comprehensive income** | **1** | **6** | **12** |

#### 33.6.2. Interest Rate Swaps

Based on interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to eliminate the risk of changing cash flows on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows. The fair value of interest rate swaps is disclosed in the table below.

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

### IRS

| 31 Dec 2017 | Average contracted fixed interest rate | Principal CZK million | Fair value of assets (liabilities) CZK million |
|---|---|---|---|
| Less than 1 year | 3.265% | 112 | (4) |
| 1 to 5 years | 3.265% | 95 | (1) |
| **Total** | | | **(5)** |

| 31 Dec 2016 | Average contracted fixed interest rate | Principal CZK million | Fair value of assets (liabilities) CZK million |
|---|---|---|---|
| Less than 1 year | 3.265% | 109 | (8) |
| 1 to 5 years | 3.265% | 207 | (6) |
| **Total** | | | **(14)** |

| 1 Jan 2016 | Average contracted fixed interest rate | Principal CZK million | Fair value of assets (liabilities) CZK million |
|---|---|---|---|
| Less than 1 year | 3.265% | 106 | (10) |
| 1 to 5 years | 3.265% | 304 | (13) |
| 5 years and more | 3.265% | 13 | (1) |
| **Total** | | | **(24)** |

This is related to interest payments insurance on leases of series 753 locomotives.

The Group will settle the difference between the fixed and variable interest rate on a net basis. Exchanges of payments under interest rate swaps and payments of the interest on loans are concurrent and the amount accumulated in equity is reclassified to the profit or loss in the period in which variable interest rates from the loan impact the profit or loss.

### 33.6.3. Interest Rate Options

In 2011, the Group concluded hedging of interest rates with regard to three lease transactions with floating interest rates. The hedging took the form of a collar, in three individual tranches. The hedging will be effective from 2013 to 2019.

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

| 31 Dec 2016 | Hedged range | Principal CZK million | Fair value of assets (liabilities) CZK million |
|---|---|---|---|
| Less than 1 year | 1.13% - 3.13% | 100 | (3) |
| 1 to 5 years | 1.13% - 3.13% | 284 | (2) |
| **Total** | | | **(5)** |

| 1 Jan 2016 | Hedged range | Principal CZK million | Fair value of assets (liabilities) CZK million |
|---|---|---|---|
| Less than 1 year | 1.13% - 3.13% | 94 | (2) |
| 1 to 5 years | 1.13% - 3.13% | 385 | (3) |
| **Total** | | | **(5)** |

This is related to interest payments on leases 1,145 rail wagons (Rils + Habbillns + Falls + Zaes + Eas + Roos).

**Expected realization of hedged items by interest rate swaps and options**
The expected hedged cash flows from interest on variable-rate loans are presented in the Note 32.9.1. Tables with remaining contractual maturities of financial liabilities are presented in rows 'Finance lease liabilities' and 'Instruments with a variable interest rate.

### 33.7. 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, is a significant cost item of the Group. The Group manages this risk using a combination of several instruments as follows:

- conclusion of mid-term hedging derivatives for oil purchase,
- the risk arising from the purchase of electricity from the relevant supplier is eliminated by the purchase of the annual consumption for the maximum fixed price.

#### 33.7.1. 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 Group is exposed to the risk of changes in prices of commodities due to:

- change in the fair value of concluded financial derivatives.

The following table shows the impact that an increase in the oil price of 10% 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:

| | 2017 (CZK million) | 2016 (CZK million) | 2015 (CZK million) |
|---|---|---|---|
| Change in the fair value of derivatives at the end of the period | - | - | - |
| **Total impact on the profit for the period** | **-** | **-** | **-** |
| Change in the fair value of derivatives at the end of the period | 12 | 16 | 8 |
| **Total impact on other comprehensive income** | **12** | **16** | **8** |

### 33.7.2. Commodity Derivatives

The table shows outstanding commodity contracts for the purchase of oil as at the end of the accounting period:

| Purchase of diesel | Hedged average price (CZK/mt) | Volume of contract (mt) | Nominal value (CZK million) |
|---|---|---|---|
| 31 Dec 2017 | 11,118 | 9,600 | 11 |
| 31 Dec 2016 | 10,822 | 13,200 | 28 |
| 1 Jan 2016 | 12,713 | 8,400 | (30) |

**Expected realization of hedged items by commodity derivatives**
The following table shows the expected cash flows of the hedged future purchases of diesel:

| 31 Dec 2017 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1–5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Hedged future purchases of diesel | 8 | 16 | 70 | 31 | - | **125** |

| 31 Dec 2016 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1–5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Hedged future purchases of diesel | 9 | 18 | 81 | 62 | - | **170** |

| 1 Jan 2016 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1–5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Hedged future purchases of diesel (with FWD) | 6 | 11 | 52 | - | - | **69** |

### 33.8. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The Group seeks to trade only with creditworthy counterparties whom the Group reviews on an ongoing basis using publicly available information and internal data. The Group's exposure and credit ratings of its counterparties are continuously monitored.

Standard instruments (deposits, payment terms, customer tracking, internal tools etc.) are used in various combinations for additional hedge of potential risk receivables. The offsetting policy for receivables and liabilities is being actively applied to improve the liquidity of the companies within the Group. At the same time, the Parent Company is applying continuous monitoring of receivables by individual companies and by default periods with special attention to receivables with more than 15 days overdue. Individual responsible employees of the Parent Company and the senior staff of the receivables Commission are continuously engaged in past due receivables development.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned (the investment grade is required).

The net book value of financial assets is recognised in the financial statements on a net basis, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The most significant item in 2017 is 'Restricted cash' in the total amount of CZK 276 million (in 2016: CZK 292 million), presenting the advance payment provided within the subsidy project to equip traction vehicles with the on-board part of the European Train Control System (ETCS). For a detailed overview, see Note 10.

## Financial assets

| 31 Dec 2017 | Due (CZK million) | | Overdue (CZK million) | | Impairment (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| | Not impaired | Impaired | Not impaired | Impaired | | |
| Trade receivables * | 1,532 | 24 | 165 | 118 | (142) | 1,697 |
| Cash and cash equivalents | 690 | - | - | - | - | 690 |
| Other | 143 | - | 5 | 26 | (26) | 148 |
| Other current financial assets - Restricted cash | 276 | - | - | - | - | 276 |
| Cashpooling | 2 | - | - | - | - | 2 |
| Financial derivatives used in hedge accounting | 96 | - | - | - | - | 96 |
| **Total** | **2,739** | **24** | **170** | **144** | **(168)** | **2,909** |

* The age structure of trade receivables is described in the Note 9 Trade receivables

| 31 Dec 2016 | Due (CZK million) | | Overdue (CZK million) | | Impairment (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| | Not impaired | Impaired | Not impaired | Impaired | | |
| Trade receivables * | 1,561 | - | 95 | 162 | (162) | 1,656 |
| Cash and cash equivalents | 877 | - | - | - | - | 877 |
| Other | 122 | - | 9 | 23 | (23) | 131 |
| Other current financial assets - Restricted cash | 292 | - | - | - | - | 292 |
| Cashpooling | 3 | - | - | - | - | 3 |
| Financial derivatives used in hedge accounting | 37 | - | - | - | - | 37 |
| **Total** | **2,892** | **-** | **104** | **185** | **(185)** | **2,996** |

* The age structure of trade receivables is described in the Note 9 Trade receivables

| As at 1 Jan 2016 | Due (CZK million) | | Overdue (CZK million) | | Impairment (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| | Not impaired | Impaired | Not impaired | Impaired | | |
| Trade receivables * | 1,584 | - | 113 | 157 | (159) | 1,695 |
| Cash and cash equivalents | 962 | - | - | - | - | 962 |
| Other | 74 | - | 18 | 95 | (89) | 98 |
| Cashpooling | 4 | - | - | - | - | 4 |
| Financial derivatives used in hedge accounting | 1 | - | - | - | - | 1 |
| **Total** | **2,625** | **-** | **131** | **252** | **(248)** | **2,760** |

* The age structure of trade receivables is described in the Note 9 Trade receivables

The credit quality of the receivables, that are not overdue or their value is not reduced in any way, is good and corresponds to the book value.

The following table shows trade receivables of the Group's trade receivables that are not overdue and are not impaired. The Group regularly carries out processes of risk management of receivables and impairments clearly reflect the credit risk of all customers.

| | 31. 12. 2017 (CZK million) | 31. 12. 2016 (CZK million) | 1. 1. 2016 (CZK million) |
|---|---|---|---|
| **By category** | | | |
| – within the České dráhy Group | 11 | 6 | 16 |
| – other domestic customers | 1,001 | 1,064 | 1,125 |
| – other foreign customers | 520 | 491 | 443 |
| **Total** | **1,532** | **1,561** | **1,584** |

## 33.9. Liquidity risk management

The liquidity risk in the Group is managed with regard to the permanent provision of a sufficient volume of available funds necessary for the settlement of financial liabilities.

On a daily basis, the Group assesses the available funds and cash flows and liquidity development. Pursuant to these assessments, the Group decides on an optimal use of operating financial sources, consisting primarily of overdraft loans and the cash-pool limit. In order to strengthen its financial stability, the Group secures long-term financial sources on a continuous basis. In 2016, the Parent Company issued bonds in the aggregate volume of CZK 2,000 million. In 2016, ČD Cargo, a.s., has drawn an in-house loan from the parent company České dráhy, a.s., in amount of EUR 19,975 million with the maturity of 7 years, provided for financing newly acquired interoperable trains. The Company still has a promissory notes programme available in the aggregate amount of CZK 1,500 million and has contracted the possibility of drawing funds of up to CZK 400 million beyond the cash pooling limit from České dráhy, a.s. During the years 2017 and 2016, the promissory notes programme and drawing beyond the cash pooling limit were not used by the Group.

### 33.9.1. Liquidity and interest rate risk tables

The following tables detail 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 rate, the undiscounted amount is derived from the interest rate valid at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

| 31 Dec 2017 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1–5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Trade payables and other financial liabilities not covered below | 1,328 | 569 | 169 | 131 | - | 2,197 |
| Non-hedging derivatives | 1 | - | - | - | - | 1 |
| Hedging derivatives - net | 1 | 1 | 2 | 1 | - | 5 |
| Gross outgoing cash flows | 1 | 1 | 2 | 1 | - | 5 |
| Gross incoming cash flows | - | - | - | - | - | - |
| Liabilities from finance and leaseback | 63 | 104 | 446 | 1,552 | 229 | 2,394 |
| Variable interest rate instruments | 44 | 16 | 69 | 297 | 64 | 490 |
| Fixed interest rate instruments | - | - | 31 | 1,570 | 507 | 2,108 |
| **Total** | **1,437** | **690** | **717** | **3,551** | **800** | **7,195** |

| 31 Dec 2016 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1–5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Trade payables and other financial liabilities not covered below | 1,261 | 590 | 235 | 310 | - | 2,396 |
| Non-hedging derivatives | - | - | 3 | 2 | - | 5 |
| Hedging derivatives - net | 1 | 2 | 6 | 6 | - | 15 |
| Gross outgoing cash flows | 243 | 108 | 486 | 324 | - | 1,161 |
| Gross incoming cash flows | (242) | (106) | (480) | (318) | - | (1,146) |
| Liabilities from finance and leaseback | 52 | 103 | 432 | 1,792 | 359 | 2,738 |
| Variable interest rate instruments | 7 | 14 | 61 | 333 | 142 | 557 |
| Fixed interest rate instruments | 1 | 2 | 41 | 1,592 | 513 | 2,149 |
| **Total** | **1,322** | **711** | **778** | **4,035** | **1,014** | **7,860** |

| 1 Jan 2016 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1–5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Trade payables and other financial liabilities not covered below | 870 | 973 | 699 | 549 | - | 3,091 |
| Non-hedging derivatives | - | - | 2 | 3 | - | 5 |
| Hedging derivatives - net | 4 | 8 | 29 | 13 | - | 54 |
| Gross outgoing cash flows | 27 | 54 | 243 | 13 | - | 337 |
| Gross incoming cash flows | (23) | (46) | (214) | - | - | (283) |
| Liabilities from finance and leaseback | 51 | 102 | 458 | 2,124 | 580 | 3,315 |
| Variable interest rate instruments | - | - | 672 | - | - | 672 |
| Fixed interest rate instruments | 1 | 2 | 561 | 1,089 | - | 1,653 |
| **Total** | **926** | **1,085** | **2,421** | **3,778** | **580** | **8,790** |

The following tables present the Group's expected maturity for its financial assets. The tables have been drawn up based on the undiscounted residual maturities of financial assets including the interest received from these assets. The disclosure of the information on financial assets is necessary for understanding of how the Group manages its liquidity risks as it manages the liquidity based on net assets and liabilities.

| 31 Dec 2017 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1–5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Financial assets at amortised cost | 1,955 | 416 | 42 | 276 | 124 | 2,813 |
| Hedging derivatives | 7 | 13 | 55 | 21 | - | 96 |
| **Total** | **1,962** | **429** | **97** | **297** | **124** | **2,909** |

| 31 Dec 2016 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1–5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Financial assets at amortised cost | 2,180 | 366 | 37 | 259 | 118 | 2,960 |
| Hedging derivatives | 2 | 3 | 20 | 11 | - | 36 |
| **Total** | **2,182** | **369** | **57** | **270** | **118** | **2,996** |

| 1 Jan 2016 | Less than 1 month (CZK million) | 1–3 months (CZK million) | 3 months to 1 year (CZK million) | 1–5 years (CZK million) | 5 years and more (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|
| Financial assets at amortised cost | 1,438 | 847 | 388 | 1 | 86 | 2,760 |
| Hedging derivatives | - | - | 1 | - | - | 1 |
| **Total** | **1,438** | **847** | **389** | **1** | **86** | **2,761** |

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

### 33.9.2. Financing Facilities

Changes in financing commitments including changes not only from cash flows but also from non-monetary changes are presented in the following table.

| | Loans – short-term (CZK million) | Loans – long-term (CZK million) | Financial lease liabilities – short-term (CZK million) | Financial lease liabilities – long-term (CZK million) | Issued bonds – short-term (CZK million) | Issued bonds – long-term (CZK million) | Total (CZK million) |
|---|---|---|---|---|---|---|---|
| **Liabilities from financing activities as at 1 Jan 2016** | **13** | **27** | **488** | **2,387** | **1,174** | **1,000** | **5,089** |
| Cash flows from financing activities | (13) | 527 | (453) | - | (1,159) | 1,000 | (98) |
| Non-monetary flows: | | | | | | | |
| Consequences of changes in exchange rates | 3 | 2 | 2 | 13 | - | - | 20 |
| Loans and credits classified as at 1 January 2016 as long-term, which became short-term during the 2016 | 87 | (92) | 448 | (464) | - | - | (21) |
| Other non-monetary movements | - | - | - | - | (13) | (3) | (16) |
| **Liabilities from financing activities as at 31 Dec 2016** | **90** | **464** | **485** | **1,936** | **2** | **1,997** | **4,974** |
| Cash flows from financing activities | (51) | - | (258) | - | - | - | (309) |
| Non-monetary flows: | | | | | | | |
| Consequences of changes in exchange rates | (5) | (22) | (2) | (18) | - | - | (47) |
| Loans and credits classified as at 31 December 2016 as long-term, which became short-term during the 2017 | 91 | (88) | 378 | (358) | - | - | 23 |
| Other non-monetary movements | - | - | (74) | 74 | 1 | - | 1 |
| **Liabilities from financing activities as at 31 Dec 2017** | **125** | **354** | **529** | **1,634** | **3** | **1,997** | **4,642** |

The Group uses the following financing facilities:

| | 31 Dec 2017 (CZK million) | 31 Dec 2016 (CZK million) | 1 Jan 2016 (CZK million) |
|---|---|---|---|
| Cashpooling: | | | |
| – loan facility at | 600 | 600 | 600 |
| Overdraft loans: | | | |
| – loan facility at | 1,210 | 1,210 | 1,210 |
| Promissory note programme: | | | |
| – loan facility at | 1,500 | 1,500 | 1,500 |
| **Total** | **3,310** | **3,310** | **3,310** |

### 33.10. Strategy for the group's financing in subsequent years

#### 33.10.1. Finance Lease

In 2017, the Parent Company a.s. concluded a new lease agreement for financing new drive rail vehicles from Siemens Vectron. In connection with the planned investments, it is assumed that ČD Cargo, a.s., will continue to use it, in case the lease should prove to be advantageous. In 2017, the subsidiary CD Cargo Poland financed 88 freight wagons on leaseback with the total value of CZK 80 million. The Parent Company sold to the subsidiary CD Cargo Slovakia 4 drive rail vehicles which were repaired and sold to the leasing company and acquired back under finance lease (CZK 83 million).

#### 33.10.2. Operating Bank Loans

In funding its operating needs, the parent Company ČD Cargo, a.s., with its subsidiaries has limits of overdraft loans in the maximum amount of CZK 1,210 million provided by four banks and the limit of possible drawings as part of the involvement of ČD Cargo, a.s., in the group cash-pooling in the amount of CZK 600 million. The stratification of the lending to several financing entities sufficiently diversifies related risks.

#### 33.10.3. Promissory Note Programme

The Parent Company has the possibility to use the promissory note programme approved by the Supervisory Board, if needed. The promissory note programme is approved in the amount of CZK 1,500 million. The promissory note programme can be covered by a combination of drawdowns from two banks in the total amount of CZK 2,000 million (ČSOB CZK 500 million and Komerční banka CZK 1,500 million). The supervisory Board of ČD Cargo, a.s., must be informed about the intention of drawing over CZK 1,000 million. The promissory note programme was not currently used in 2016 and 2017, but the promissory note framework is left as a form of short-term financing provision, directly independent of bank sources.

#### 33.10.4. Possibility of a Loan Being Provided by České dráhy, a.s.

České dráhy, a.s., has contracted the possibility of drawing funds of up to CZK 400 million from the parent company ČD Cargo, a.s., beyond the cash-pooling group limit. During the years 2017 and 2016, this loan was not used.

#### 33.10.5. Bonds

With a view to securing the mid-term and long-term sources of funding to increase the stability of the group's cash flows, the relevant bodies of the parent Company approved the bond programme in the aggregate amount of CZK 6 billion for 10 years which was updated in 2015 to the current legal status (effective for new placements). On the basis of this programme, the first, second and third issues were gradually realized in 2011 with the aggregate nominal value of CZK 2 billion. In 2012, two other tranches as part of the second issue of bonds were realized with the total nominal value of CZK 500 million. In 2015, a new issue of bonds was realized with the total nominal value of CZK 1 billion and maturing bonds of CZK 1 billion were redeemed. In 2016, the fifth issue of bonds in the amount of CZK 500 million was issued and the sixth bonds was issued in the amount of CZK 500 million. The sixth bond issue was carried out under separate issuance conditions and these bonds were tradable on a regulated market of the Prague Stock Exchange. The remaining part of the first issue of bonds in the amount of CZK 658.3 million and also part of the third issue in the nominal amount of CZK 500 million were repaid in 2016. No issue of bonds was carried out in 2017.

In total, the Parent Company ČD Cargo, a.s., has issued bonds worth CZK 2,000 million as of 31 December 2017. Funding in the form of bonds increases the liquidity and financial stability of the Group. In accordance with the planned investments, it is expected that ČD Cargo, a.s., will continue to use bonds as a matter of convenience.

#### 33.10.6. Supplier Loans

The parent Company plans to use supplier loans for individual investments where this form of financing will be effective.

#### 33.10.7. Other Loans

In 2016, the loan agreement for the amount of CZK 540 million (EUR 19,975 million.) was concluded with the parent company, with a maturity of 7 years, for the purpose of financing the purchase of 5 Siemens Vectron locomotives.

#### 33.10.8. Summary

The structure of funding above creates a desired framework that allows the Group to maintain financial stability with the possibility of flexibly using individual forms as deemed appropriate or necessary.

Based on the planned funding structure, the Group will achieve a sufficient volume of available sources for funding its operating and investment activities with a sufficient reserve for potential unfavourable developments (shortfall in sales, change in the payment discipline, payment terms, legislative changes, etc.).

### 33.11. Fair value of financial instruments

#### 33.11.1. Fair Values of Financial Instruments Carried at Amortised Cost

The Group considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values, except leases and bonds.

The fair value of the lease as of 31 December 2017 amounts to CZK 2,288 million. The fair value of leases calculated with the fixed rate is determined by the recalculation according to the current rate. This up-to-date rate is generated based on the margin of the most recent lease transactions and market interest rate applicable as of the year-end which is subsequently used to recalculate the remaining payable of fixed leases.

The fair value of bonds of ČD Cargo, a.s., as of 31 December 2017 amounts to CZK 2,015 million As of 31 December 2016 amounted to CZK 2,005 million. The fair value of bonds is recalculated based on the up-to date issue rate communicated by individual banks.

| Financial assets | Level | Fair value as at 31 Dec 2017 (CZK million) | Book value as at 31 Dec 2017 (CZK million) | Fair value as at 31 Dec 2016 (CZK million) | Book value as at 31 Dec 2016 (CZK million) | Fair value as at 1 Jan 2016 (CZK million) | Book value as at 1 Jan 2016 (CZK million) |
|---|---|---|---|---|---|---|---|
| Financial derivatives used in hedge accounting | Level 2 | 96 | 96 | 37 | 37 | 1 | 1 |
| Loans, other financial assets | Level 2 | 277 | 277 | 259 | 259 | 1 | 1 |
| **Total** | | **373** | **373** | **296** | **296** | **2** | **2** |

| Financial liabilities | Level | Fair value as at 31 Dec 2017 (CZK million) | Book value as at 31 Dec 2017 (CZK million) | Fair value as at 31 Dec 2016 (CZK million) | Book value as at 31 Dec 2016 (CZK million) | Fair value as at 1 Jan 2016 (CZK million) | Book value as at 1 Jan 2016 (CZK million) |
|---|---|---|---|---|---|---|---|
| Financial derivatives used in hedge accounting | Level 2 | 5 | 5 | 15 | 15 | 54 | 54 |
| Other financial derivatives | Level 2 | 1 | 1 | 5 | 5 | 5 | 5 |
| Bonds issued | Level 2 | 2,015 | 2,001 | 2,005 | 1,999 | 2,195 | 2,174 |
| Liabilities from finance lease and leaseback | Level 2 | 2,288 | 2,163 | 2,684 | 2,421 | 3,276 | 2,875 |
| **Total** | | **4,309** | **4,170** | **4,709** | **4,440** | **5,530** | **5,108** |

Cash and cash equivalents, trade receivables and payables and other financial liabilities that are not presented in the table, are not presented because their fair value is equal to the carrying value due to their short-term maturity. Furthermore, the table does not present a loan from České dráhy, a.s., due to the fair value is also the same as the book value.

#### 33.11.2. Valuation Techniques Applied for the Purposes of Measuring Fair Value

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices,
- the fair values of other financial assets and financial liabilities (except for financial derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions, dealer quotes for similar instruments and an appropriate yield curve with the corresponding duration as appropriate,

- the fair values of financial derivatives are calculated using quoted prices. If these prices are not available, linear derivatives are measured using discounted cash flows by means of quoted foreign exchange currency rates, quoted prices of commodities and an appropriate yield curve corresponding to the validity of contracts. An option valuation model is used for derivatives that include an option.

### 33.11.3. Fair Value Measurements Recognised in the Statement of Financial Position

Financial instruments measured at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities,

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices),

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments measured at fair value recognised by the Group as of 31 December 2017, 31 December 2016 and k 1 January 2016 are included in Level 2.

## 34. POST BALANCE SHEET EVENTS

On 13 February 2018, ČD Cargo, a.s., as the sole shareholder of CD Cargo Slovakia, s.r.o., decided to increase the share capital of the subsidiary in the amount of CZK 69 million (EUR 2.7 million), in the exercise of the powers of the General Meeting.

## 35. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 10 April 2018.

# 16 Summary of Significant Accounting Policies According to Czech Accounting Standards

Financial information provided for in the chapter "Financial Situation (According to Czech Accounting Standards)" are compiled according to the undermentioned procedures and accounting policies.

In preparing these statements were respected general accounting principles, specifically the requirement of fair and true presentation of assets, liabilities, equity, expenses and income and economic result, the historical cost valuation basis with certain exceptions as described in chapter 4, the accruals principle, the prudence concept and the going concern assumption.

## 1. Tangible fixed assets

Fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 40 thousand (tangible assets except for land, buildings and constructions). Land, buildings and constructions are treated as fixed assets irrespective of their cost valuation.

With respect to assets defined by Act No. 16/1993 Coll., on Road Tax, as amended, assets also include assets with an acquisition cost lower than CZK 40 thousand. This also applies to all railway vehicles (primarily after the termination of the lease).

Land acquired prior to 1992 and invested as part of the non-cash investment is stated at a value prescribed by the regulation issued by the Finance Ministry ruling at the date of acquisition of assets. Land acquired after the formation of the Company is valued at acquisition cost.

Other tangible fixed assets are stated at acquisition cost.
Tangible assets produced and generated internally by the Company are stated at the cost of production comprising direct costs and an element of administrative overheads.

Tangible assets with an acquisition cost greater than CZK 500 but less than CZK 40 thousand are expensed in the period of acquisition and are maintained only in the underlying operational records. The cost of fixed asset improvements exceeding CZK 40 thousand for the period increases the acquisition cost of the related fixed asset.

Replacement costs are used in valuing gifts and assets identified based on physical inventory which were previously not recorded in the accounting books and records.
The liabilities related to finance or operating lease agreements are not recorded on the balance sheet according to the applicable accounting regulations. Costs incurred with regard to finance and operating leases are charged to the profit and loss account in the period to which they relate on an accruals basis.
Depreciation and amortisation is calculated on a straight line basis over the estimated useful economic lives of the fixed assets. Railway vehicles are depreciated to the estimated residual value. The estimated useful economic lives for the major categories of assets are as follows:

| | Depreciation method | Number of years / % |
|---|---|---|
| Buildings | Straight line | 20-50 / 5-2 % |
| Structures | Straight line | 20-50 / 5-2 % |
| Locomotives (part of locomotives without components) | Straight line | 20-25 / 5-4 % |
| Wagons (part of wagons without components) | Straight line | 30 / 3.33% |
| Machinery and equipment | Straight line | 8-20 / 12.5–5 % |

The useful lives of wagons that were modernised were set at 20 years from the modernisation date.

At the balance sheet date, the Company recognizes provisions against fixed assets on the basis of an assessment of the fair values of individual items or groups of assets.

Assets held under finance leases are depreciated by the lessor. Technical improvements on leasehold tangible fixed assets are depreciated on a straight line basis over the lease term or the estimated useful life.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the net book value of the asset at the sale date and is recognized through the profit and loss account.

### 1.1. Components

Components are repairs that correspond to the definition of the inspection of fault occurrence as set out in Regulation No. 500/2002 Coll., Section 56a (2), and comply with the definitions of components (according to Section 56a (2) of Regulation No. 500/2002 Coll., the component is an inspection of fault occurrence for which the valuation amount is significant in proportion to the amount of the valuation of total assets or a set of assets and the useful life of which significantly differs from the useful life of assets or a set of assets). At ČD Cargo, components are considered to include major and general repairs of traction vehicles and inspection repairs of wagons and passenger train units. Since 2015, wheel sets of wagons and radio stations of traction vehicles have been treated as new components.

**Components Depreciation**

In accordance with Section 56a (3) or (5) of Regulation No. 500/2002 Coll., the Company depreciates the component over the use separately from other components and from the remaining part of assets or a set of assets.

The Company determined a depreciation plan for components which is based on the plan of major and general repairs of traction vehicles and inspection repairs and replacement of wheel sets of wagons. With regard to traction vehicles and wagons, the mileage depreciation is based on the actual mileage per month (i.e. actual kilometres). The amount of depreciation in the particular reporting period is calculated as the number of kilometres in the reporting period multiplied by the rate per one kilometre. The rate per one kilometre is determined as a share of the acquisition cost of the relevant component and the maximum mileage which is determined for the specific type of the major and general repair of traction vehicles and inspection repair of wagons. After reaching the maximum mileage, it is necessary to make a new major or general repair of a traction vehicle and a new inspection repair or replacement of wheel sets of a wagon. Depreciation of radio stations is determined over the period of the adjusted useful life.

The major repair of traction vehicles involves the activities made in the general repair; for this reason, these activities corresponding to the general repair are separated from the major repair and recorded as a general repair.

In modernising wagons (extending their useful lives to 20 years), which also involves activities relating to inspection repairs, these activities are separated and recorded as a new component with regard to the relevant wagons. This component is subsequently depreciated in line with the accounting policy disclosed above.

In accordance with the Act on Income Taxes, the inspections for defects in wagons are treated as one-off costs and are not depreciated for tax purposes. In regard to traction vehicles, these inspections and radio stations are treated as technical improvements and are depreciated for tax purposes together with the remaining part of assets.

The costs relating to technical inspections for defects in wagons are recognised as common expenses of the relevant reporting period.

Components in passenger train units are depreciated over five years.

### 1.2. Valuation Difference on Fixed Assets

The valuation difference on acquired assets is composed of a positive or negative difference between the valuation of the business or part thereof acquired and the sum of the carrying values of individual components of assets of the selling, investing or dissolving entity net of assumed liabilities. A positive difference on acquired assets is amortised to expenses on a straight line basis over 180 months from the acquisition of the business or part thereof or from the effective date of transformation.

## 2. Intangible Fixed Assets

Intangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 60 thousand on an individual basis.

Intangible fixed assets are carried at cost. Intangible assets with an acquisition cost lower than CZK 60 thousand are expensed upon acquisition and classified in the underlying operating records.

Amortisation of intangible fixed assets is recorded on a straight line basis over their estimated useful lives as follows:

| | Amortisation method | Number of years / % |
|---|---|---|
| Research and development | Straight line | 3 / 33.3 % |
| Software | Straight line | 5-8 /12.5-30 % |
| Royalties | Straight line | 6 / 16.7 % |
| Other intangible fixed assets | Straight line | 6 / 16.7 % |

### 2.1. Patents and Trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight line basis over their estimated useful lives.

## 3. Non-current Financial Assets

Non-current financial assets principally consist of loans with maturity exceeding one year, equity investments, securities and equity investments available for sale, and debt securities with maturity over one year held to maturity.

Upon acquisition, securities and equity investments are carried at cost. The cost of securities or equity investments includes the direct costs of acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges.

At the date of acquisition of the securities and equity investments, the Company categorises these non-current financial assets based on their underlying characteristics as equity investments in subsidiaries and associates or debt securities held to maturity, or securities and equity investments available for sale.

Investments in enterprises in which the Company has the power to govern the financial and operating policies so as to obtain benefits from their operations are treated as "Equity investment in subsidiaries".

Investments in enterprises in which the Company is in a position to exercise significant influence over their financial and operating policies so as to obtain benefits from their operations are treated as "Equity investments in associates". Equity investments in subsidiaries and associates have been recorded at the value established using the equity method of accounting. The equity investment is recognised at cost upon acquisition and subsequently revalued at the balance sheet date to reflect the value equivalent to the Company's proportion of a subsidiary/associate's equity.

Other non-current financial assets have been valued at cost net of provisions, if any.

## 4. Derivative Financial Instruments

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

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

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

Derivative financial instruments are carried at fair value at the balance sheet date. In determining the fair value, the Company used a reasonable estimate. The fair value of financial derivatives is determined as the present value of expected cash flows arising from these transactions. The present value is established on the basis of common market-recognised models. Parameters identified on an active market such as foreign exchange rates, yield curves, volatility of relevant financial instruments, etc. are subsequently included in these pricing models.

Fair value changes with regard to trading derivatives are recognised as an expense or income from derivative transactions as appropriate.

Accounting policies by type of the hedging relationship are used for hedging derivatives. The Company uses the cash flow hedge method.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a legally enforceable contract, a forecasted future transaction, groups of assets, groups of liabilities, legally enforceable contracts, or forecasted future transactions with similar characteristics where the same type and category of risk is the subject of the hedge.

Gains or losses arising over the term of the hedge from changes in fair values of hedging derivatives contracted under cash flow hedging that are attributable to the hedged risks are retained on the balance sheet. The gains or losses are taken to income or expenses in the same period in which the income or expenses associated with the hedged item are recognised. In circumstances where this takes places before the maturity of the derivative, this derivative is internally classified as a fair value hedge derivative. Gains or losses arising from changes in fair values of hedging derivatives contracted under cash flow hedging that are attributable to unhedged risks are recorded as expenses or income from derivative transactions at the measurement date.

## 5. Inventory

Purchased inventory is valued at acquisition cost which also includes costs attributable to the acquisition, such as transportation costs, customs duties, and other related indirect costs.

Inventory produced internally is valued at the internal costs of production including direct costs and an element of overhead costs.

Inventory is issued out of stock at costs determined using the weighted arithmetic average method.

Inventory identified during the stock count and previously unrecorded in the accounting records, inventory originating from excess material from the disposal or repairs of fixed assets, or any possible donations are stated at replacement cost.

At the balance sheet date, provisions are made against inventory on the basis of stock taking results. The level of provisions against inventory is determined as equal to the difference between the acquisition cost and the estimated realisable costs which is equal to the value of scrap in most situations.

## 6. Receivables

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

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

As of the balance sheet date, tax-deductible provisions are recognised against receivables in accordance with Act No. 593/1992 Coll., the Provisioning Act, and tax non-deductible provisions against receivables depending on the periods past their due dates as follows:

- An additionally recognised full provision against receivables past their due dates by more than 721 days;
- An additionally recognised 50% provision against receivables past their due dates between 361 and 720 days; and
- An additionally recognised 20% provision against receivables past their due dates between 180 and 360 days

The above policy does not apply to receivables from the entities from within the České dráhy Group. In addition to the above defined rules, tax non-deductible provisions are recognised on the basis of an individual assessment of the recoverability of receivables.

## 7. Trade payables

Upon origination, payables are stated at their nominal value. Payables acquired through assignment are carried at cost.
Payables due within one year from the balance sheet date are reported as short-term balances. Other payables are recorded as long-term.

## 8. Loans

Loans are stated at their nominal value. The portion of long-term loans maturing within one year from the balance sheet date is included in short-term loans. Borrowing costs arising from loans attributable to the acquisition, construction, or production of fixed assets and accrued until the inclusion of assets are capitalised as part of the cost of such assets. All other borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

## 9. Equity

As of the Company's formation date on 1 December 2007, the investment in the Company consisted of the part of business of České dráhy (set of tangible and intangible assets, and staff components of business activities used for the railway freight transportation) in values revalued by an expert. The value of these assets listed in the Deed of Foundation as of the Company's formation date was reported as the Company's share capital and share premium.

Gains or losses from the revaluation of assets and liabilities predominantly include the fair value of hedging derivatives and the value of revaluation of non-current financial assets using the equity method of accounting.

The Company created a social fund. Its creation and use are stipulated by internal guidelines of the Company.

## 10. Provisions

Provisions are intended to cover future obligations or expenditures, the nature of which is clearly defined and which are likely to be incurred but which are uncertain as to the amount or the date on which they will arise.

The provision for a potential impact of legal disputes is recognised based on an estimate of the anticipated results of ongoing legal disputes.

The provision for untaken holidays is established on the basis of a reasonable estimate as equal to the estimated future cash outflows triggered by the use of vacation days that remained outstanding at the year-end.

The provision for business risks is established on the basis of a reasonable estimate as equal to the estimated future cash outflows.

The provision for complaints in freight transportation is created using a reasonable estimate of the amount of anticipated future cash outflows.

The provision for employee benefits includes the claim of employees for a financial contribution at life jubilees, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. In calculating the employee benefits reserve, 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 such as: anticipated fluctuation of employees, anticipated increase in salaries, anticipated inflation level, likelihood of death or disablement according to the data of the Czech Statistical Office. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds. A change in the amount of the provision due to the change in these parameters will be reported in profit and loss account line G "Change in reserves and provisions relating to operating activities and complex deferred expenses".

The provision for restructuring is recognised as equal to the estimated future cash outflows pursuant to the restructuring plan.

Provisions for loss-making transactions are established on the basis of a reasonable estimate as equal to an estimated future liability arising from the loss. The amount includes the difference between the discounted net anticipated incomes and discounted anticipated expenses.

## 11. Foreign Currency Translation

Transactions denominated in foreign currencies are recorded at the fixed Exchange rate announced by the Czech National Bank on the first day of each month. Payments are recorded at the rate prevailing on the payment date. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the exchange rate of the Czech National Bank ruling as of that date. Any resulting foreign exchange rate gains and losses are recorded through the current year's financial expenses or revenues as appropriate.

## 12. Finance Lease

A finance lease is the acquisition of a tangible fixed asset such that, over or after the contractual lease term, ownership title to the asset transfers from the lessor to the lessee; pending the transfer of title the lessee makes lease payments to the lessor for the asset that are charged to expenses.

The initial lump-sum payment related to assets acquired under finance leases is amortised and expensed over the lease period.

## 13. Contractual Fines and Default Interest

In accordance with Czech legislation ruling at the balance sheet date, contractual fines and interest on late payments of receivables and payables are recorded when the receivable originates or the payable is incurred.

## 14. Taxation

### 14.1. Depreciation of Fixed Assets for Tax Purposes

Depreciation of fixed assets is calculated using the straight line method for tax purposes.

### 14.2. Current Tax Payables

Management of the Company has recognised a tax payable and a tax charge based on its tax calculation which follows from its understanding of the interpretation of Czech tax legislation valid at the financial statements date and believes that the amount of tax is correct in compliance with the effective Czech tax regulations. Since various interpretations of tax laws and regulations by third parties, including state administrative bodies, exist, the income tax payable reported in the Company's financial statements may change based on the ultimate opinion of the tax authorities.

### 14.3. Deferred tax

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

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

## 15. Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

## 16. Government Grants

Grants received to offset costs are recognised as other operating and financial income over the period necessary to match them with the related costs. Grants received to acquire tangible and intangible fixed assets and technical improvements and grants towards interest expenses added to the cost are deducted in reporting their cost or internal cost

## 17. Revenues and Expenses

Revenue from transportation is recognised in the period in which the transportation services were provided.
Expenses and revenue arising from these activities are recognised in the profit or loss in the period to which they relate on an accrual basis.

## 18. Use of Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

# 17 Events after the Balance Sheet Date

On 13 February 2018, ČD Cargo, a.s., as the sole shareholder of CD Cargo Slovakia, s.r.o., decided to increase the share capital of the subsidiary in the amount of CZK 69 million (EUR 2.7 million), in the exercise of the powers of the General Meeting.

# 18 Report on Relations

The report on relations between the related parties prepared by the Statutory Body of the Company pursuant to the provisions of Section 82 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives, as amended.

The statutory body of ČD Cargo, a.s., with its registered office at Jankovcova 1569/2c, Prague 7 – Holešovice, postal code 170 00, corporate ID: 281 96 678, recorded in the Commercial Register held by the Municipal Court in Prague, File B, Insert 12844, prepared this report for the reporting period from 1 January 2017 to 31 December 2017 in compliance with Section 82 of Act No. 90/2012 Coll., Act on Business Corporations and Cooperatives, as amended.

The report is attached to the annual report and the statutory body ensures its inclusion in the list of documents held by the relevant Commercial Register Court.

## Article I.

### Structure of relations between the Controlling Entity and the Controlled Entity and the Controlled Entity and Entities Controlled by the Same Controlling Entity

**1) Controlling Entity:**

| | |
|---|---|
| Entity: | **České dráhy, a.s.** |
| With its registered office in: | Prague 1, Nábřeží L. Svobody 1222, postal code 110 15 |
| Corporate ID: | 709 94 226 |

Recorded at the Commercial Register held at the Municipal Court in Prague, Section B, File 8039.

**Pavel Krtek,** Chairman of the Board of Directors from 1 January 2017 to 31 December 2017 (member from 21 February 2014, appointed Chairman from 10 November 2014)
**Ludvík Urban,** Vice-chairman of the Board of Directors from 1 January 2017 to 31 December 2017 (member and appointed from 10 November 2014)
**Michal Štěpán,** member of the Board of Directors from 1 January 2017 to 31 December 2017 (member from 21 February 2014)
**Miroslav Kupec,** member of the Board of Directors from 1 January 2017 to 31 December 2017 (member from 7 December 2016)
**Martin Bělčík,** member of the Board of Directors from 1 January 2017 to 31 December 2017 (member from 7 December 2016)

**(hereinafter the "Controlling Entity")**

**2) Controlled Entity:**

| | |
|---|---|
| Entity: | **ČD Cargo, a. s.** |
| With its registered office in: | Prague 7 - Holešovice, Jankovcova 1569/2c, postal code 170 00 |
| Corporate ID: | 281 96 678 |

Recorded at the Commercial Register held at the Municipal Court in Prague, Section B, File 12844.

**Ivan Bednárik,** Chairman of the Board of Directors from 1 January 2017 to 31 December 2017 (member form 1 November 2014, appointed from 3 November 2014)
**Bohumil Rampula,** member of the Board of Directors from 1 January 2017 to 31 December 2017 (member from 1 November 2014)
**Zdeněk Škvařil,** member of the Board of Directors from 1 January 2017 to 31 December 2017 (member from 1 November 2014)

**(hereinafter the "Controlled Entity")**

**3) Entities Controlled by the Same Controlling Entity as the Controlled Entity**

- **ČD – Telematika a.s.,** Corporate ID: 614 59 445, with its registered office at Pernerova 2819/2a, Prague 3, postal code 130 00, recorded at the Municipal Court in Prague, File B, Insert 8938
- **ČD - Informační Systémy, a.s.,** Corporate ID: 248 29 871, with its registered office at Pernerova 2819/2a, Prague 3 - Žižkov, postal code 130 00, recorded at the Municipal Court in Prague, File B, Insert 17064
- **ČD Reality a.s.,** Corporate ID: 271 95 872, with its registered office at Prvního pluku 81/2a, Žižkov, 130 00 Prague 3, recorded at the Municipal Court in Prague, File B, Insert 9656

- **ČD relax s.r.o.,** Corporate ID: 057 83 623, with its registered office at 28. října 372/5, Staré Město, 110 00 Prague 1, recorded at the Municipal Court in Prague, File C, Insert 270678
- **ČD Restaurant, a.s.,** Corporate ID: 278 81 415, with its registered office at Prvního pluku 81/2a, Prague 3, postal code 130 11, recorded at the Municipal Court in Prague, File B, Insert 11738
- **ČD travel, s.r.o.,** Corporate ID: 273 64 976, with its registered office at 28. října 372/5, Staré Město, 110 00, Prague 1, recorded at the Municipal Court in Prague, File C, Insert 108644
- **ČSAD SVT Prague, s.r.o.,** Corporate ID: 458 05 202, with its registered office at Křižíkova 4-6, 186 50, Prague 8, recorded at the Municipal Court in Prague, File C, Insert 11856
- **Dopravní vzdělávací institut, a.s.,** Corporate ID: 273 78 225, with its registered office at Prague 3 – Žižkov, Husitská 42/22, postal code 130 00, recorded at the Municipal Court in Prague, File B, Insert 10168
- **DPOV, a.s.,** Corporate ID: 277 86 331, with its registered office at Husova 635/1b, Přerov, postal code 751 52, recorded at the Regional Court in Ostrava, File B, Insert 3147
- **CHAPS, spol. s r.o.,** Corporate ID: 475 47 022, with its registered office at Bráfova 1617/21, 616 00 Brno, recorded at the Regional Court in Brno, File C, Insert 17631
- **INPROP, s r.o.,** Corporate ID: 316 09 066, with its registered office at Rosinská cesta 12, 010 08 Žilina, recorded at District Court in Žilina, File Sro, Insert 1997/L
- **ODP-software, spol. s r.o.,** Corporate ID: 616 83 809, with its registered office at Pernerova 2819/2a, Žižkov, 130 00 Prague 3, recorded at the Municipal Court in Prague, File C, Insert 37829
- **RailReal, a.s.,** Corporate ID: 264 16 581, with its registered office at Olšanská 2643/1a, postal code Žižkov, 130 00, Prague 3, recorded at the Municipal Court in Prague, File B, Insert 6888
- **Smíchov Station Development, a.s.,** Corporate ID: 272 44 164, with its registered office at U Sluncové 666/12a, Karlín, 180 00, Prague 8, recorded at the Municipal Court in Prague, File B, Insert 9949
- **SVT Slovakia, s r.o.,** Corporate ID: 366 20 602, with its registered office at Partizánska cesta 97, 974 01 Banská Bystrica, Slovak Republic, recorded at the District Court in Banská Bystrica, File Sro, Insert 8643/S
- **Výzkumný Ústav Železniční, a.s.,** Corporate ID: 272 57 258, with its registered office at Novodvorská 1698, Prague 4 – Braník, postal code 142 01, recorded at the Municipal Court in Prague, File B, Insert 10025
- **Žižkov Station Development, a.s.,** Corporate ID: 282 09 915, with its registered office at U Sluncové 666/12a, Karlín, 180 00, Prague 8, recorded at the Mu**nicipal Court in Prague, File B, Insert 13233**

**(The Controlled Entity, the Controlling Entity and other entities controlled by the Controlling Entity are hereinafter referred to as "Related Entities".).**

The structure of mutual relations between related entities can be described as follows: the Controlling Entity exercises its shareholder rights based on the applicable Articles of Association (in joint stock companies) or Deeds of Association (in limited liability companies). Specifically with regard to the Controlled Entity, the Controlling Entity is its sole shareholder and exercises its shareholder rights through decisions made as part of the general meeting of the Controlled Entity and the Controlled Entity implements these decisions in its conditions. In the ČD Group, the Controlled Entity provides the freight railway transportation of goods with a set of related services. Through the Controlled Entity, the Controlling Entity is able to indirectly exercise its influence on the subsidiaries of the Controlled Entity. Related parties enter into standard business and obligations relations.

**Through the Controlled Entity, the Controlling Entity also can indirectly exercise its influence in the subsidiaries of the Controlled Entity.**

## Article II.

### List of activities in the reporting period at the initiative or in the interest of the Controlling Entity or related parties regarding the assets exceeding 10% of the equity of the Controlled Entity

Given that 10% of the equity totalling CZK 8,405 million of the Controlled Entity as identified from the most recent financial statements amounts to CZK 840,5 million, such activities that would take place between 1 January 2017 and 31 December 2017 are not recorded.

## Article III.

### Contracts and Agreements Effective between Related Entities

During the relevant reporting period (i.e. from 1 January 2017 to 31 December 2017), the following trade agreements were concluded between the Controlled Entity and the Controlling Entity and other related entities:

| Name of the partner entity | Contract for work | Number of contracts effective during the reporting period | | | Total |
|---|---|---|---|---|---|
| | | Purchase contract | Lease | Other | |
| ČD-Informační Systémy, a.s. | 59 | - | - | 23 | **82** |
| České dráhy a.s. | 5 | 3 | 47 | 130 | **185** |
| ČD – Telematika, a.s. | 7 | - | - | 2 | **9** |
| ČD Reality, a.s. | - | - | - | - | **-** |
| ČD relax s.r.o. | - | - | - | - | **-** |
| ČD Restaurant, a.s. | - | - | - | - | **-** |
| ČD travel, s.r.o. | - | - | - | 2 | **2** |
| Dopravní vzdělávací institut, a.s. | - | - | - | 2 | **2** |
| DPOV, a.s. | 5 | - | 2 | 10 | **17** |
| ODP-software, spol. s r.o.. | - | - | - | - | **-** |
| Smíchov Station Development, a.s. | - | - | - | - | **-** |
| Výzkumný Ústav Železniční, a.s. | - | - | 1 | 5 | **6** |
| JLV, a.s. | - | - | - | 1 | **1** |
| Žižkov Station Development, a.s. | - | - | - | - | **-** |
| **TOTAL** | **76** | **3** | **50** | **175** | **304** |

Other contracts are defined by the Controlled Entity as a contract that cannot be allocated to a specific legal regulation of some of the types of contracts, such as a contract for a work, a purchase or a lease contract, however the conclusion of such contract is allowed and not ruled out by the legal regulation.

In the reporting period, mutual sales and purchases between related parties included business transactions arising from both contracts concluded in the reporting period (i.e. from 1 January 2017 to 31 December 2017) and from contracts not concluded in the reporting period (i.e. contracts concluded in previous periods that were applicable and effective in the reporting period) as follows:

| Name of the entity | Sales of ČD Cargo, a.s. in CZK thousand | Purchases of ČD Cargo, a.s. in CZK thousand |
|---|---|---|
| České dráhy a.s. | 23,425 | 1,492,803 |
| ČD Telematika, a.s. | 851 | 16,457 |
| Výzkumný Ústav Železniční, a.s. | 30,864 | 514 |
| DPOV, a.s. | 3,517 | 105,510 |
| ČD - Informační Systémy, a. s. | - | 186,751 |
| Dopravní vzdělávací institut, a.s. | 38 | 19,419 |
| ČD travel, s.r.o. | - | - |
| ČD relax s.r.o. | - | 15,154 |
| Smíchov Station Development, a.s. | - | - |
| Žižkov Station Development, a.s. | - | - |
| ODP-software, spol.s r.o. | - | - |
| ČD Restaurant, a.s. | - | - |
| JLV, a.s. | - | 1,063 |
| **TOTAL** | **58,695** | **1,837,671** |

The Board of Directors declares that it identified relations between the relevant related parties according to the current list of related parties and described these relations in the Report on Relations.

## Article IV.

### Assessment as to whether the Controlled Entity incurred detriment and method of its settlement

The Controlled Entity incurred no detriment in the reporting period from 1 January 2017 to 31 December 2017:

- In connection with the contracts and agreements concluded in the reporting period between the Controlled Entity and the Controlling Entity or other related parties, based on which consideration was provided or received, or
- In connection with providing or receiving consideration in the reporting period pursuant to valid and effective contracts and agreements entered into between the Controlled Entity and the Controlling Entity or other related parties before 1 January 2017
- In the reporting period from 1 January 2017 to 31 December 2017, no legal acts were realised between the Controlled Entity and the Controlling Entity or other related parties in the interest or at the initiative of the Controlling Entity or another related party,
- No measures were taken or implemented by the Controlled Entity in the interest or at the initiative of the Controlling or other related party causing detriment, benefit, advantage or disadvantage.

During the reporting period from 1 January 2017 to 31 December 2017, no legal acts were realised by the Controlled Entity in the interest of other related entities other than common legal acts.

## Article V.

### Measures between Related Entities

During the reporting period from 1 January 2017 to 31 December 2017, no measures were taken by the Controlled Entity in the interest or at the initiative of another related entity other than common measures implemented by the Controlling Entity as the shareholder in relation to the Controlled Entity. All contracted consideration, provided or received by the Controlled Entity (which prepared this report), was offset by contracted payments. These payments were contracted with volumes, places and times similar to common practice, at arm's length, and no advantages or disadvantages were provided. The Controlled Entity incurred no detriment from the concluded contracts, other legal acts or measures between the related entities pursuant to Section 71 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives, as amended.

## Article VI.

### Confidentiality of Information

Confidential information in the ČD Group includes information and facts that are part of the trade secrets of the related entities and information described as confidential by any related entity. Confidential information further comprises all trade relation information that could, in itself or in connection with other information or facts, cause detriment to any of the related entities. To avoid causing detriment to the Controlled Entity, the report of the Statutory Body of the Controlled Entity does not include a detailed breakdown of the above-mentioned items.

## Article VII.

### Conclusion

This report has been prepared by the Statutory Body of the Controlled Entity, ČD Cargo, a.s. and will be submitted to the auditor who performs the audit of the financial statements in accordance with special legislative act. The report will be filled in the Collection of Documents maintained by the Register of Companies held by the Municipal Court in Prague.

In Prague, on 13 March 2018

Signature of the Chairman of the Board of Directors and a member of the Board of Directors of the Controlled Entity ČD Cargo, a.s.:

**Ivan Bednárik**
Chairman of the Board of Directors

**Bohumil Rampula**
Member of the Board of Directors

**Zdeněk Škvařil**
Member of the Board of Directors

# 19 List of Used Abbreviations

| | |
|---|---|
| **AEO** | Authorised Economic Operator |
| **BOZP** | Occupational health and safety (OHS) |
| **ČD** | České dráhy, a.s. |
| **ČDC** | ČD Cargo, a.s. |
| **DKV** | Rail vehicle yard |
| **Eas, Zaes, Falls, Roos, Ua, Sggrrs, Laaps** | Business series of freight wagons |
| **HZS** | Fire brigade |
| **ICT** | Information and communication technologies |
| **IFRS** | International Financial Reporting Standards |
| **ISR** | European central system for the monitoring of movements of freight wagons and consignments |
| **IT** | Information technologies |
| **ISO** | International Organisation for Standardisation |
| **KV** | Rail vehicle |
| **MU** | Extraordinary event |
| **OHSAS** | Occupational Health and Safety Assessment Series |
| **OKV** | Rail vehicle repair plant |
| **OSŽ** | Union of Railway Workers (odborové sdružení železničářů) |
| **PROBIS** | Operational and business information system |
| **SOKV** | Rail vehicle repair service centres |
| **SŽDC** | Railway Infrastructure Administration, state organisation |
| **UIC** | International Union of Railways |
| **ÚDIV** | Central forming of trains |
| **ŽKV** | Railway vehicles |

# 20 Identification and Contact Information

| | |
|---|---|
| Business name: | **ČD Cargo, a.s.** |
| Registered office: | **Prague 7, Holešovice, Jankovcova 1569/2c, postal code 170 00** |
| Corporate ID: | **281 96 678** |
| Tax ID: | **CZ 281 96 678** |
| Registry court: | **Prague** |
| File number: | **File B, Insert 12844** |
| Phone: | **+420 972 242 100** |
| Fax: | **+420 972 242 101** |
| Data box: | **8tscdpq** |
| Email: | **press@cdcargo.cz** |
| http: | **www.cdcargo.cz** |

**Infoline:**

| | |
|---|---|
| Phone: | **+420 972 242 255** |
| Email: | **info@cdcargo.cz** |

**Customer info line:**

| | |
|---|---|
| Phone: | **+420 725 957 735** |
| Email: | **ZakaznickeCentrum@cdcargo.cz** |

Cargo