Annual Report
2018

Cargo

Annual Report 2018

Cargo

Czech Railways Group


1918–2018
Cargo
383 009-8

Table of Contents


1918–2018
Cargo

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 largest railway freight transportation companies in Europe. 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. This strategy also includes an offer of new and more efficient technologies. High quality and efficiency will increase the attractiveness of rail freight transport in comparison with other modes of transport, thereby saving both the environment and human resources.


Napříč Evropou
Európán keresztül
Quer durch Europa
de-a lungul Europei
Europą wzdłuż i
Naprieč Európou

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 enter foreign markets, and in the effort to provide customers with quality services "Across Europe", the importance of ČD Cargo Group is growing. As a result, ČD Cargo group provides comprehensive services to customers all over Europe.

Key financial indicators of ČD Cargo Group according to IFRS consolidated financial statements					
	2018	2017	2016	2015	2014
Structure of assets and liabilities (CZK million)					
Total assets	19,994	18,470	18,172	17,742	17,333
Fixed assets	16,600	15,626	15,280	14,588	14,528
Equity	9,046	8,529	7,718	6,727	6,122
Structure of profit (CZK million)					
Revenue from main activities*	13,076	11,923	11,760	12,063	12,352
Operating profit	1,020	1,097	1,372	968	1,568
Profit before tax	878	948	1,153	698	1,273
Ratio indicators (%)					
Current liquidity (current assets/current liabilities)	80%	83%	83%	62%	59%
Total indebtedness (liabilities /total assets)	55%	54%	58%	62%	65%
Average number of employees	7,134	7,130	7,065	7,335	7,451
Performance indicators					
Amount of transports (millions of tons)	68.4	66.1	65.9	66.4	68.6
Transport performance (million of tariff tonne-kilometres)	12,928	11,819	11,365	11,139	11,622

* as a result of IFRS 15 implementation, the revenue from rental are reported newly within the "Revenue from main activities" in 2018

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 provision of entire trains transport product or the goods being transported on the individual basis 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 products, which are directly linked to the transportation segment. They can be characterized by the activities such as rail siding operations, customs services, security consultancy, storage, rentals of residual capacity of railway vehicles and locomotives or maintenance and repair of third parties' rail 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. Also in 2018, the development of transport in Poland continued in cooperation with the subsidiary CD Cargo Poland. The ČD Cargo Group also has already a license for rail transport operation in Austria, Slovakia and Hungary.

With a transport volume of over 68 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*	2018	11,779	3,205	(1,908)	13,076
	2017	11,000	2,529	(1,606)	11,923
Cost of sales	2018	(5,705)	(2,482)	1,885	(6,322)
	2017	(5,342)	(2,488)	1,812	(6,018)
Employee benefits costs	2018	(4,047)	(360)	-	(4,407)
	2017	(3,652)	(422)	(2)	(4,076)
Depreciation and amortization	2018	(1,087)	(182)	23	(1,246)
	2017	(1,026)	(191)	21	(1,196)
Operating profit or loss	2018	828	435	(243)	**1,020**
	2017	790	452	(145)	**1,097**
Profit/loss before taxation	2018	717	404	(243)	**878**
	2017	639	453	(144)	**948**
Profit for the period from continuing operations	2018	597	306	(240)	**663**
	2017	492	397	(144)	**745**

* as a result of IFRS 15 implementation, the revenue from rental are reported newly within the "Revenue from main activities" in 2018

TRANSPORTATION SEGMENT

Profit before taxation from the Transportation segment amounted to CZK 717 million in 2018, which means the higher profit of CZK 78 million in year-on-year comparison. As a consequence of active trade policy, the trade share in domestic transport market increased and the expansion of ČD Cargo brand continued to progress well in 2018. ČD Cargo Group carried around 2.3 millions of tons of goods more year-on-year. Better performance directly generated an increase in traction energy costs and fuel consumption. ČD Cargo Group increased the real wages of its employees and continued to make higher investments in the reconstruction, modernisation, repair and maintenance of the railway fleet. Modification of the charging for railway infrastructure of SŽDC network had positive results in railway transportation segment.

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 2018 amounted to CZK 404 million. The year-on-year slight decrease in revenues from Additional Services Related is determined by the decrease in revenues of residual capacity rentals of railway vehicles and locomotives which is caused by higher capacity utilisation for own transport services within ČD Cargo Group and higher maintenance needs of these railway vehicles. Also the year-on-year lower capacity and profit from physical liquidation of residual railway vehicles and locomotives affected the result. The companies in which ČD Cargo has the equity interest continued to provide logistic and other accompanying transportation services which contributed to the stable profitability of this segment.

04
Major Events in 2018

January

- Ensuring the transport of non-traditional supply of air radars from Kostěnice to Slovakia, Sereď;
- 19 January - a tender for up to 50 interoperable electric and five diesel locomotives is innitiated;

February

- 15 February - test transfer of Prazdroj beer from Plzeň to Nošovice;
- 22 February - the first ever transport of ČD Cargo, a.s., on its own license in Austria (empty container wagons to the St. Michael in der Obersteiermark terminal);

March

- Commencement of trial operation of unloading Innofreight containers in Chvaletice power plant;
- Commencement of ČD Cargo, a.s., leadership training to further develop their managerial skills;

April

- 1 April – the establishment of Executive Director (Tomáš Tóth was appointed to this position);
- 14 April - landslide embankment in the Dalovice - Hájek track section, launch of deflection traction;
- 17 April - ČD Cargo, a.s., took part in the Day of Czech Logistics in Mladá Boleslav

May

- 12 May - The first train from Yiwu to Lovosice which was fully controlled by ČD Cargo, a.s., entered the Czech Republic;
- 24 May - the locomotive 130.027 (E 479.0027) was handed over after the repair in a historical coating;
- Beginning of KIROW crane transport for Swietelsky Rail;

June

- 1 June - takeover of trains with cars transportation from Mladá Boleslav to Poland from the carrier AWT;
- 18 June - A train from Houma, China, arrives in Hamburg. It is the first train going outside the Czech Republic, whose journey was completely covered by the East Asia ČD Cargo department;
- 18 June - launch of the new PEPSICO line for beverage transport from Prague to Budapest;
- 19 - 21 June - ČD Cargo, a.s., presentation at the Czech Raildays in Ostrava;
- 27 June - Launch of redesign of ČD Cargo, a.s., web page;

July

- Transport of soldiers and technicians from Podbořany to a six-month mission to Lithuania;
- Trial transport of chipped wood from the Kaliningrad region to the Czech Republic in Innofreight containers;
- 20 July - ČD Cargo, a.s., issued bonds with a total nominal value of CZK 1 billion;

August

- 4 August - "Modeling Saturday at the rack railway" („Modelářská sobota na zubačce“) linked with the celebrations of the 30th anniversary of the 743 class locomotives operation was held with the support of ČD Cargo (by lending two locomotives);
- 14 August - signing a contract with Siemens to purchase another 4 Vectron locomotives;
- 20 August - signing a contract with Bombardier to purchase 10 TRAXX locomotives;
- Completion of the renovation of sanitary facilities in dressing rooms for drivers at the SOKV Ústí nad Labem;

September

- 22 September - National Railway Day at SOKV České Budějovice;
- Commencement of transport of mineral water Magnésia from Planá near Mariánské Lázně to Kostelec na Hané;

October

- 1 - 5 October - 100RIES exhibition (100 stories of Czechoslovak industrial legends) was presented at the 60th International Engineering Fair in Brno. ČD Cargo, a.s., was represented by the „laminátka" (laminated train) class 230;
- 2 - 5 October - OSŽD conference in Tehran, conclusion of a Memorandum of Cooperation with Iranian Railways;
- 22 - 25 October - election of the Supervisory Board members of ČD Cargo, a.s., elected by employees;
- 23 October - by decision of the Board of Directors of ČD Cargo, a.s., a branch was established in Austria under the name ČD Cargo, a.s., Niederlassung Wien;

November

- Acquisition of 100% share in ČD Logistics subsidiary;
- 15 November - ČD Cargo train became the first regular to travel through the southern tube of the new Ejpovice tunnel;
- 21 November - evaluation of trial operation of unloading Innofreight containers at Chvaletice power plant;
- 27 November - takeover of the 383.009 locomotive from Siemens. The locomotive bears a label reminiscent of the 100th anniversary of the establishment of the Republic and ČSD;

December

- 14 December – ČD Cargo, a.s., became a member of Rail Freight Forum platform.

Ivan Bednárik
Chairman of the Board of Directors

05
Statement of the Chairman of the Board of Directors

Dear Shareholders and Business Partners, Ladies and Gentlemen,

another year has passed, therefore let me share with you the most important events in ČD Cargo, a.s., life in 2018.

This was another economically successful year, although the Company faced many "traditional" and new challenges. Also this year was marked by massive investments in the renewal of the ČD Cargo, a.s., railway fleet. The Vectron fleet has grown to twelve machines. ČD Cargo, a.s, has contracted with Bombardier to supply up to 50 Traxx MS3 locomotives. The modernization of diesel locomotives is being prepared. The ability to provide the Company's customers with the widest possible range of quality services is also related to the offer of wagons. Among other things, the Company has added 200 new container wagons. Large investments were managed thanks to the Company's successful bond programme. Within the bond programme, ČD Cargo, a.s., issued another CZK 1 billion bond with a seven-year maturity in 2018.

The growing number of interoperable locomotives allows the Company to increase abroad performance. ČD Cargo, a.s., is able to continuously strengthen its position in Slovakia and regularly perform in Germany, Hungary and Austria. The Company is also successful in transportation from / to China. In 2018 took place the first ČD Cargo, a.s., locomotive journey in the Russian Federation, specifically to the Kaliningrad region for transport of chipped wood. ČD Cargo, a.s., became the first company to offer Innofreight technology on the Russian market. In 2018, its activity was significantly affected by the fight with bark beetle calamity also outside the Czech Republic territory. The Company has proven that it is able to respond quickly to immediate basically sudden market demand, and we flexibly increased the number of available wagons by a few hundred to transport calamity wood literally in just a few weeks.

The Board of Directors of ČD Cargo, a.s., also decided to re-establish the function of Executive Director, thereby direct management of the Company was restored. In the autumn, employees' representatives were elected to the Supervisory Board of ČD Cargo, a.s.

The year 2018 was an economically successful year for ČD Cargo, but it was definitely not a easy year. The Company is facing tough competition in a fully liberalized market and, moreover, rail freight as a segment is faced with a number of limits, such as transport capacity. For that I would like to express my very special thanks to all those who contributed to the success of ČD Cargo, a.s., employees as well as business partners. ČD Cargo, a.s., is a stable and dynamic company which, thanks to you, continues to be one of the leading freight rail carriers in Europe

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

06
Statutory Bodies and Management of the Company

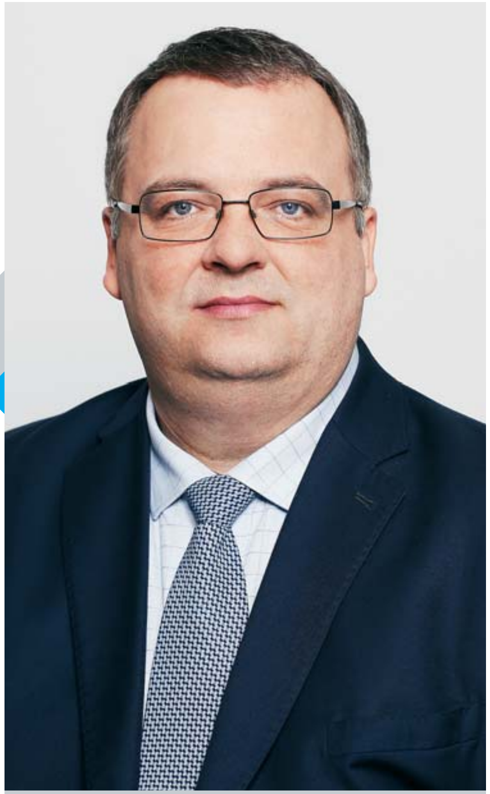
ČD Cargo, a.s., is fully owned by České dráhy, a.s. which acts in the role of the General Meeting, i.e. the Company's supreme body. The Company's statutory body is the Board of Directors, which comprises three members; the Company's oversight body is the Supervisory Board, which has six members. Pursuant 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

1. Ivan Bednárik
Chairman of the Board of Directors (member since 1 November 2014, Chairman since 3 November 2014), age: 43 years
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).

2. Bohumil Rampula
Member of the Board of Directors (since 1 November 2014), age: 62 years
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.

3. Zdeněk Škvařil
Member of the Board of Directors (since 1 November 2014), age: 61 years
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.



Ivan Bednárik
Chairman of the Board of Directors

Bohumil Rampula
Member of the Board of Directors

Zdeněk Škvařil
Member of the Board of Directors

Supervisory Board

1. Miroslav Kupec

Chairman of the Supervisory Board (since 24 September 2018), age: 59 years (member of the Board since 22 March 2017)

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. In September 2018 he was elected as Chairman of the Supervisory Board.

2. Jan Kasal

Member of the Supervisory Board (since 12 March 2014), age: 67 years

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 to June 2018.

3. Radek Nekola

Member of the Supervisory Board (from 1 December 2007 to 30 November 2008 and since 1 December 2008), age: 54 years

Since 1 December 2018, re-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 he has been granted a long-term leave for the position of Chairman of the Corporate committee of the railway workers trade union association of ČD Cargo, a.s. Currently, he is the deputy Chairman of the Railway Workers Union (OSŽ).

4. Marta Urbancová

Member of the Supervisory Board (since 1 December 2018, elected by the Company's employees), age: 41 years

Marta Urbancová graduated from the Railway high school in Šumperk, specialising in railway transportation. In 1995, after secondary school leaving examination, she started work as a train preparer in Ostrava and then as vehicle dispatcher and railway treasurer. Since 1 July 2009 she has been granted a leave for position of secretary of Chairman of the Corporate committee of the railway workers trade union association of ČD Cargo, a.s. In 2012, she completed her higher education and obtained a Bachelor's degree at Silesian University in Opava, specialising in social policy and labour.

5. Roman Onderka

Member of the Supervisory Board (since 1 April 2017), age: 53 years

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 then Czechoslovak State Railways. Since 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. Since 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. Since October 2017 he is 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.

6. Jiří Švachula

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

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

On 24 September 2018, České dráhy, a.s., as sole shareholder of ČD Cargo, a.s., in the exercise of the powers of the General Meeting has decided to recall Pavel Krtek from the Supervisory Board of ČD Cargo, a.s., with the effective date as at 24 September 2018.

Radek Nekola was re-elected by the employees of ČD Cargo, a.s., as member of the Supervisory Board with the effective date of 1 December 2018.

Marta Urbancová was elected by the employees of ČD Cargo, a.s., as member of the Supervisory Board with the effective date of 1 December 2018.

Audit Committee

1. Oldřich Vojíř

Chairman of the Audit Committee (member since 15 December 2009, Chairman since 18 February 2010), age: 57 years, (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: 52 years, (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.

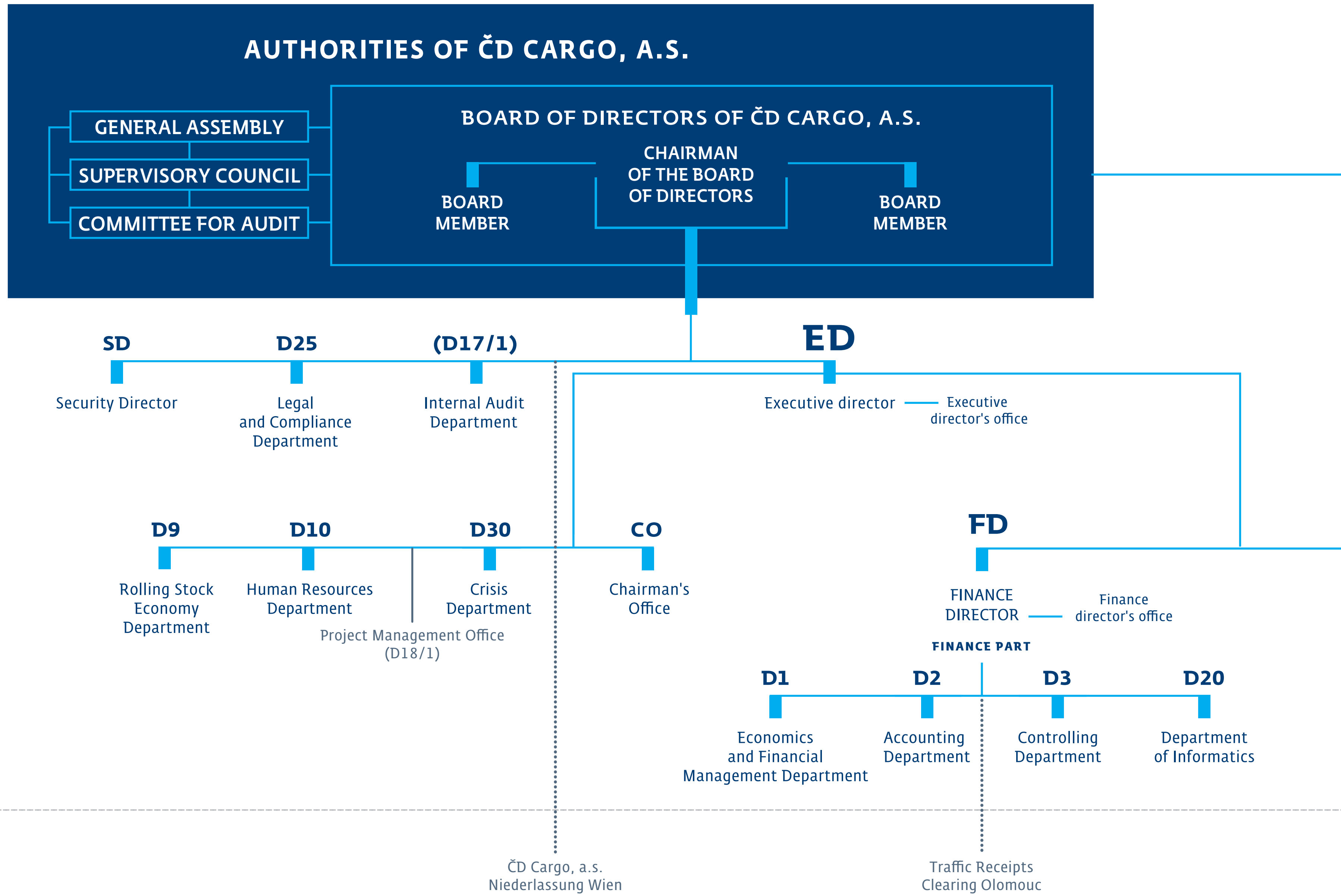
3. Miroslav Zámečník

Member of the Audit Committee (since 15 December 2009), age: 56 years, (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

Organization Chart of ČD Cargo, a.s., 31. 12. 2018

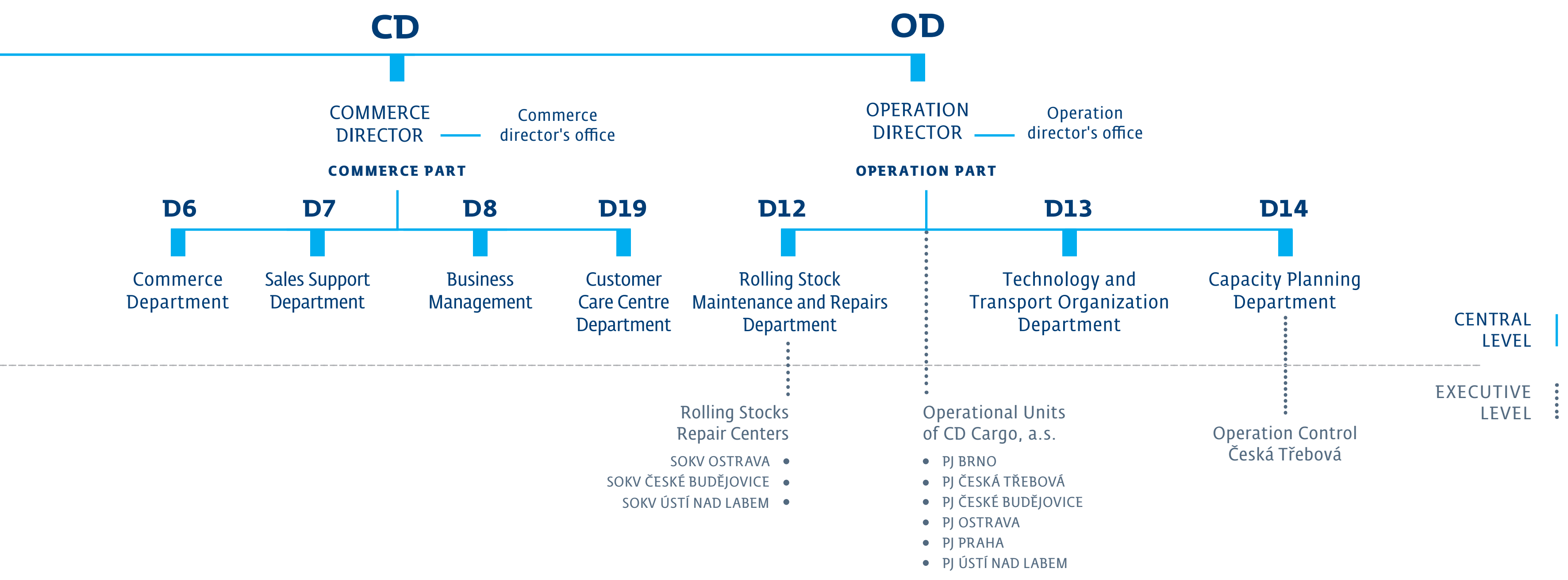


Joint ventures, capital interests

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)




383 006-4
www.1vagon.cz
Cargo

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 2018, ČD Cargo, a.s., transported 66.4 million tons of goods, which means a year-on-year increase of about 1.6 million tons. All commodities except for black coal and coke recorded a year-on-year increase. The highest year-on-year increase was recorded for brown coal commodity. The results of 2018 can be evaluated positively, because after a several years break, ČD Cargo's share of the transport market has finally increased by 1.75% (by gross tonne-kilometre). Overall, in the second half of 2018, business has prospered better, except for December, when many companies reduced or completely stopped production due to the relatively long holidays. Revenues from own transport reached CZK 9.134 billion in 2018, which is CZK 396 million more than in 2017. The highest sales were generated from the wood and paper products commodity, while the biggest year-on-year decrease was recorded in the black coal commodity and coke.

The results of the **iron and engineering products** commodity were affected by the restructuring of the iron ore transport to domestic smelters. Its transportation from Ukraine dropped. The ore transport via Croatian, Polish and German ports was partially or completely new. Some of the transportations have been obtained in competition with other carriers. The results in the commodity were also positively affected by the acquisition of a number of new transports of rails and sheet or wire coils. In the **building material** commodity, the plan was fully fulfilled despite the fact that the results of the first half of 2018 did not really indicate it. Despite growing competition, cement and limestone transportation has increased. Especially the Vectron locomotive transport of desulphurization limestone from Beroun to German power plants was very successful. An increase in export shipments of precast concrete products can also be positively evaluated. In the area of exclusions, it can be mentioned the realization of gravel transport to the construction of a new four-track line in Prague-Vršovice, which is followed by media and where ČD Cargo also provides the unloading of stone.

The sales of **brown coal** commodity were exceeded despite a number of circumstances that had a rather negative impact. Due to the limited railway vehicles capacity, sorted coal transports have fallen significantly in favor of competition with the road transporters. Trafic closures and lower purchase orders of some heating plants also had an adverse effect. The positive result was achieved mainly due to the increase in transport to the Chvaletice power plant, which was carried out in parallel by Eas railway vehicles and Innofreight system in April, and then entirely in the Innofreight containers in May. The increase in traffic on Nové Sedlo u Lokte - Hněvice route was also positively affected by the damage of the Hájek route and, in consequence, by the route unsuitability. On the other hand, the commodity of **black coal and coke** registered decline. It was caused mainly by the market situation in these commodities. There was a gradual decline in mining both in OKD and in Poland, where, in case of lack of coal, the local mines prefer Polish customers to Czechs. In 2018, also the close cooperation with the subsidiary CD Cargo Poland continued.

Changes to the fuel producers' business policy or pipeline transportation preference are just two of the many factors that have affected the results in **chemical products and liquid fuels** commodity. It has to be said that in this competition there has been a sharp competitive fight for many years and it is not easy to succeed in it. In respect of fire damaged PHM warehouses in Osíčko, the increase in fuel transport from Germany or the operational response of ČD Cargo to the request for operation in warehouses in Sedlnice can be evaluated more positively, as compensation. Our position was also strengthened by deploying our own tankers. The bark beetle calamity spread throughout the year from Jeseníky to other areas – Beskidy or Bohemian-Moravian Highlands and ČD Cargo had to react operatively to this extension. In the course of the year, we managed to increase the fleet of wood transport vehicles and thanks to all the measures adopted, the plan in **wood and paper products** commodity was significantly exceeded. However, the problem was overcrowded recipients' warehouses, and increasing number of private carriers in this commodity. We also had to deal with the unsatisfactory condition of some loading areas.

In the second half of the year, grain transport in transit through the Czech Republic to Germany prospered. The new PEPSICO beverage line from Prague to Budapest can also be successfully evaluated. Traditionally, ČD Cargo, a.s., transported sugar beet to Hrušovany nad Jevišovkou also from outside the Czech Republic - from Slovakia and Austria. In the **food and agricultural** commodities, the results have exceeded expectations. The situation in the **other** commodity was stable - although transports of large transformers or some rail vehicles were lost, there were numerous of military transports.

An operation of new trains from China as well as a new line for LKW Walter in Rostock-Curtici has been launched in the **combined transport** segment. Unfortunately, the competition had not been idle and also launched other trailer lines. The overall results were also affected by the preference of Metrans' own capacities, especially in export to Slovakia, as well as by a decline in other operators. This brings us to the latest **automotive** commodity. Transportation here increased year-on-year due to the active trade policy implemented in cooperation with the subsidiary CD Cargo Germany. Some transports were lost, without any own fault. There can be indicated, for example, some trains between Devínska Nová Ves and Germany, which were transferred to Austria due to the extensive closure activity in so-called Elbtal. Another loss of transport in favor of automobile competition occurred in case of KIA and Hynudai transports to Poland. Škoda transports to Turkey were limited without any fault on the ČD Cargo, a.s., part too.

OPERATIONAL MANAGEMENT (OPERATIONAL STRUCTURE)

During the whole year 2018, Traffic Management Česká Třebová (ŘP ČT) continuously performed standard tasks related to the organization and operative management of ČD Cargo freight trains operation and the organization of the wagons for loading extension. An integral part of this activity is the creation of a product transports overview and the planning and implementation of "ad hoc" trains transports. The role of the dispatching apparatus of ČD Cargo, a.s., carrier in the full scope set by the Organizational Rules was completely fulfilled by the final set-up and implementation of the Exchange Plans.

As part of its day-to-day operations, 12 dispatch centers for operational management and 6 ÚDIV dispatcher workplaces are involved in traffic management, providing 735 trains a day on average and 1,503 empty wagons fleet for loading.

Of course there is a focus on the target customer with the aim to satisfy his demands for timeliness of transport and information about the movement of shipments.

In 2018, ŘP ČT significantly contributed to the ongoing development of Customer Traffic Management projects. It contributed a lot to the significant – and successful for the organisation – changes in the transport of trains supplying the Chvaletice power plant with energy coal on the Třebušice - Řečany route. In April 2018 after the related pilot program in the spring and as part of this change, a complete transition of this substrate to modern Innofreight superstructures was carried out following the necessary adaptation of the technology, both operational and loading and unloading (in particular by the installation of new unloading equipment). In the framework of the project, the transport of coal on the Ostrava (Třinec) - Pawlowice route was successfully introduced and, under strict analysis, improved at the beginning of the year. In autumn, on the Gdansk / Gdynia - Ostrava - Čadca - Haniska near Košice route, preparatory works on the integration of transport with selected carriers began, including the empty railway vehicles fleet movement.

Last but not least, it is necessary to emphasize the cooperation of Traffic Management employees on further development of information systems related to the management of operational work. In this context, the Company's employees perform the necessary technological and consulting tasks in development and pilot verification of the systems.

Work on the development of IS TMS and E-PROV vigorously continued in this area. The planning in these systems included pilot transports on Třebušice - Řečany route. Conditions for inclusion of other transports, including expansion abroad, especially to Poland and Austria are being prepared.

In the course of the year, the project of electronization of drivers which had a great impact on the modification of IS DISC-OŘ, but especially on the change in planning of activities for DAC was successfully launched. In this context, the supervisory workplace also became a HelpDesk for the train driver's electronization.

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. The system is then presented before the Rail Authority in order to obtain a Safety Certificate as it is required by European legislation. The Certificate issued is then valid for 5 years.

In 2018, ČD Cargo, a.s., as a rail transport operator successfully defended its safety management system and was granted a new Safety Certificate within the European Union, valid until 2023.

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.

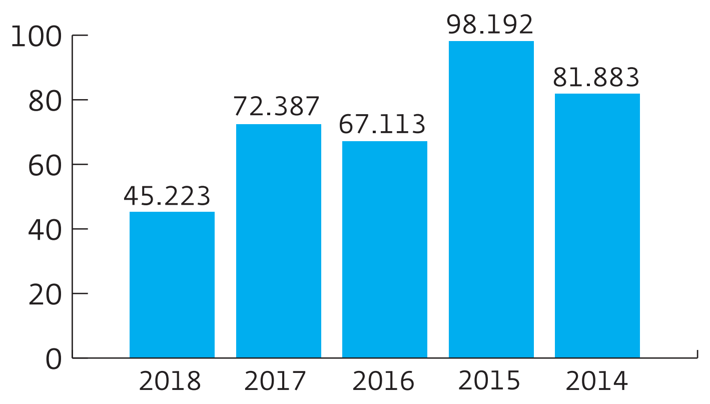
In 2018, ČD Cargo a.s., had an "Agreement on cooperation in cases of extraordinary events in railway transport and in cases of fatal and serious accidents at work" (the "Agreement") concluded to fulfil those obligations. Investigating the causes and circumstances of EE in the railway transport is performed 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.

08

In 2018, 247 EEs were recorded with ČD Cargo, a.s., participating as the railway transporter or the railway operator. Out of these, 54 accidents and 193 incidents have been reported. None of the EEs are classified as a serious accident. The total material damage caused by all the EEs is estimated at CZK 45,223,417 (see the chart for year-on-year development).

Development of total damage from EE in CZK milion



Compared with previous years, this is the lowest amount. The damage caused by all the EEs to the assets of ČD Cargo, a.s., is estimated at CZK 33,775,806.

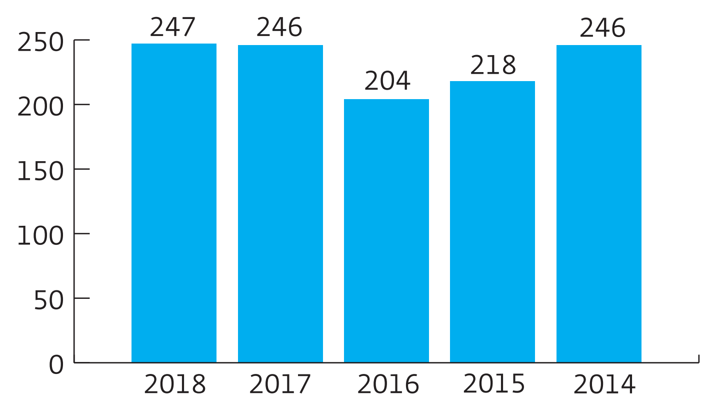
The aforementioned amounts are not final and will be gradually refined during 2019, in line with both EEs investigations and completed repairs and total elimination of EEs consequences.

As at 31 January 2019, the 228 EEs investigations are completed. Out of these, 109 cases were the ČD Cargo, a.s., responsibility or co-responsibility. The employees of ČD Cargo, a.s., were responsible or co-responsible for the 89 EEs.

During the EEs in 2018, a total of 30 people were killed and 18 people were injured. The deaths occurred due to the people being in restricted areas of the railway track and in collisions at railway crossings. Five employees of ČD Cargo, a.s., were injured during work. A total of 25 traction vehicles (of which 24 owned by the Company) and 57 wagons (of which 36 owned by the Company) derailed. A total of 95 traction vehicles (of which 79 owned by the Company) and 43 wagons (of which 31 owned by the Company) were damaged.

Out of the total number of 247 EEs (see the chart for year-on-year development) is documented, for example, 12 collisions of traction vehicles, 60 derailments, 13 fires, 32 EEs primary caused by illegal crossing against the traffic lights by the traction vehicle and 46 EEs caused on the traction vehicle pantograph interface and traction lines.

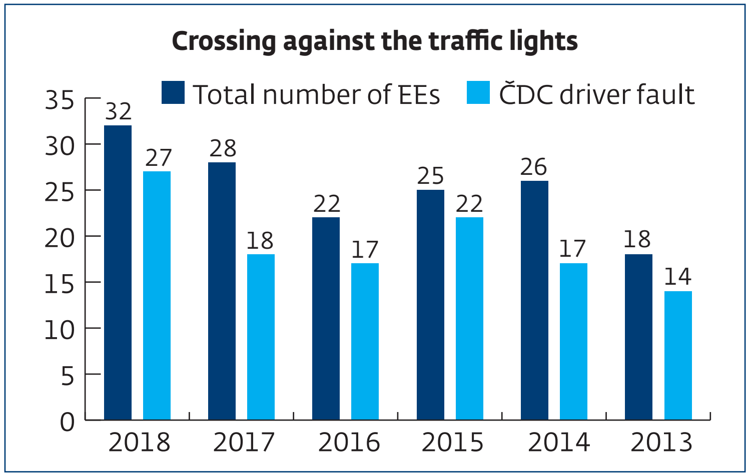
Development of total number of EE



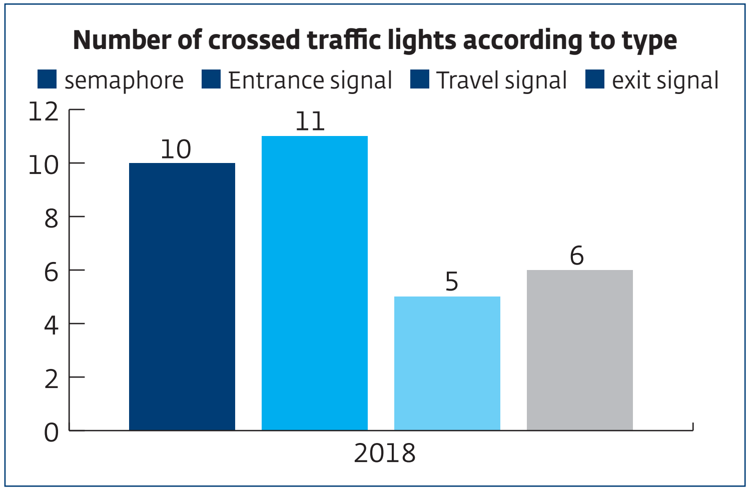
In 2018, during the operation of rail transport by the Company a total of 14 railroad crossing collisions of traction vehicles with cars, resp. with a person moving around on a crossing. From the point of view of railway crossing security, in 9 cases railroad crossings have been equipped with higher security level systems (light, barriers) and in 5 cases the crossing was secured by warning crosses.

In 2018, more attention was paid to EEs, which is characterized as an illegal crossing against the traffic lights by the traction vehicle. The definition of such EEs speaks of the fact that unauthorized crossing against the traffic lights by the traction vehicle occurs when there is a possibility to impair driving of other traction vehicle that is entitled to drive or when the driving of other vehicle is not impaired. As a consequence, individual cases are categorized in accordance with the Staff Regulations. If there are no serious consequences (derailment or collision of railway vehicles, or the damage caused does not reach the limit of significant damage = CZK 500,000), such an event is categorized as EE C6. In other cases, the category designation is different.

In 2018, we recorded a total of 32 EEs (see chart for year-on-year development), when their primary cause was crossing against the traffic lights by traction vehicle.



The number of crossed traffic lights according to the type is stated below.



In 3 cases the result of crossing against the traffic lights was derailment of traction vehicle = EE category C2. In the other 29 cases, it is EE category C6. Out of the 32 "crossings", ČDC's employees are responsible for the creation of 28 EEs, while other drivers are responsible for 4 EEs (3x cooperating carriers and 1x ČD, a.s.).

All these EEs are carefully investigated, including all related circumstances that had an impact on the establishment of EE or EE prevention. One of the elements is the monitoring of the signal type in the given case. Another look at these EEs is information on the type of railway transport that was present during EE. It can be here mentioned that in 63% of the cases it was the train operation, while in 37% - shunters drive.

Every EE is very specific and it is quite difficult to find a common denominator for expressing the cause of the crossing against the traffic lights by traction vehicle. In 2018, it was always a human error, to which, in some cases, distraction contributed. The attention was paid on operating vehicles or conducting control, i.e. of timetables or the technical condition of the traction vehicle. In many cases, it is possible to talk about lack of concentration, late reaction or confusion of the appropriate signal.

In May 2018, SŽDC informed all railway transport operators in the Czech Republic about the increase in the number of EE caused by crossing against the traffic lights by traction vehicle. Based on this letter and the accident report of ČD Cargo, a.s., Measure No. 18/2018 "measures to prevent adverse development of accidents of ČD Cargo, a.s." was issued for 2017 at the chief operating officer level.

From all points of view, it is necessary to continue to ensure all activities related to the safe operation of rail transport precisely and responsibly and to take adequate preventive measures within the established facts.

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 223 buildings and 252 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, demolitions of unneeded and unused buildings, and settling ownership relations that had not yet been settled. The built-up area amounts to almost 116 thousand square meters. The total land area is 690 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 3,813 thousands.

LEASE OF RAIL VEHICLES

One of the Company's significant business activities includes the lease of railway vehicles. We provide locomotives for long-term rentals to our partners. Mostly, this is a rental of vehicles adapted to operate on a particular territory. These traction vehicles are used exclusively outside the Czech Republic. 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 offers vehicles with whole capacity available as well as most wagon series, including cisterns. The Company additionally cooperates in projects for the use of non-operating vehicles. It is about various forms of ensuring the operation of terminated wagons and their subsequent operation.

Overcapacities of the rail vehicles are increasingly used in cooperation with our subsidiaries during the implementation of business transactions in foreign markets.

VEHICLES FLEET, MANAGEMENT OF VEHICLES

In order to ensure the operation of freight trains as at 31 December 2018, the Company operated 804 traction vehicles, of these 65 locomotives were leased in terms of financial leasing. As at 31 December 2018, the freight wagons fleet consisted of around 21.7 thousand freight wagons of different types. The vehicles fleet was adjusted as required by leases of vehicles amounting on average to 3,000 vehicles. Of the total vehicles fleet, approximately 18 thousand vehicles were in the operational condition.

During 2018, 812 vehicles were scrapped due to natural wear and tear, obsolescence and poor technical condition. Number of vehicles which were sold for subsequent restructuring and upgrading amounted to 200. Thus modernized railway vehicles are rented again to provide the Company's services. Another 563 of obsolete and technically worn-out vehicles is selected for the year 2019 for liquidation or scrapping. During 2018, 30 vehicles were physically scrapped and about 16 vehicles were sold to interested parties for further use, especially because of nostalgia. Suitable parts from disposed vehicles have been recovered for repair purposes.

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 course of the year, especially in the first half of the year, some types of freight wagons (Eas, Falls series) did not cover business needs. In 2018, more than 5.5 thousand of wagons had undergone periodic repair, which in the history of ČD Cargo, a.s., means a record amount.

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 2018, the adaptation of the rail freight fleet continued to meet the needs of the transport market with the aim of increasing the operability of vehicles in international traffic. An additional 87 eight-axle 80-track Sggrrs vehicles, specifically designed for transportation of containers and Innofreight superstructures, were added to fleet of ČD Cargo, a.s. The vehicles are used in combination with SteelPallets for the transport of cast-iron and slabs, whereas in combination with WoodTainers and MonTainers, the vehicles are used for the transport of brown coal, and chipped woods for various customers who adapt the unloading to the new technology.

Under the "Concept of Sustainability and Development of the Rail Freight Fleet", contracts for the supply of new freight wagons of the Eanos, Sgnss and Zacns types were concluded in 2018 for the years 2019 - 2020.

In the area of railway vehicles management in 2018, great attention was paid to the planning and use of vehicle capacity in the years to come. The aim of this effort is to minimize inefficiencies in transport and vehicle management. There is a regular evaluation of the vehicle capacity utilization in the framework of the Company's reporting, including the identification of key problems according to the individual vehicles business groups. Potential excess in fleet capacity is used in other business for rental purposes so that the management of the available railway fleet is maximally effective and provides additional resources to ensure its operability.

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

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 2018. 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 important impact on all these target groups has been carried out by the premiere digital campaign, in its 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.

WEB PRESENTATION

The number of visitors to the ČD Cargo website increased again in 2018. The number of 74 news were posted on the website, the information regarding ČD Cargo offer was continuously updated, etc. In June, a partial redesign of the website was carried out, extending the main page, creating news preview and overall modernizing the appearance. As part of the EROZA project, deficiencies in the Data and Inquiries application were eliminated and the development of other portlets continued. The process of standardizing the websites of subsidiaries with the pages of the parent company ČD Cargo was launched.

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.

In 2018, the Company's activity on Facebook significantly increased. Facebook began to be used not only for personal work but also for the presentation of ČD Cargo and rail freight to the general public in general.

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

Press department of České dráhy carried out communication with journalists and the wider general public. All important topics were communicated, such as the decision to purchase other interoperable locomotives, the start of transport of power coal to the Chvaletice power plant in Innofreight, or the transportation on the new silk road.

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 and Railvolution 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.

In 2018, we started to address the Company's customers with a new "ČD Cargo Profile" and also specialized material with information about the offer of the Company's services during transport to the East. An important part of the Company's internal communication was (as in previous years) the internal newspaper Cargovák, which was newly enriched by special attachments, among others on the theme of the 100th anniversary of the state 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.

The most important presentation of ČD Cargo, a.s., at foreign trade fairs in 2018 was the participation in a joint Czech exhibition at the international transport and logistics fair Transport Logistic China in Shanghai, where the main goal of Czech exhibitors was, besides the presentation itself, to establish new business relationships, especially relation to the project "New Silk Road and Link to Central and Eastern Europe".

The participation and partnership at the "National Railway Day", which took place at the SOKV České Budějovice at the end of September, can be included among the domestic trade fair presentation.

There were also plentiful conferences in the year. The key point was again the business conference of ČD Cargo, a.s., always held at the beginning of the new business year. Its main theme is business and pricing policy for the coming period. Other important participation or partnership at professional conference event that cannot be ignored was the Czech Logistics Day with the theme "Sustainability in Logistics", which took place at the Škoda Museum in Mladá Boleslav at the end of April.

At the end of the year, the Company actively participated in the 224th Žofín Forum, which dealt with issues of rail transport development as an important instrument of economic prosperity and the liberalization of the railway from the Czech and Central European point of view.

RESEARCH, DEVELOPMENT AND COOPERATION WITH UNIVERSITIES

During 2018, 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. Concurrently, theirs results are designed to be used or applied in practice. At the same time, we allow these students to get to know the freight carrier's environment within a professional internship.

ČD Cargo considers the cooperation with universities as highly significant and beneficial for both parties. The Company can use the results or findings from diploma thesis to improve its other activities as well as universities. Consequently, students will verify their theoretical knowledge by solving given topics from the freight carrier's environment. 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 throughout 2021. In 2018, steps were taken to exploit applications in the Company's foreign expansion and to track individual business cases at all stages. An important technological element is the introduction of tablets as working tools for drivers. The tablets are equipped with a special application for support of all drivers' necessary documents management as well as for drivers' familiarization with these documents, and for communication with the ČDC dispatching apparatus. The development of this application will continue in 2019.

At the same time, two major projects to support repair activities were launched in 2018. Pilot verification of the application to increase the repair process efficiency with the possibility of capacity planning and monitoring of labor productivity of maintenance and repair's employees was launched at SOKV Ostrava. In the area of handover and acceptance of wagons between ČD Cargo, a.s., and external repair shops, the development of a support application for mobile devices has been launched. Employees carrying out such work will be equipped with that devices.

In the SAP area, the entire system was transferred to a new SAP HANA database. At the same time, the project "Implementation of accounting adjustments and other internal processes in accordance with IFRS standards" for direct parallel accounting in this standard was launched.

In the area of ICT, there were initiated preparations for the upgrade of system, office and groupware environments, which consist of Microsoft products. In order to gain the ISO 27001 certificate in the future, the ICT security management processes implementation within ISMS is still ongoing.

In terms of ICT management within the ČD Group, there was the consolidation of SŽDC internal network environment and, as a result, new solution of workstation virus protection and incoming e-mail was deployed.

INVESTMENT

ČD Cargo, a.s., investments reached in 2018 amount of CZK 2.51 billion. On the top of it, CZK 213 million were paid on advances for the acquisition and modernization of locomotives and traction vehicles. This means a year-on-year progress of about CZK 1.26 billion. In addition to the above, an advance payment for the implementation of ETCS (European security system) was also paid for 742 locomotives. The project is co-financed from the CEF grant program.

The Company's investment activities focused primarily on the renovation and modernisation of railway vehicles fleet, where investments amounted to CZK 2.234 billion (including component repairs of freight vehicles and locomotives), which is 89 % of the investments.

Investments in freight wagons
In terms of freight wagons investments, the most significant event is the purchase of 87 new Sggrrs platform vehicles for the purpose of combined transport and shipment with the use of removable extensions Innofreight. The reconstruction of the combined floors ofEas railway vehicles was also continued. The substantial amount of money was contributed to inspection repairs of almost 3,500 traction vehicles.

Investments in traction vehicles
Within investments in traction vehicles in 2018, most significant was the purchase of another three Vectron locomotives, which extended the fleet of interoperable locomotives and the payment of an advance for the delivery of the another locomotives in 2019 – 2020: shunter locomotives as well as medium route service and modernization of 742 diesel locomotives.

In 2018, additional funds were invested in component repairs of locomotives and their traction motors, according to a new maintenance scheme, which should contribute to increasing reliability and ensuring the operability of traction vehicles.

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, etc. Among other things, the construction of a new steel hall for the freight wagons cleaning in Ústí nad Labem started and an energy-saving project was carried out at the assembly plant in České Budějovice in 2018.

Other investments
Other investments include IT investments, acquisition of handling technology, and other investment activities. In 2018, investments in the area of IT continued to focus on the further development of internal information systems. In line with the mid-term IT strategy to build a comprehensive IT architecture for sub-processes including reporting, there were also new projects launched. Other investments included, for example, the acquisition of fork-lift trucks and other techniques for logistics, rail jacks renovation and renewal of other equipment within the rolling stock repair service center.

CODE OF CONDUCT AND EMPLOYMENT POLICY

ČD Cargo, a.s., strictly adheres to all legal standards and regulations and is aware of the risks and negative social impacts associated with non-compliance with them. In addition, the Company takes care of the continuous compliance and protection of human rights and realizes that it is an area that is becoming increasingly important to both the Company's employees and customers. Therefore, there is a business and moral obligation to ensure respect for human rights across organizational structure units and in the whole value chain.

Concurrently, a lot of attention is being paid to the ethics of the employees' behaviour and corporate culture during the work, focusing on, among other things, anti-corruption behaviour, prevention of criminal liability and personal data protection. No direct or indirect discrimination is permitted in ČD Cargo, a.s. The recruitment of new employees is determined by the education, expertise, qualifications and abilities of each candidate, with due respect for the principles of diversity.

The Code of Conduct helps ensuring the consistency between the Company's day-to-day activities, the conduct of all employees and the Company's established principles. In the case of unethical conduct, violation or reasonable suspicion of violation of the Code of Conduct and good manners, each employee has the opportunity to report this. At the same time, any such notification will be assessed and handled in accordance with the applicable "Settlement Handling" Directive. The Code of Conduct is linked to the internal standard: "Criminal Liability Prevention Program and ČD Cargo's Anti-Corruption Rules", as a strengthening of the fight against corruption, bribery and conflict of interest. In the same way, the Company would proceed in the case of human rights violations.

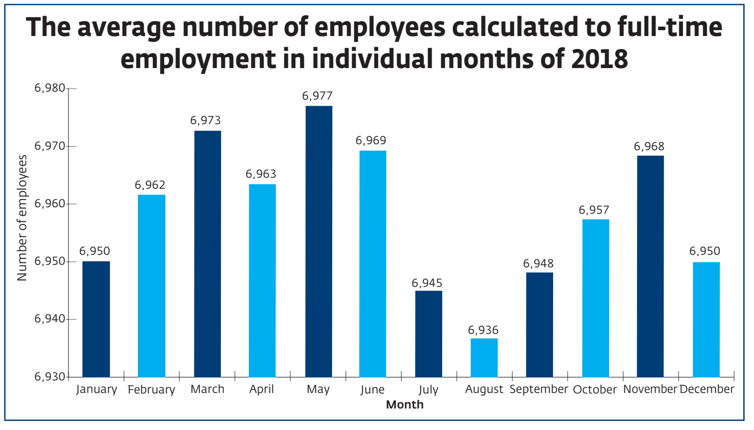
In 2018, no cases of the Code of Conduct or human rights abuses were reported nor suspected.

The area of corporate culture and ethical principles is regularly one of the points examined during audits at ČD Cargo, a.s.

STAFF POLICY

As at 31 December 2007, in the year of establishment of the Company, we recorded a number of 11,805 employees, of which 2,992 were women and 8,813 were men. During the eleven years of ČD Cargo, a.s., operation on the market, technological processes were revised and optimized, thereby reducing the number of employees by 4,856, which is more than 40 %.

The average registered number of employees recalculated on full-time employees is 6,958.19 in 2018. The number of employees as at 31 December 2018 was 6,949, of which 1,422 were women and 5,527 were men.



Further data on age structure and composition of employees' number according to key jobs are presented in the following table.

Age structure in key jobs in 2018			
Position nam	Total employees' number	Number of employees up to 55 years	Number of older employees 55 years
Rail Car Repairman	496	341	155
Wainwright	571	370	201
Shunter	588	441	147
Shunter manager	666	459	207
Driver	1703	1060	643

Similar to the other employers in the Czech Republic, there was a lack of operating staff in the Company, mainly in the positions of driver, shunter, shunter manager, welder, electrician or repairer of rail vehicles. For this reason, we use a number of new recruitment tools. Vacancy information is available to those interested not only on our website, but also on various work sites.

Jobseekers are successfully informed about the job offers via Facebook profile and presentations of the Company's HR offers within job exchanges or job fairs. The main recruitment incentive is recruitment reward, awarded for example to train drivers in preparation or shunter and repair staff. It is granted up to CZK 50,000 and its payment is spread over the entire education and training of the employee. We also need to address potential jobseekers with regard to the age structure of existing employees.

The set of provided, under ČD Cargo, a.s., employee policy, employee advantages / benefits is primarily used to strengthen and stabilise the employee base and are guaranteed by the Company's Collective Agreement. For example, it is an extra week of vacation or an employer's contribution to supplementary pension insurance and life savings.

As part of the above-standard medical services, the Company care for the good health of its employees and support them in their further professional growth and education.

There are a total of fourteen high schools who have undertaken to cooperate closely in order to prepare the students. For the students of these schools, this collaboration offers the benefit of a secure practice at various operational working positions. In the case of higher education institutions, it is primarily cooperation in the field of educational and scientific research, such as consultation of bachelor's, master's or doctoral theses. The students of these schools have the opportunity to gain practical experience in the Company as well as participate in solving interesting problems. The Company does not focus only on high schools with transport or technical specifications. With regard to the scope of activities of ČD Cargo, a.s., the Company also offers the opportunity to gain experience by students with economic, marketing or personal specialization.

WAGE AND SOCIAL AREA, COOPERATION WITH TRADE UNIONS

In 2018 the average salary in ČD Cargo, a.s., i.e. the payroll costs, excluding other staff costs, amounted to CZK 36,549.

The principles of remuneration and employee benefits have been enshrined in the "ČD Cargo, a.s., collective business agreement for 2018". Its fulfillment was regularly evaluated at employer and trade union meetings, and all commitments made to employees in 2018 were duly fulfilled.

According to the defined rules, ČD Cargo, a.s., as an 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.

Nine trade unions operate within ČD Cargo, a.s. On 13 December 2018, Collective Agreement for the period since 1 January 2019 to 31 March 2020 was signed.

EDUCATION

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.

OHS

In 2018, 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.

ČD Cargo, a.s., is the largest rail freight carrier in the Czech Republic, and we believe that, thanks to our new approach to personnel, employee policy and social agenda, we will remain a sought-after, promising and stable employer.

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.

On 1 August 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. The annual internal e-learning training is set up by the above-mentioned internal standard and must be attended by members of the Board of Directors of ČD Cargo, a.s., management and administrative staff whose employee's code starts from 1 to 4, according to the internal standard PERs44-B-2014. The last periodic training took place in September 2018.

In 2018, no cases of corruption were under investigation.

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 certified as meeting the requirements of the following standards:

- ISO 9001 (QMS = Quality Management System) is a certificate which confirms compliance with quality management and quality control system requirements. According to this standard, ČD Cargo, a.s., has been certified since February 2007. According to the ISO 9001: 2015, current certification is valid for 2018-2021,
- ISO 14001 (EMS = Environmental Management System) is a certificate which confirms compliance with environmental management system requirements. According to this standard, ČD Cargo, a.s., has certified the area of repair business since November 2008. According to ISO 14001: 2015, current certification is valid for the years 2018 - 2021,
- OHSAS 18001 (SMS = Safety Management System) is a certificate which confirms compliance with occupational safety and health system safety requirements. According to this standard, ČD Cargo, a.s., has been certified since December 2012. According to OHSAS 18001:2007, current certification is valid for the years 2018 – 2021,
- ISO 50001:2011 (EnMS = Energy Management Systém) is an energy management system certificate. According to this standard, ČD Cargo, a.s., is certified for the years 2017 – 2020,
- SQAS Core and Rail Specific (SQAS = Safety & Quality Assessment System) is a quality and safety certificate for the rail transport of chemicals, which must be renewed every three years. ČD Cargo, a.s., has been the holder of this certificate since March 2015, the current certificate is valid for the years 2018 - 2021.

AEO Certificate

SIMPLIFIED CUSTOM PROCEDURES/ SECURITY AND SECURITY MEASURES (AEOF)

ČD Cargo, a.s., is the holder of the Authorized Economic Operator CZAEOF0801B7legitymacy - Simplified Customs Procedures / Security and Security Measures (AEOF). The Company has already obtained this certificate in 2009 and, in accordance with the applicable customs legislation, successfully managed to keep it in re-assessment in 2017. The AEO is recognized and taken into account in all EU Member States and in some third countries under agreement, in particular when assessing risks related to safety aspects. As an AEO holder, the Company has easier access to authorization procedures and verification of compliance with customs simplification conditions.

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. The Company offers its 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.

The Company's 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. The Company considers 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 2018, a temporary warehouse in Lovosice was established with an area of 4,068 m². Customers can use these premises to store goods imported from third countries until they are cleared or transported under customs control. ČD Cargo, a.s., is a holder of the simplified procedures of the authorized consignee and the authorized consignor. Therefore, the Company offers the interested parties complete services related to storage in temporary warehouse and any further transport to the final destination at T1 in the NCTS regime.

Last year, intensive discussions on changes in the use of the simplified transit procedure to come before 1 May 2019 took place at the level of the European Commission and interested railway carriers.

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, a.s. (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. 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. As the number of cooperating carriers grows in train transport, the number of data exchange partners is also increasing. The Company started transmission of train announcements with RCH, Inter-Cargo, SWT and Lokorail. We are also a member of RAILDATA organisation which operates Central European data Exchange systems and where the ČD Cargo, a.s., representative is a chairman of ISR assembly since 2017. 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 11 foreign partners, partly as a mode of the electronic freight sheet. We started actively using the central CoReDa wagons database, which describes the wagons from the perspective of commercial responsibility. The Company is involved in an international project for the implementation (and partly revisions) 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 2018, measures were taken to increase the resilience of the Company's network connection.

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 2018, 20,993 shipments were transported with the CIM/SMGS cargo document (10,607 export, 10,386 import), which represents a 32 % increase in comparison to the previous year. In transports with the Russian federation, the CIM/SMGS cargo document was used as follows (export 99 %, import 44 %), with Belarus (export 83 %, import: 36 %), with Ukraine (export 1 %, import 1 %), with Kazakhstan (export 68 %).

In 2018, ČD Cargo, a.s., successfully presented itself at the Transport Logistic trade fair in Shanghai, where cooperation with the city of Yiwu representatives was confirmed. Container block trains from the Chinese city are under the full control of ČD Cargo, a.s. ČD Cargo, a.s., took an active part in international conferences, such as the October OSŽD conference in Iran, dedicated to Eurasian transport, the Transsiberian Transport Coordination Committee in Sochi, and the meeting of V4 rail carriers, whose cooperation intensified significantly last year. The cooperation with RŽD was also extended, specifically due to the cooperation with the Kaliningrad Railway with which the contract for the organization of transport between OAO RŽD and CD Cargo Poland was concluded. During the year, the transport of chipped wood from the Kaliningrad region to the Czech Republic took place. Thanks to the using the Innogreight technology it is a novelty on the Russian market.

ČD Cargo, a.s., actively participated in international projects VERA and OPTIYARD. The VERA project aims to improve international cooperation within human resources area and prepare for the future challenges of the railway sector. Under the project, the network of existing training centers is being linked and education, training, language skills and internships are being coordinated. ČD Cargo, a.s., participates with the parent company ČD in the VERA project, which is under the patronage of the international organization UIC. Each company pays half of its costs. The OPTIYARD project is focused on optimizing the processes of large marshalling yards by simulating and evaluating the most appropriate option for real-time decisions. The project is funded with EU financial support under Shift2Rail. The marshalling yard in Česká Třebová and the maritime terminal with marshalling yard in Trieste, Italy, were chosen to explore and model. Under the leadership of the International Union of Railways and ČD Cargo, a.s., Czech partners together with other twelve foreign partners participates in the development and verification of innovative technologies and solutions designed to increase the competitiveness and sustainability of the European rail transport system.

In December 2018, ČD Cargo, a.s., became one of the eighteen founding members of the Rail Freight Forward (RFF) initiative. This initiative brings together European rail freight companies and industry associations that intend to engage in significant reductions in the negative impacts of freight transport on our planet and sustainable mobility through innovation and a smarter modal mix. The association's main ambitions include a doubling of the current share of rail freight by up to 30 % until 2030. In implementing this division of transport, the association is seeking to involve railway undertakings, infrastructure managers and politicians across Europe.

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.

In 2018, ČD Cargo, a.s., managed to keep its ISO 14001: 2015 certification. The certificate is available on the ČD Cargo website. The external audit did not identify any discrepancy.

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).

The 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.

In 2018, a number of activities with a positive impact on the environment were implemented. For example, ecological disposal of unnecessary traction vehicles, thermal insulation of the assembly plant in SOKV České Budějovice and thermal insulation of the administrative building in PJ České Budějovice (saving energy for heating and limiting the discharge of greenhouse gases). Construction of a new steel hall for NV cleaning (reduction of particulate pollutant emission during dismantling of traction vehicles at a workplace equipped with air filtration) was started at SOKV Ústí nad Labem. In the OKV Nymburk thermal insulation of the outbuildings of the hall and the carpentry (reduction of heat energy costs) was carried out.

Fire protection in 2018:

- 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.
- In 2018, there were 215 interventions in total for ČD Cargo a.s., of which 10 were fires in traction vehicles due to technical failures, and 8 were fires of vehicles, mostly due to someone else's fault and 1 case of ignition of overheated bearing. Three 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 in ČD Cargo premises.
- HZS SŽDC, s.o. fire brigade interventions in behalf of ČD Cargo, a.s., amounted to CZK 3.1 million / year in 2018.

Price charged for interventions in 2018 /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
CZK 3,181,976	18	25	52	120	215

- In additions to interventions of fire brigade of HZS SŽDC, s.o., payments for the continuous availability of this fire unit was made.
- The total cost of ČD Cargo, a.s., in the fire protection section for 2018 amounted to CZK 9.9 million.
- Prevention in the field of fire protection is given constant attention at all levels of management.

Corporate Social Responsibility

The Company 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 2018, 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. Support was granted to sports activities such as floorball. In the Company's social responsibility portfolio is also included rail modeling support.

In 2018, the Company continued awarding of 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. For example, Rašelina Soběslav, a joint stock company, was awarded at the trade conference. 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 300 wagons for Diakonie Broumov in 2018.

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.

As part of the promotion of rail transport, ČD Cargo, a.s., participated in the Railway Day, which took place in September at the premises of the Company's Railway Vehicle Repair Center in České Budějovice. We also supported various celebrations to mark the commencement of operations on railway lines - Children's Day celebrations, Santa Claus rides, etc. We have lent railway vehicles for these events or we have provided rail transportation on favorable terms.

08

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
ČD 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 5,397,475
ČD 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 traction vehicles.

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 (Polish zloty)
ČD 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 traction vehicles, 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: 100 %
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
ČD 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 2018, there were following changes in the structure of the ČD Cargo, a.s., equity interest within ČD Group:

- On 26 June 2018, 22 pieces of shares issued by ČD Logistics, a.s., representing 22 % of the total number of 100 shares issued by ČD Logistics were transferred to the transferee ČD Cargo, a.s., transferor AWT Čechofracht, a.s.

ČD Cargo, a.s., has branch abroad:
By the decision of the Board of Directors of ČD Cargo, a.s., a branch was established in Austria under the name ČD Cargo, a.s., Niederlassung Wien on 23 October 2018. The branch was registered in the Commercial Register in Austria on 19 January 2019.

The main activities of the branch will include the operation of rail freight transport.

09
Financial Situation of ČD Cargo, a.s.

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 mil.) according IFRS	2018	2017	2016
Acquisition of freight wagons	267	313	-
Renovation and modernisation of freight wagons	17	23	20
Acquisition of traction vehicles	295	104	621
Renovation and modernisation of traction vehicles	47	83	35
Machinery investments	4	8	26
Construction investments	78	51	23
Other investments	194	224	174
Component accounting for inspection repairs of railway vehicles	1,609	630	622
Total investments	**2,511**	**1,434**	**1,520**
Prepayments for investments	213	30	-
Prepayments for investments acquired from subsidies	19		

* The investments are presented according to the International Financial Reporting Standards in Annual report 2018 of ČD Cargo

Funding

In 2018, 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 2018, 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. Framework contracts are approved for individual banks in total amount of CZK 2 billion. The Promissory Notes Programme was not drawn as of 2018; however, the promissory notes facility is kept as a reserve for short-term financing independent of bank sources.

LEASES

No new lease contract was concluded in 2018. However, as part of the contractual relationship concluded in 2017 with SG Equipment Finance Czech Republic, s.r.o., two new Siemens Vectron traction vehicles was financed in 2018.

BONDS

This funding source significantly increases the financial stability of the Company's cash flow due to its long-term nature. In 2018, a new bond issue of CZK 1 billion (issued on the basis of separate issue conditions) was realized through the administrator of Komerční banka, a.s. These bonds were admitted for trading on a regulated market of the Prague Stock Exchange. On 31 December 2018, ČD Cargo, a.s., issued bonds in total amount of CZK 3 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 basic risk management system documents are:

- Risk Management Policy - defines the Company's objectives, basic principles and risk management strategy, further defines the roles, responsibilities and powers of risk management.
- Risk Management Committee Statute - defines the role, competences, responsibilities, and behavior of the Risk Management Committee.
- Risk Management Manual - is an internal standard setting out specific procedures (identification, analysis, measurement, management strategy, processes and procedures for managing, monitoring, reporting and consolidating risks) in managing individual risks. The Risk Management Manual is valid for the entire ČD Group, a.s.
- Risk Management Strategy - identifies risks, their regular monitoring, quantification and limitation of the risk impact on the Company's profit. Risk Management Strategy is approved once a year within the Risk Management Strategy.
- Financial Risk Management Strategy at ČD Cargo, a.s., - specifies the procedures and methods for financial risk in order to significantly reduce the risk to the Company from operating and trading activities and financial market transactions.

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 2018.

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 2018, ČD Cargo, a.s., faced strong downward pressure on prices by private rail carriers (block trains). In the segment of individual wagon load transport, ČD Cargo, a.s., strengthened its competitiveness. 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 2018, 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 2018, 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. The methods and instruments for managing interest rate risk arising from the Financial Risk Management Strategy are approved to achieve the desired status.

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

To maintain position on the domestic transport market and to gradually expand abroad. These are the two main strategic strengths of ČD Cargo, a.s. To meet these goals, the delivery of quality and affordable services, the innovation of our products and the rationalization of technological and other processes associated with increasing the efficiency of all cross-company activities remains a crucial condition.

A prerequisite for the Company to expand further is the availability of interoperable locomotives, acquisition of which is still ongoing. With the Company's convenient location in the heart of Europe, ČD Cargo wants to gradually expand its product train network to offer its customers a fast rail connection truly across Europe. With the Company's own licenses or through the subsidiaries, we want to strengthen the reputation of the ČD Cargo brand on the European transport market.

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. ČD Cargo, a.s., wants to maintain the Company's position as a leader in the transport offering using the modern Innofreight technology, which already enables us to adapt to customer requirements for the transportation of various types of goods. That is why the Company is expanding the fleet of vehicles for combined transport, which can be loaded with different transport units. The competitive advantage is also the Company's ownership interest in two combined transport terminals in Brno and Lovosice.

Also, the ecology is not just an empty term for the Company. In 2018, ČD Cargo, a.s., became a member of the Rail Freight Forum, which aims to significantly reduce the damage to the environment caused by transport, especially radically reduce carbon dioxide emissions. The association also seeks to increase the share of rail in the freight market by almost double, to at least 30% until 2030. This can only be achieved by exploiting synergies between rail (long distance transport of goods) and road transport (flexibility at first / last mile), using intermodal shipping units.

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.


383 001-5
SIEMENS
Vectron
Cargo

11

Share Capital

The Amount of the Issued Share Capital

As of the balance sheet date of 31 December 2018, 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

Report of the Supervisory Board of ČD Cargo, a.s., on the performance of its remit for the year 2018 and the results of the supervisory activities

During 2018, the Supervisory Board of ČD Cargo, a.s., held ten 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 28 March 2019

Miroslav Kupec
Chairman of the Supervisory Board

Report of the Audit Committee

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 2018 to 30 September 2018 and 1 January 2018 to 31 December 2018.

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 2018, and of preparing the Annual Report of ČD Cargo, a.s., for the year 2018.

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 2018 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 2018 to 31 December 2018, 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 2018.

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 1 April 2019

Oldřich Vojíř
Chairman of the Audit Committee

12

Report of the Audit Committee of ČD Cargo, a.s., on the Report on Related Party Transactions for the year 2018

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 2018, 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 2018.

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 2018, 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 2018.

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 2018 to 31 December 2018, 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 2018 to 31 December 2018, 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 2018 to 31 December 2018.

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 2018 to 31 December 2018, 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 2018 to 31 December 2018 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 fulfi lled 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 2018 to 31 December 2018, and the Auditor's Opinion.

Oldřich Vojíř
Chairman of the Audit Committee

12

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 2018 to 31 December 2018, 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 2018 to 31 December 2018, 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 2018 to 31 December 2018.

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 2018 to 31 December 2018, 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 2018 to 31 December 2018 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 2018 to 31 December 2018, and the Auditor's Opinion.

Oldřich Vojíř
Chairman of the Audit Committee

13

Independent auditor's report

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 2018, of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU").
- The accompanying separate financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2018, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

What we have audited

The Group's consolidated financial statements comprise:

- The consolidated statement of financial position (balance sheet) as at 31 December 2018;
- 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 cash flow statement 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 2018;
- The statement of profit and 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 cash flow statement 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, Regulation (EU) No. 537/2014 of the European Parliament and of the Council ("the EU Regulation") and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview

Overall materiality for the Group: CZK 113 million
Overall materiality for the Company: CZK 108 million

We have identified four 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 cooperated with component auditors in Slovakia, 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 99% of the Group's revenue.

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

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

Materiality

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

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

Overall Group materiality	CZK 113 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 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.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Appropriateness of revenue recognition and disclosures of the initial application of IFRS 15 - Revenue from Contracts with Customers In 2018, the Company and the Group implemented IFRS 15 - Revenue from contracts with customers. For the purpose of the first application, the Company and the Group chose a retrospective modified method that does not require the restatement of comparative information. To identify all performance obligations towards customers all customer contracts are initially analysed. Subsequently, the transaction price is determined based on the relevant contract terms. The transaction price is allocated based on relative standalone selling prices when two or more performance obligations are identified within the contract. Following this, revenue for individual performance obligations is recognised in the appropriate amount either at a certain point in time, or over the contract term on an ongoing basis (it may be reported over several accounting periods). Revenue is reduced by expected penalties, rebates and other similar discounts. For more information on the application of IFRS 15, see Notes 2.3, 3.1 and 22 of the consolidated financial statements and Notes 2.3, 3.1 and 21 of the standalone financial statements.	In connection with the application of IFRS 15 we performed the following procedures: • Assessing the impact analysis prepared by management for different revenue streams. • Assessing the appropriateness of the methods used to determine the expected impact of the initial application of IFRS 15. • We tested, on a sample basis, timing and measurement of sale transactions within different revenue streams comparing actual results with IFRS 15 requirements. • Reading and assessing the adequacy and completeness of the IFRS 15 disclosures in the consolidated and separate financial statements.

Key audit matter	How our audit addressed the key audit matter
Appropriateness of classification and measurement of financial assets and financial liabilities as well as disclosures of the initial application of IFRS 9 - Financial instruments. In 2018, the Company and the Group implemented IFRS 9 - Financial Instruments. For the purpose of its first application, the Company and the Group chose a retrospective modified method that does not require the restatement of comparative information. According to IFRS 9, financial assets are classified in the following three categories: financial assets at amortised cost, financial assets at fair value through profit or loss, or financial assets at fair value through other comprehensive income. For trade receivables, the Group applied the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The percentage in the amount of 0.3% that the Group and the Company applied to trade receivables not overdue was determined based on historical data of receivables that were written off in the past and, at the same time, taking into account the macroeconomic trends expected to affect the development of the customers' payment discipline. For more information on the application of IFRS 9 see Notes 2.16, 3.1, 9 and 33 of the consolidated financial statements and Notes 2.16, 3.1, 9 and 31 of the standalone financial statements.	In connection with the application of IFRS 9 we performed the following procedures: • Assessing the appropriateness of hedge accounting documentation prepared by management. • Assessing the appropriateness of classification and measurement of financial assets and liabilities. • Recalculating of fair values of derivatives used for hedge accounting. • Assessing the reasonableness of the percentage of 0.3% applied to trade receivables not overdue to calculate expected credit loss allowance. • Reading and assessing the adequacy and completeness of the IFRS 9 disclosures in the consolidated and separate financial statements.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on each set of financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, the share of individual subsidiaries on the Group financial position and performance and specifics of 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 four 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.

Audit 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 audit work covers 99% 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 both of the financial statements and auditor's report therein. The Board of Directors is responsible for the other information.

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

We confirm that the audit opinion expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 9 April 2019 in accordance with Article 11 of the EU Regulation.

Appointment of Auditor and Period of Engagement

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

Provided Non-audit Services

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

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

9 April 2019

represented by

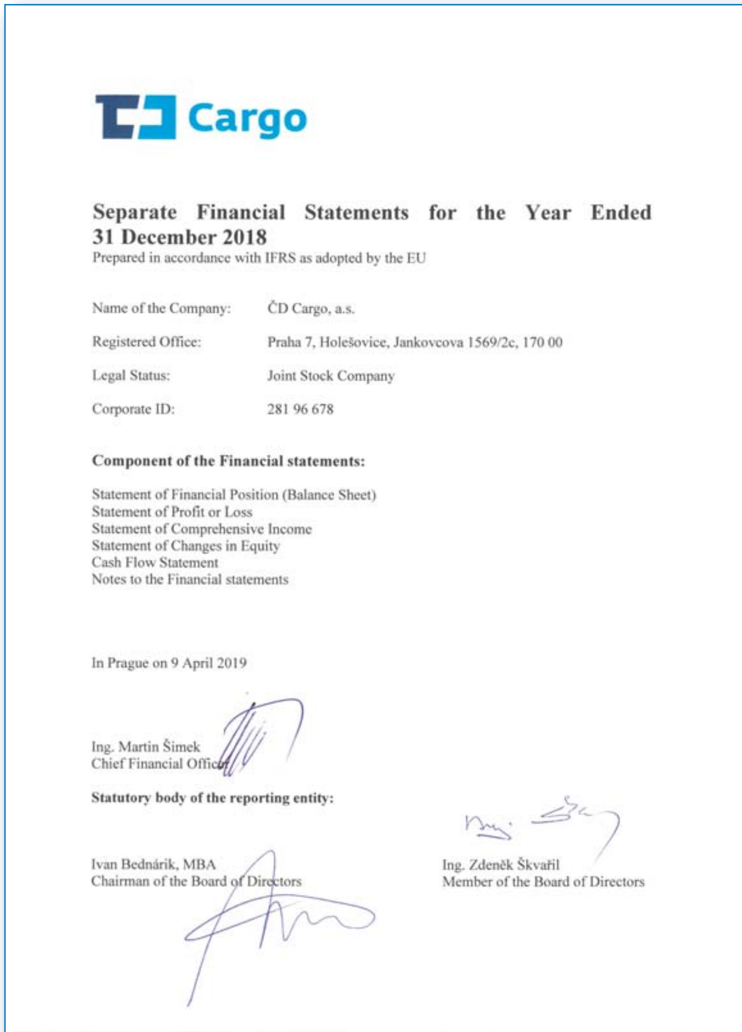
Václav Prýmek

Milan Zelený
Statutory Auditor, Licence No. 2319

14 Separate Financial Statement (IFRS)[1]

Separate Financial Statements for the Year 2018

Prepared in accordance with IFRS as adopted by the EU



Separate Financial Statements for the Year Ended 31 December 2018

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 9 April 2019

Ing. Martin Šimek
Chief Financial Officer

Statutory body of the reporting entity:

Ivan Bednárik, MBA
Chairman of the Board of Directors

Ing. Zdeněk Škvařil
Member of the Board of Directors

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2018

(CZK million)		31 Dec 2018	31 Dec 2017
Property, plant and equipment	5	15,427	14,099
Intangible assets	6	490	441
Investments in subsidiaries, associates and joint ventures	7	545	442
Other financial assets	10	1	298
Other assets	11	-	1
Total non-current assets		**16,463**	**15,281**
Inventories	8	193	188
Trade receivables and contractual assets	9	1,618	1,581
Other financial assets	10	475	89
Other assets	11	188	107
Cash and cash equivalents	12	595	465
Total current assets		**3,069**	**2,430**
TOTAL ASSETS		**19,532**	**17,711**
Share capital	13	8 ,494	8,494
Capital funds	13	349	423
Retained earnings (Accumulated losses)		210	(512)
Total equity		**9,053**	**8,405**
Loans, borrowings and bonds	15	4,274	3,624
Deferred tax liability	29	1,624	1,500
Provisions	16	451	489
Other financial liabilities	17	57	132
Other liabilities	18	108	387
Total non-current payables		**6,514**	**6,132**
Trade payables	14	2,204	1,735
Loans, borrowings and bonds	15	534	516
Income tax liabilities	29	4	2
Provisions	16	205	237
Other financial payables	17	175	264
Other payables and contractual payables	18	842	420
Total current payables		**3,965**	**3,174**
TOTAL LIABILITES		**19,532**	**17,711**

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

14

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK million)		Year ended 31 Dec 2018	Year ended 31 Dec 2017
Revenue	21	12,282	11,242
Revenue from principal operations	22	478	884
Services, consumed material and energy	23	(5,939)	(5,695)
Employee benefit costs	24	(4,235)	(3,931)
Depreciation and amortization	25	(1,195)	(1,145)
Other operating income	26	(334)	(313)
Profit from operating activities before tax		**1,057**	**1,042**
Financial expenses	27	(196)	(242)
Financial income	28	74	86
Profit before tax		**935**	**886**
Income tax expense	29	(173)	(152)
Profit for the year		**762**	**734**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK million)	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Profit for the year	**762**	**734**
Actuarial gains/losses on liabilities related to employee benefits	(12)	11
Other comprehensive income for the year (items that are not reclassified to profit or loss)	**(12)**	**11**
Cash flow hedging	(121)	70
Relating deferred income tax	23	(13)
Other comprehensive income for the year (items that may be reclassified to profit or loss)	**(98)**	**57**
Total comprehensive income for the year	**652**	**802**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK million)	Share capital	Share premium	Reserve fund	Hedged cash flow fund	Actuarial gains/losses	Accumulate losses (profit)	Total equity
Balance as at 1 January 2017	**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**
Impact of implementation IFRS°	**-**	**-**	**-**	**-**	**-**	**(4)**	**(4)**
Balance as at 1 January 2018	**8,494**	**197**	**156**	**74**	**(4)**	**(516)**	**8,401**
Profit for the period	-	-	-	-	-	762	762
Other comprehensive income for the year	-	-	-	(98)	(12)	-	(110)
Comprehensive income for the year - total	**-**	**-**	**-**	**(98)**	**(12)**	**762**	**652**
Allocation to the reserve fund	-	-	36	-	-	(36)	-
Transaction with owners for the year - total	-	-	36	-	-	(36)	-
Balance as at 31 December 2018	**8,494**	**197**	**192**	**(24)**	**(16)**	**210**	**9,053**

° application of the new IFRS, see Note 3.1.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK million)		Year ended 31 Dec 2018	Year ended 31 Dec 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax		935	886
Dividend income and the share of profits	22	(157)	(144)
Financial expenses		124	134
Profit from the sale of non-current assets		(169)	(165)
Depreciation and amortization of non-current assets	25	1,195	1,145
Changes in impairments of non-current assets		83	38
Changes in allowances for doubtful accounts		9	3
Change in provisions		(82)	(117)
Foreign exchange rate gains		(1)	(9)
Change in provisions for investments in subsidiaries, associates and joint ventures		(2)	(4)
Others		10	38
Cash flows from operating activities before changes in working capital		**1,945**	**1,805**
Change in trade receivables		(149)	(53)
Change in inventories		(10)	(55)
Change in other assets		(255)	31
Change in trade payables		297	(84)
Change in other payables		38	(80)
Total changes in working capital		**(79)**	**(241)**
Cash flows from operating activities		**1,866**	**1,564**
Interest paid		(112)	(137)
Returned income tax overpayment /(Income tax paid)		(23)	17
Dividends received		5	115
Net cash flows from operating activities		**1,736**	**1,559**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment		(2,307)	(1,418)
Income from property, plant and equipment sold		249	197
Payments for intangible assets		(118)	(164)
Interest received	28	-	-
Received subsidies for acquisition of assets		18	-
Payments for acquisition of subsidiaries and associates and joint ventures		(69)	(80)
Net cash flows (used in) from investment activities		**(2,226)**	**(1,465)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the bonds issue		998	-
Proceeds from loans and borrowings		171	88
Repayments of loans, borrowings and bonds		(516)	(482)
Purchase of non-controlling interest		(32)	-
Net cash flows from financing activities		**621**	**(394)**
Net (decrease) in cash and cash equivalents		**130**	**(300)**
Cash and cash equivalents at the beginning of the reporting period	12	465	765
Cash and cash equivalents at the end of the reporting period	**12**	**595**	**465**

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 2018, the Company's reported share capital of CZK 8,494 million which was fully paid in.

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

The financial statements were prepared as of 31 December 2018. The reporting period is the calendar year from 1 January 2018 to 31 December 2018.

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 structured into three principal units:

- Transport of complete trains,
- Transport of individual wagon loads,
- Additional services related to transportation offered to customers.

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.

1.4. 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.

The Consolidated group of České dráhy for the financial year 2018 consists of following companies. In year 2018 there were share additions of the company ČD – Telematika a.s. in the amount of 1,78 % to the share 70,96 % and increase 22 % in the company ČD Logistics, a.s.:

Name of the entity	Ownership of ČD, a. s. 2018 (%)	Ownership of ČD, a. s. 2017 (%)	Type of influence	Registered office	Corporate ID
ČD - Informační Systémy, a.s.	100.00	100.00	Control	Pernerova 2819/2a , 130 00 Prague 3	24829871
ČD-Telematika, a.s.	70.96*	69.18	Control	Pernerova 2819/2a , 130 00 Prague 3	61459445
Výzkumný Ústav Železniční, a.s.	100.00	100.00	Control	Novodvorská 1698, 142 01 Prague 4	27257258
JLV, a.s.	38.79	38.79	Significant	Chodovská 3/228, 141 00 Prague 4	45272298
DPOV, a.s.	100.00	100.00	Control	Husova 635/1b, 751 52 Přerov	27786331
ČD Cargo, a.s.	100.00	100.00	Control	Jankovcova 1569/2c, 170 00 Prague 7	28196678
Dopravní vzdělávací institut, a.s.	100.00	100.00	Control	Husitská 42/22, 130 00 Prague 3	27378225
ČD travel, s.r.o.	51.72	51.72	Control	28.října 372/5 , 110 00 Prague 1	27364976
ČD Relax, s. r.o.	51.72	51.72	Control	28.října 372/5, Staré město,110 00 Prague 1	05783623
ODP-software, spol.s r.o.	100.00	100.00	Control	Pernerova 2819/2a,Žižkov, 130 00 Prague 3	61683809
CHAPS spol. s r.o.	100.00	100.00	Control	Bráfova 1617/21, 616 00 Brno	47547022
ČSAD SVT Praha , s.r.o.	100.00	100.00	Control	Křižíkova 4-6, 186 00 Prague 8	45805202
SVT Slovakia s.r.o.	80.00	80.00	Control	Partizánska 97, 974 01 Banská Bystrica, Slovakia	36620602
INPROP, s.r.o.	100.00	100.00	Control	Rosinská cesta 12, 010 08 Žilina, Slovakia	31609066
Smíchov Station Development, a.s.	51.00	51.00	Joint Control	U Sluncové 666/12a, 186 00 Prague 8 – Karlín	27244164
Žižkov Station Development, a.s.	51.00	51.00	Joint Control	U Sluncové 666/12a 186 00 Prague 8 – Karlín	28209915
Masaryk Station Development, a.s.	34.00	34.00	Significant	Na Florenci 2116/15, 110 00 Prague 1	27185842
CD Cargo Germany GmbH	100.00	100.00	Control	Kaiserstrasse 60, 60329 Frankfurt nad Mohanem, SRN	HRB 73576
CD Cargo Austria GmbH	100.00	100.00	Control	Rotenturmstraße 22/24, 1010 Wien, Austria	FN 291407s
CD Cargo Poland Sp. z o.o.	100.00	100.00	Control	Ul. Grzybowska nr. 4, lok. 3, 00-131 Warsaw, Poland	140769114
CD Cargo Slovakia, s.r.o.	100.00	100.00	Control	Seberíniho 1, 821 03 Bratislava, Slovakia	44349793
ČD Logistics, a.s.	100.00*	78.00	Control	Opletalova 1284/37, 110 00 Prague 1	27906931
Terminal Brno, a.s.	66.94	66.94	Control	K terminálu 614/11, 619 00 Brno	28295374
ČD-DUSS Terminál, a.s.	51.00	51.00	Control	Lukavecká 1189, 410 02 Lovosice	27316106
RAILLEX, a.s.	50.00	50.00	Joint Control	Americká 525/23, Prague 2, Vinohrady, PSČ 120 00	27560589
BOHEMIAKOMBI, spol. s r.o.	30.00	30.00	Significant	Opletalova 6, 110 00 Prague 1	45270589
Ostravská dopravní společnost, a.s.	50.00	50.00	Joint Control	U Tiskárny 616/9, 702 00 Ostrava	60793171
Ostravská dopravní společnost - Cargo, a.s.	20.00	20.00	Significant	U Tiskárny 616/9, 702 00 Ostrava	05663041
Auto Terminal Nymburk, s.r.o.	100.00	100.00	Control	Jankovcova 1569/2c, PSČ 170 00 Prague 7	24234656
České dráhy, a.s.	-	-	-	Nábřeží L.Svobody 12/1222, 110 15 Prague 1	70994226

1.5. KEY MANAGEMENT
The concept of key management mainly concerns the members of the Statutory and Supervisory Bodies of the individual Company companies. More details about individual organs is presented in Note 1.8.

1.6. 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 revenue from freight transport. Detailed relationships are disclosed in Notes 30.7 and 30.8.

1.7. 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.

1.8. 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 2018 was following:

Board of Direct

Chairman	Ivan Bednárik
Member	Zdeněk Škvařil
Member	Bohumil Rampula

Supervisory Body

Chairman	Miroslav Kupec
Member	Jan Kasal
Member	Radek Nekola
Member	Marta Urbancová
Member	Roman Onderka
Member	Jiří Švachula

On 24 September 2018, 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 Pavel Krtek, as a member of the Supervisory Body of ČD Cargo, a.s., with effect from 24 September 2018.

Radek Nekola the employees of ČD Cargo, a.s., a member of the Supervisory Board of ČD Cargo, a.s., was re-elected, with effect from 1 December 2018.

Marta Urbancová the employees of ČD Cargo, a.s., a member of the Supervisory Board of ČD Cargo, a.s., was re-elected, with effect from 1 December 2018.

Audit Committee

Chairman	Oldřich Vojíř
Member	Miroslav Zámečník
Member	Libor Joukl

2. Significant Accounting Policies

2.1. 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.

2.2. 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.

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

2.3. REVENUE RECOGNITION

2.3.1. Revenue from contracts with customer
The Company in 2018 implemented IFRS 15 - Revenue from contracts with customers. For the purpose of the first application, the company chose a retrospective modified method that does not require the adjustment of comparable data.

To identify any performance to the customer all customer contracts are initially analysed. Subsequently, the transaction price is determined, which is allocated in the case of more identified transactions according to the relative separate sale price. Following this, the revenue from individual transaction is recognized in the appropriate amount either at a certain point in time, or over the contract life on an ongoing basis (it may be reported over several accounting periods). Revenues are reduced by expected returns from customers, rebates and other similar discounts.

Revenue is recognized in the amount that reflects the consideration to which the company expects to be entitled in exchange for services. Revenue is recognized net of value added taxes. Revenue is recognized when the services are transferred to the customer, at the transaction price. Services and goods provided in a bundle together with railway transportation services are considered to be a single performance obligation

Railway transportation services - Sales of railway transportation services are recognized in the accounting period in which the services are rendered based on the stage of completion of an individual transaction determined by the actual number of days of transportation spent in the reporting period relative to the total number days of transportation.

Transaction price has both fixed and variable considerations. The fixed part represents the transaction price without consideration of fees and penalty fees. If the price per supplied service by the Group is higher than the received payment for the service, the contract asset is booked. If the payment for the service is higher than the price of the service provided, the contract liability is booked. The variable consideration exists in the form of fees and penalty fees connected with the inappropriate fulfilment of the contract liability from the Group to the customer i.e. distortion of time length of the transportation, damages to the transported goods, etc. In case of variable consideration, revenues are recognized to the extent to which it is highly probable that the revenue item is not subject to its reversal.

2.3.2. Other revenue

Dividend and interest income
If the payment is probable, revenue from dividends is recognized when a legal entitlement to receive a payment occurs.

Interest revenue is recognized 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.

Revenues from lease of rolling stock
The Company leases out rolling stock to third parties for a period varying from days to five years. Revenue from operating leases of rolling stock is recognized on a straight-line basis over the term of the lease.

2.3.3. Revenue recognition under IAS 18
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. Sales of services are recognized when services are rendered to counterparties.

Revenues related to transportation services are recognized in the period in which the services are provided by reference to the stage of completion of the service.

2.4. 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 recognized 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 recognized 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 recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized 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 recognized as an expense in the period in which they are incurred.

2.4.1. Sales 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 recognized immediately. The exception is when the loss is compensated by future lease payments set out below market price In this case, the loss must be postponed and offset in relation to the lease payments over the intended period of use of the asset.

2.5. FOREIGN CURRENCIES
Given the economic substance of transactions and the environment in which the Company operates, the functional and presentation currency used is the Czech crown (CZK).

Transactions denominated in foreign currencies are recorded at the 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 recognized 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 recognized directly in equity and reclassified to profit or loss when the hedged underlying item is settled.

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

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

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

2.7. GRANTS
Government grants are not recognized 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 recognized as a reduced cost of non-current assets in the statement of financial position.

Other government grants are recognized 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 recognized in profit or loss in the period in which they become receivable.

2.8. EMPLOYEE BENEFIT COSTS
Employee benefit costs predominantly include payroll costs, payments 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 unrecognized 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.

2.9. TAXATION
The income tax includes current tax payable and deferred tax.

2.9.1. 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.

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

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

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

2.9.3. Current Tax Payable and Deferred Tax for the Period
Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss.

2.10. 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 recognized 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 recognized 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 Company defines components as follows: R3,R2 and R1 repairs relate to locomotives and review repairs relate to rail carriages. In addition, since 2018 new types of D3, D2 and D1 repairs have been implemented for locomotives, concerning the inspections and repairs of traction motors. Radio stations belongs to the components as well. For the cargo vehicles, the Company registers components as the inspection repairs and wheelsets.

Impact of the above-mentioned changes to the financial statements for the year 2018, is stated in the chapter 4.1.

The Company determined a depreciation plan for components of railway vehicles which is based on a plan for R3, R2 and R1 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 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 R3, R2 and R1 repairs of traction vehicles and inspection repair of wagons. After reaching the maximum mileage, it is necessary to undertake a new major (R3) or general (R2) 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.

Within the repair type R3 (main repair) of locomotives there are activities that relate to repair type R2 (overhauls repair), that is why it was separated from R3.

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 derecognized 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 recognized in profit or loss.

2.11. INTANGIBLE ASSETS

2.11.1. Separately Acquired Intangible Assets

Intangible assets acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortisation is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization 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 derecognized 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 recognized in profit or loss when the asset is derecognized.

2.12. 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 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 recognized 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 recognized immediately in profit or loss.

2.13. 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 revenue 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. In this case, the Company usually controls 20-50 % of the voting rights.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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.

However, when the Company's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

2.14. 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. Inventory is mainly held for own use rather than for re-sale.

2.15. PROVISIONS

Provisions are recognized 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 recognized 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 recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.16. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized when the Company 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 recognized immediately in profit or loss.

In 2018, the Company implemented IFRS 9 - Financial Instruments. For the purpose of its first application, the Company chose a retrospective modified method that does not require comparative adjustment in 2017. According to IFRS 9, financial assets are classified in the following three categories: financial assets at amortized cost, financial assets at fair value through profit or loss, or financial assets at fair value through other comprehensive income. Classification depends on how the Company manages financial assets and on the nature of the contractual cash flows of a particular financial asset.

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

As a result of the application of IFRS 9 as of 1 January 2018, the classification of financial instruments was changed without accounting impact. The change of classification can be seen in Note 31.1.

In 2017, financial assets were classified under IAS 39 into four categories: fair value financial assets recognized in profit or loss, held-to-maturity investments, available-for-sale financial assets, loans and receivables. Classification depends on the nature of financial assets and purpose of use and is determined at initial recognition.

In 2017, financial liabilities were classified under IAS 39 as financial liabilities at fair value through profit or loss or as other financial liabilities.

2.16.1. Effective Interest Method

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

2.16.2. Financial assets at fair value through profit or loss

If financial assets are designated for trading or are designated as at fair value through profit or loss on initial recognition, in that case are classified at fair value through profit or loss. In this category are also included financial assets whose contractual cash flows do not represent exclusively the payment of principal and interest on the outstanding amount of the principal.

In this category, the Company reports financial derivatives for trading in other financial assets.

2.16.3. Financial assets are measured at fair value through other comprehensive income

Since 2018, according to IFRS 9, financial assets which are measured at fair value in other comprehensive income are capital investments that are not held for trading. The Company includes such shares assets that are not traded on an active market Revenue from dividends from capital investment are recognized in profit or loss if the Company obtains the right to receive the dividend.

Under IAS 39 in 2017, these financial assets were classified as available-for-sale financial assets. These assets were defined as non-derivative financial assets that were either designated as available-for-sale or not classified as (a) loans and receivables, (b) investments held to maturity, or (c) financial assets at fair value through profit or loss. Between included shares that were not traded on the active market and reported them at their cost less impairment losses because their fair value could not be measured reliably.

2.16.4. Financial assets at amortized costs

Loans and receivables (including bank balances) are financial assets held under a business model that are intended to collect contractual cash flows that represent only principal and interest payments on unpaid principal amounts. For this reason, the Company recognises these assets at amortised cost using the effective interest method, less impairment losses. These assets arise when the Company provides cash, goods or services directly to the borrower without planning to trade with the receivable.

In 2017, the Company measured loans and receivables at net book value using the effective interest method less impairment losses.

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

2.16.5. Impairment of Financial Assets
Financial assets, other than those at FVTPL, will be assessed for the expected credit losses for the year 2018 at the time of recording the asset in the accounts.

Full model (3 stage impairment model): At initial reporting, a financial asset is included in Tier 1 for which an impairment loss is recognized at the level of the expected 12-month credit loss. During the life of the financial asset, the Company identifies whether there has been a significant increase in credit risk. If so, such financial asset is transferred to a Tier 2 for which an impairment loss is recognized at the level of the expected lifetime loss. In the case of credit counterparty default, such financial asset is transferred to Tier 3. At this level, interest income on a financial asset is reported from the carrying amount of the asset after taking the impairment into account using the original effective interest rate.

For the purpose of determining the expected credit losses, the Company applies a simplified IFRS 9 approach that uses the lifetime expected loss measurement for all short-term receivables from both business and short-term finance lease receivables.

The simplified model is applied to short-term business receivables that do not have a significant financing component. Based on a matrix of impairment that includes historical inputs and inputs with future expectations, the Company calculates provisions for portfolio-rated receivables.

In the case of receivables being individually assessed, the Company considers the following factors that affect the ability of the debtor to meet its obligations:
- Future outlook;
- Payment Morality;
- Customer knowledge (eg advance payments).

The Company considers the potential impairment of cash and cash equivalents to be insignificant due to the high credit quality as documented by the investment external rating of the bank's houses with which the company cooperates.

In 2017, 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 recognized 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 recognized, the previously recognized 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 recognized.

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

Reconciliation of impairments
The following table compares the amounts of impairments for the prior period that were measured in accordance with loss model the due to IAS 39 with the new expected credit loss that is determined in accordance with the expected credit loss model under IFRS 9 as of 1 January 2018:

(CZK million)	Impairments before changes in accounting policy as at 31 Dec 2017	Change in impairments due to transition to IFRS 9	Expected credit loss under IFRS 9 as at 1 Jan 2018
Financial asset valuation category	–	–	–
Short-term financial assets	–	–	–
Trade receivables	138	4	142

Management assessed implementation impact of IFRS 9 on category "Other financial assets" and recognized no impairment in respect of those assets.

2.16.6. 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 derecognition 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 recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

2.16.7. Own 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 recognized at the proceeds received, net of direct issue costs.

2.16.8. 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 recognized in profit or loss.

In this category, the Company reports derivatives recognized under other financial liabilities.

2.16.9. Other Financial Liabilities at amortized cost
In 2018, in accordance with IFRS 9, borrowings, bonds, supplied credits and other financial liabilities measured at fair value through profit or loss are classified and measured as financial liabilities at the amortized cost.

In 2017, under IAS 39, other financial liabilities were measured at netbook value usin the effective interest method.

The Company did not identify any significant changes in the fair value of financial liabilities during the implementation of IFRS 9.

2.16.10. 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 derecognized and the consideration paid and payable is recognized in profit or loss.

2.16.11. 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 recognized 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 recognized in profit or loss immediately unless the derivative is designated as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Company classifies derivatives that do not qualify for hedging derivatives as at FVTPL.

2.16.12. 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.

Since 2018, according the IFRS 9 Company has been monitoring the hedging ratio, inefficiency sources and the impact of credit risk. Hedge accounting corresponds to the Company's risk management strategy. According to IFRS 9, the Company does not separate the internal value of interest rate and commodity options and the spread from currency derivatives as collateral. In 2017, the Company met the hedge accounting conditions of IAS 39.

2.16.13. Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. Since 2018, because of the IFRS 9, the Company does not divide the cost of hedge accounting, provided that the costs are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statement of profit or loss as the recognized 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 recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

The Company terminates prospectively the entire hedging relationship in the following cases: the hedging relationship ceases to meet the risk management objectives under which it becomes eligible for hedge accounting or ceases to meet the other eligibility criteria (even after taking into account any possible rebalancing of the hedging relationship), or if the hedging instrument has been sold or terminated in relation to the entire amount that was part of the hedging relationship; or if the economic relationship between the hedged item and the hedging instrument ceases to exist; or where the development of credit risks begins to dominate the changes in value resulting from the economic relationship; or if the hedged cash flows (for the full amount of hedge) can no longer be considered highly probable.

The Company will terminate prospectively part of the hedging relationship if: part of the volume of the hedged item ceases to be part of the hedging relationship as a result of the hedge ratio or if only part of the volume of the future transaction is not likely to be in the event that a portion of the hedge accounting is discontinued, the fair value of the derivative (or part thereof relating to the terminated portion of the hedging relationship) is recognized in the income statement.

2.16.14. Financial Derivatives 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 recognized 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 2018

During the year ended 31 December 2018 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 9 – Financial instruments	1 January 2018
IFRS 15 - Revenue from Contracts with Customers	1 January 2018
IFRS 2 – Amendment IFRS 2 – Classification and valuation of transactions related to shares	1 January 2018
IFRS 4 – Amendment IFRS 4 – Use of IFRS 9 Financial instruments jointly with IFRS 4 Insurance contracts	1 January 2018
IAS 40 – Amendment IAS 40 – Transfer of investments into property	1 January 2018
Yearly improvement of IFRS – cycle 2014 -2016	1 January 2018
IFRIC 22 - Foreign Currency Transactions and Advance Consideration	1 January 2018

Cumulative impact of changes as of 1 January 2018 due to the adoption of the standards IFRS 15 and IFRS 9 is as follows:

(CZK million)	31 Dec 2017 (recognized)	Change impact IFRS 15	Impact of adaptation IFRS 9	1 Jan 2018
CURRENT ASSETS				
Trade receivables	1,581	-	(4)	1,577
NON-CURRENT ASSETS				
Deferred tax liability	1,499	-	(1)	1,498
NON-CURRENT PAYABLES				
Provisions	237	(11)	-	226
Other liabilities	420	11	-	431
EQUITY				
Retained earnings	(512)	-	(3)	(515)

Impact of the implementation of IFRS 15 to the income statement:

(CZK million)	2018 (recognized)	Balance without adoption IFRS 15	Adoption impact
Revenue	12,282	12,284	(2)
Other operating income	478	480	(2)
Other operating expenses	(334)	(338)	4

Reimbursements of damages for intrastate and international transportation were before the adoption of IFRS 15 presented as a part of "Other operating expenses". After the adoption of IFRS 15, the reimbursements of damages decrease the amount of "Revenue". This came to the amount of CZK 4 million as of 31 December 2018.

(CZK million)	2018 (recognized)	Balance without adoption IFRS 15	Adoption impact
Revenue	12,282	11,898	384
Other operating income	478	860	(384)

Item "Rental income" in the amount of CZK 384 million from rail vehicles was reclassified from "Other operating income" to "Revenue".

(CZK million)	2018 (recognized)	Balance without adoption IFRS 15	Adoption impact
Revenue	12,282	12,303	(21)
Other operating income	478	477	1
Other operating expenses	(334)	(354)	20

Revenue in the income statement is reduced by CZK 21 million due to reclassification of provision for complaints from "Other operating expenses".

(CZK million)	31 December 2018 (recognized)	Balance without adoption IFRS 15	Adoption impact
Short-term provisions	205	237	(31)
Other liabilities and contract liabilities short-term	842	811	31

The Company changed presentation of the below-stated items in the Statement of financial position in relation to the contracts with the customers as follows:

- "Refunds liabilities" in the amount of CZK 31 million related to the complaints and levelling are newly presented as part of the "Other liabilities and contract liabilities". It was presented as part of "Provisions" in 2017 (CZK 11 million as of 31 December 2017).

Changes triggered by implementation of IFRS 9:

- The Group creates an impairment for accounts receivables not yet due based on the expected rate of default derived from historical experience. The impact on the calculation of the expected credit loss provision as of 1 January 2018 due to the change was CZK 4 million.
- The adoption of IFRS 9 as of 1 January 2018 led to some changes in the classification categories of financial instruments, with no impact on their presentation on the face of the statement of financial position and no material impact on measurement.

Adoption of the other, above-stated standards and interpretations during the accounting period did not have significant impact on the Company.

3.2. STANDARDS AND INTERPRETATIONS USED BEFORE THEIR EFFECTIVE DATES

The Company did not apply any standard or interpretations before their effective dates.

3.3. STANDARDS AND INTERPRETATIONS THAT WERE PUBLISHED AND NOT YET USED BY THE COMPANY

As of the date of the financial statements, the following standards and interpretations were published that were not yet effective and which the Company did not use before its effective date.

Amendments, new and revised standards and interpretations	Effective for annual periods beginning on or after
IIFRS 16 – Leases	1 January 2019
IFRS 17 – Insurance contracts	1 January 2021*
IFRS 9 – Amendments of IFRS 9 – Early repayment with negative compensation	1 January 2019*
IFRS 10, IAS 28 – Amendment of IFRS 10 a IAS 28 – Sale or deposit of assets between the investor and its affiliated or joint company	Date will be determined*
IAS 28 – IAS 28 Amendment – Long-term interests in affiliated and joint companies	1 January 2019*
Yearly improvement of IFRS – cycle 2015 -2017	1 January 2019*
IFRIC 23 – Uncertainty over Income Tax Treatments	1 January 2019*

*) Standards, amendments and interpretations, that were not yet approved for the use as EU-adopted

The Company expects to present significant number of concluded rental contracts arising from the standard requirements of IFRS 16 in the Statement of financial position. Standard IFRS 16 will be implemented by the Company as of 1 January 2019 set within the standard. The Company assessed the impact of the adoption of the standard. From the results of performed analysis, it is calculated that the Company's assets increases by CZK 1,904 million and Company's liabilities increases by CZK 2,365 million (short-term part is CZK 547 million). Impact on the retained earnings is calculated on CZK 461 million. Part of the amount is also CZK 409 million that represents the provision for loss-making contract concluded in 2014 (see chapter 16). Due to the implementation of the IFRS 16, the contract will be classified as operating lease and the remaining part of the provision will be presented as decrease of the rights-of-use item. The Company will use the modified retrospective method with two recognition and measurement exemptions applied: short-term lease; and the leases for which the underlying assets of a low value.

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 recognized 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.

In 2018, there was a change in the Company's accounting estimate when a new maintenance order was implemented for traction vehicles, based on which original, main and overhauls repairs have been replaced by R3, R2 and R1 type repairs, where R3 has the largest scope of work corresponding to the original main repair. R2 repair with its scope corresponds to the overhauls repair, the R1 repair has been carried out again, where the scope of work is less than for the overhauls repair. After the implementation of new types of repairs, the limit of kilometrage for individual repairs was adjusted, with the implementation of R1 type repairs limits for R3 and R2 repairs were extended. In addition, new types of D3, D2 and D1 repairs have been implemented for locomotives, concerning the inspections and repairs of traction motors. Depreciation is carrying out based on hourly operating hours. Impact of the implementation of the new maintenance order resulted in decrease of depreciation in year 2018 by CZK 67 million compared to year 2017.

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 (see Note 5).

5. Property, Plant and Equipment

Cost (CZK million)	Balance at 1 Jan 2017	Additions	Disposals	Transfers	Balance at 31 Dec 2017	Additions	Disposals	Transfers	Balance at 31 Dec 2018
Land	96	21	-	-	117	1	-	-	118
Constructions	1,553	44	(1)	2	1,598	19	-	3	1,620
Individual movable assets	37,543	1,156	(1,367)	69	37,401	2,058	(2,017)	137	37,578
- Machinery, equipment, and furniture and fixtures	442	32	(4)	5	475	24	(1)	1	499
*- Vehicles**	36,954	1,124	(1,362)	64	36,780	2,034	(2,017)	136	36,933
- Vehicles acquired under finance leases	140	-	-	-	140	-	-	-	140
- Other	7	-	(1)	-	6	-	-	-	6
Assets under construction	134	156	(2)	(71)	217	291	(7)	(140)	361
Prepayments	-	30	-	-	30	183	-	-	213
Total	**39,326**	**1,407**	**(1,370)**	**-**	**39,363**	**2,552**	**(2,025)**	**-**	**39,890**

Accumulated amortization, depreciation and impairments (CZK million)	Balance at 1 Jan 2017	Additions	Disposals	Depreciation	Balance at 31 Dec 2017	Additions	Disposals	Transfers	Depreciation	Balance at 31 Dec 2018
Constructions	843	37	(1)	-	879	39	-	-	-	918
Individual movable assets	24,556	1,022	(1,235)	37	24,380	1,069	(1,992)	-	82	23,539
- Machinery, equipment, and furniture and fixtures	311	20	(4)	-	327	25	(1)	1	-	352
*- Vehicles**	24,208	997	(1,230)	37	24,012	1,039	(1,991)	(1)	82	23,141
- Vehicles acquired under finance leases	31	5	-	-	36	5	-	-	-	41
- Other	6	-	(1)	-	5	-	-	-	-	5
Assets under construction	3	-	-	2	5	-	-	-	1	6
Total	**25,402**	**1,059**	**(1,236)**	**39**	**25,264**	**1,108**	**(1,992)**	**-**	**83**	**24,463**

Net book value (CZK million)	Balance at 1 Jan 2017	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Land	96	117	118
Constructions	710	719	702
Individual movable assets	12,987	13,021	14,039
- Machinery, equipment, and furniture and fixtures	131	148	147
*- Vehicles**	12,746	12,768	13,792
- Vehicles acquired under finance leases	109	104	99
- Other	1	1	1
Assets under construction	131	212	355
Prepayments	-	30	213
Total	**13,924**	**14,099**	**15,427**

*Vehicles purchased using sale and are presented in the financial statements under the „Vehicles". Their net book value amounted to CZK 3,101 million as of 31 December 2017, and CZK 3,185 million as of 31 December 2018. Liabilities arising from these financial leasebacks are part of Note 15.2 "Liabilities from financial lease and lease-back". The Company's liabilities from sale and 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 Správa železniční dopravní cesty, s.o.

Vehicles mainly comprise rail vehicles (driving rail vehicles, freight cars) used for railway freight transport. As of 31 December 2018, these assets have been impaired by CZK 277 million, which was determined as a difference between net book value and the recoverable amount. Current year impact on statement of profit and loss is CZK 83 million.

In 2018, the biggest increases of movable tangible assets relate to the revision repairs (components) of trucks in the amount of CZK 927 million, repairs of R and D type (components) of the drive rail vehicles in the amount of CZK 457 million.

Further, during the financial year:

- 86 units of freight wagons Series Sggrrs - innowagon 80 ft (Innofreight technology) in the amount of CZK 265 million;
- Two vehicles of Vectron 383 series in the amount of CZK 201 million;
- Wheelsets (components) to trucks in the amount of CZK 179 million;
- Advances for new Vectron, Traxx and 744 series locomotives, amounting to CZK 270 million;

"Restricted cash" represents a grant in the total amount of CZK 292 million as part of "Other financial assets", provided in 2016 within the subsidy project to equip traction vehicles with the on-board part of the European Train Control System (ETCS). The grant is held by Komerční Banka on the subsidy account. In 2017, the grant was not drawn and the decrease in the amount is due to the revaluation of the amount denominated in Euros. As of 31 December 2017, the subsidy was classified as long-term.

In 2018, ČD Cargo, a.s., has received another part of the subsidy in the amount of CZK 68 million and has already paid out part of the grant for the acquisition of the first prototype of the drive railway vehicle in the amount of CZK 18 million. According to current assumptions the remaining grant should be used to supply prototypes for selected series of locomotives in 2019. For this reason, the remaining part of the grant received in the amount of CZK 330 million was recognized as short-term. Mother company ČD Cargo, a.s., has finished part of the tender with concluded contracts for the delivery of the ETCS security systems for railway vehicles. Tenders not yet finalized are in their final stage in respect to all of the grant contracts. At the moment, there are no signs, that the received grant will not be used in the current year in full amount.

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 year
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 2018 and as at 31 December 2017 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 (CZK million)	Balance at 1 Jan 2017	Additions	Disposals	Transfers	Balance at 31 Dec 2017	Additions	Disposals	Transfers	Balance at 31 Dec 2018
Software	653	87	-	29	769	108	-	52	929
Valuable rights	117	1	(6)	(11)	101	5	-	16	122
Assets under construction	21	77	-	(19)	79	28	(5)	(68)	34
Total	**791**	**165**	**(6)**	**(1)**	**949**	**141**	**(5)**	**-**	**1,085**

Accumulated amortization (CZK million)	Balance at 1 Jan 2017	Additions	Disposals	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Software	341	78	-	419	82	-	501
Valuable rights	88	7	(6)	89	5	-	94
Total	**429**	**85**	**(6)**	**508**	**87**	**-**	**595**

Net book value (CZK million)	Balance at 1 Jan 2017	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Software	312	350	428
Valuable rights	29	12	28
Assets under construction	21	79	34
Total	**362**	**441**	**490**

Transfers represent transfers of asset between asset groups (IAS 38) relating to software and royalties. Amortization of intangible assets has been recognized in the line Depreciation and amortisations in the statement of profit and loss. Assets under construction include items that are developed in cooperation with suppliers, thus these assets do not represent an internally developed assets.

As of 31 December 2018 the valuable rights include licenses with a total net book value of CZK 28 million. The most significant items are SAP licenses in the amount of CZK 11 million, Altworx licenses in the amount of CZK 8 million, Microsoft EA licenses, Exchange and Sharepoint in the amount of CZK 4 million and Virusfree licenses in the amount of 4 million CZK. In 2018, licenses were capitalised in the amount of CZK 21 million.

Additions occurred in 2018 relate to SAP IS upgrades amounted to CZK 33 million, development of operational information systems in the amount CZK 32 million, development of BI solutions totalling CZK 30 million, development of IS PRIS in the amount of CZK 21 million. The rest relates to other economic or operational tasks.

The length of amortization of intangible assets:

	Number of years
Software	3 – 10
Royalties	6 – 10

6.1. SOFTWARE

Net book value (CZK million)	Balance at 1 Jan 2017	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Operational and business tasks fall under the project PROBIS	188	218	262
SAP	48	41	43
IT Security Program	31	25	24
Other	45	66	99
Total	**312**	**350**	**428**

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 2018 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 28 million, software Altworx which monitors evaluation of utilization of the company's basic capacities (operating personnel, locomotives and wagons) in the amount of CZK 23 million, computerization of train drivers in the amount of CZK 17 million and development of SAP system and tasks.

7. Investments in Subsidiaries and Associates

Category (CZK million)	Investment* as of 31 December 2018	Investment* as of 31 December 2017
Subsidiaries	499	397
Joint ventures and associates	46	45
Total	**545**	**442**

* 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 (CZK million)	Registered office	Investment* as of 31 December 2018	Investment* as of 31 December 2017
CD Cargo Germany GmbH	Kaiserstrasse 60, 60329 Frankfurt nad Mohanem, SRN	1	1
CD Cargo Poland Sp. z o.o.	Grzybowska nr 4, lok. 3, 00-Warsaw, Poland	260	260
CD Cargo Austria GmbH	Rotenturmstraße 22/24, 1010 Wien, Austria	-	-
CD Cargo Slovakia, s.r.o.	Seberíniho 1, 821 03 Bratislava, Slovakia	138	69
Terminal Brno, a.s.	K Terminálu 614/11, 61900 Brno	49	49
ČD-DUSS Terminál, a.s.	Lukavecká 1189, 41002 Lovosice	2	2
ČD Logistics, a.s. **	Opletalova 1284/37, 11000 Prague 1	49	16
Auto Terminal Nymburk, s.r.o.	Jankovcova 1569/2c, 170 00 Prague 7	-	-
Total		**499**	**397**

* share value represents the net value of the investment consisting of the acquisition price of the lowly accrue value adjustments
** in the year 2018, 22 % share was purchased by the ČD Cargo, a.s in ČD Logistics, a.s., ČD Cargo is 100 % owner of the company ČD Logistics, a.s.

Name of the entity	Principal activities	Ownership percentage as of 31 Dec 2018	Ownership percentage as of 31 Dec 2017
CD Cargo Germany GmbH	Mediation of freight transportation services on behalf of and for ČD Cargo, a.s., and forwarding.	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%
CD Cargo Austria GmbH	Mediation of freight transportation services on behalf of and for ČD Cargo, a.s., and forwarding.	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%
Terminal Brno, a.s.	Operations of combined transport terminal in Brno.	66.93%	66.93%
ČD-DUSS Terminál, a.s.	Operations of combined transport terminal in Lovosice.	51%	51%
ČD Logistics, a.s.	Forwarding.	100%	78%
Auto Terminal Nymburk, s.r.o.	Forwarding and technical activities in transport.	100%	100%

* the Company is fully owned by CD Cargo Germany GmbH

7.2. INFORMATION OF JOINT VENTURES AND ASSOCIATES

Name of the entity (CZK million)	Registered office	Investment* as of 31 Dec 2018	Investment* as of 31 Dec 2017	Investment* as of 1 Jan 2017
BOHEMIAKOMBI, spol. s r.o.	Opletalova 6, 110 00 Prague 1	-	3	4
Ostravská dopravní společnost, a.s.	U Tiskárny 616/9, 702 00 Ostrava - Přívoz	18	18	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	27	23	-
Total		**46**	**45**	**29**

* 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 2018	Ownership percentage as of 31 Dec 2017	Ownership percentage as of 1 Jan 2017
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%	50%	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%	20%	-

7.3. SUMMARY OF FINANCIAL INFORMATION ON JOINT VENTURES AND ASSOCIATES

31 December 2018 (CZK million)	RAILLEX a.s.	BOHEMIAKOMBI, spol. s r.o.	Ostravská dopravní společnost, a.s.	Ostravská dopravní společnost - Cargo, a.s.
Total assets	**43**	**30**	**209**	**180**
Short-term assets	43	28	209	119
Long-term assets	-	2	-	61
Total liabilities	**24**	**22**	**163**	**42**
Short-term liabilities	24	22	163	42
Long-term liabilities	-	-	-	-
Net assets	19	8	46	138
The Company's share of net assets	**9**	**-**	**23**	**28**

14

31 December 2017 (CZK million)	RAILLEX a.s.	BOHEMIAKOMBI, spol. s r.o.	Ostravská dopravní společnost, a.s.	Ostravská dopravní společnost - Cargo, a.s.
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**

(CZK million)	2018	2017
Total income	1,383	1,299
Profit for the period	42	42
The Company's share of profit	**12**	**13**

8. Inventories

(CZK million)	31 Dec 2018	31 Dec 2017
Spare parts and other components for rail vehicles and locomotives	103	96
Spare parts for other machines, devices and equipment	56	62
Fuels, lubricants and other oil products	4	3
Work clothes, work shoes, protective devices	2	2
Other	28	25
Total cost	**193**	**188**
Write-down of inventories to their net realisable value	-	-
Total net book value	**193**	**188**

9. Trade Receivables

Trade receivables and contracted assets consist of the following items:

(CZK million)	31 December 2017	IFRS 9	1 January 2018	31 December 2018
Trade receivables	1,581	(4)	1,577	1,618
Total	**1,581**	**(4)**	**1,577**	**1,618**

(CZK million)	Category	Before due date	Past due date (days)					Total overdue	Total
			1 - 30	31 – 90	91- 180	181 -365	365 and more		
31 December 2018	Gross	1,514	131	27	2	4	83	247	1,761
	Allowances	(28)*	(13)	(14)	(1)	(4)	(83)	(115)	(143)
	Net	**1,486**	**118**	**13**	**1**	**-**	**-**	**132**	**1,618**
31 December 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**

* includes an amount of CZK 4 million due to the implementation of IFRS 9 as described in Note 3.1. and 9.1.

9.1. MOVEMENT OF ALLOWANCES FOR DOUBTFUL ACCOUNTS

Provisions for doubtful receivables (CZK million)	2018	2017
Allowances at 1 January 2018	**138**	**151**
Amounts adjusted in the opening balance of retained earnings *	4	-
Allowances at 1 January 2018 – impacted by IFRS 9	**4**	**-**
Set up of allowances – trade receivables	55	38
Use of impairments - trade receivables	(54)	(51)
Allowances at 31 December 2018	**143**	**138**

* the consequence of the implementation of IFRS 9 as of 1 January 2018, see Note 3.1.

10. Other Financial Assets

(CZK million)	31 Dec 2018	31 Dec 2017
Hedging derivatives	-	21
Restricted cash	-	276
Other financial assets	1	1
Other financial non-current assets	**1**	**298**
Hedging derivatives	8	75
Cash pooling Company	2	2
Receivables for damages and losses	7	16
Receivables for damages and losses - allowances	(4)	(13)
Restricted cash (see Note 5)	330	-
Other financial assets	150	22
Other financial assets - impairments	(18)	(13)
Other financial current assets	**475**	**89**
Total Other financial assets	**476**	**387**

Hedging derivatives and financial derivatives for trading are measured at fair value, other financial assets are measured at amortized cost

Item in the amount of CZK 120 million towards CD Cargo Poland, Sp. z o.o. is also booked as part of "Other financial assets". The item relates to the receivable from the not yet paid out dividends.

No provision for expected credit losses was made for individual financial assets in the category other financial assets in connection with IFRS 9.

11. Other Assets

(CZK million)	31 Dec 2018	31 Dec 2017
Prepayments	-	1
Non-current financial assets	**-**	**1**
Prepayments	29	25
Tax receivables – VAT	116	38
Prepaid expenses	39	37
Other	4	7
Other current financial assets	**188**	**107**
Total Other financial assets	**188**	**108**

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

12. Cash and Cash Equivalents

Cash and cash equivalents are measured at amortized cost in the balance sheet and tested for impairment under IFRS 9. The Company considers the potential impairment of these items to be insignificant due to the high credit quality of the cash deposits held by reputable financial institutions with a high investment credit rating.

14

(CZK million)	31 Dec 2018	31 Dec 2017
Cash in hand and cash in transit	2	2
Cash at bank *	593	463
Total**	**595**	**465**

* the contractual partners of the company are renowned banks with a high credit rating (required investment grade) with whom the Company cooperates on the basis of long-term and stable relationships
** from the point of view of IFRS 9, impairment losses on the Company's cash and cash equivalents were evaluated as insignificant

For the calculation of cash flows for the year ended 31 December 2018, dividend income from subsidiary CD Cargo Germany GmbH in the amount of CZK 32 million (2017: CZK 29 million) have been recognized as non-cash income and deducted from its obligations. Dividend from CD Cargo Poland sp. z o. o., was granted in the year 2018 in the amount of CZK 120 million, which is due in 2019, therefore it is reported under "Other financial assets".

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

(CZK million)	Short-term rating*	Long-term rating*	31 Dec 2018	31 Dec 2017
Citibank	P-1	A1	80	74
Česká spořitelna, a.s.	P-1	A2	1	1
Československá obchodní banka, a.s.	P-1	A1	306	180
ING Bank	P-1	Aa3	84	134
Komerční banka, a.s.	P-1	A1	19	31
Raiffeisenbank	P-2	A3	1	0
UniCredit Bank	P-2	Baa1	41	1
Všeobecná úvěrová banka a.s.	P-1	A2	61	42
Total			**593**	**463**

* Moody's bank rating is presented at the end of 2018

13. Equity

13.1. SHARE CAPITAL

As of 31 December 2018, 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

(CZK million)	31 Dec 2018	31 Dec 2017
Share premium	197	197
Statutory reserve fund	192	156
Cash Flow hedging reserve	(24)	74
Actuarial losses	(16)	(4)
Total	**349**	**423**

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

13.2.1. Cash flow hedging reserve

(CZK million)	2018	2017
Balance at the beginning of the year	**74**	**17**
Profit (loss) from revaluation	(50)	86
Reclassification to profit or loss	(71)	(16)
Total change in the cash flow hedging reserve	**(121)**	**70**
Related income tax	23	(13)
Balance at the end of the year	**(24)**	**74**

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 principle.

Reclassification from hedge reserve into profit or loss

Currency forwards and swaps – securing future income in foreign currencies (CZK million)	2018	2017
1 January 2018	**66**	**1**
Change in the fair value of the hedging derivatives	(38)	83
Reclassification to the income	(66)	(3)
Related corporate income tax – change	20	(15)
31 December 2018	**(18)**	**66**

Interest swaps – securing loans and lease contracts with variable rate (CZK million)	2018	2017
1 January 2018	**(6)**	**13**
Change in the fair value of the hedging derivatives	(13)	3
Reclassification to the financial expenses and income	(9)	(21)
Related corporate income tax – change	(1)	(2)
31 December 2018	**(29)**	**(7)**

Commodity options – securing prices for the purchases of oil and traction energy (CZK million)	2018	2017
1 January 2018	**15**	**2**
Change in the fair value of the hedging derivatives	-	2
Reclassification to the financial expenses and income	4	8
Related corporate income tax – change	4	3
31 December 2018	**23**	**15**

14. Trade Payables

Year (CZK million)	Category	Before due date	Past due date (days) 1 - 30	31 – 90	91- 180	181 -365	365 and more	Total past due date	Total
31. 12. 2018	Short-term	2,166	36	2	-	-	-	38	**2,204**
31. 12. 2017	Short-term	1,693	40	2	-	-	-	42	**1,735**

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

15. Loans, Borrowings and Bonds

(CZK million)		31 Dec 2018	31 Dec 2017
Liabilities from leaseback		964	1,225
Liabilities from financial leases		34	50
Loans from České dráhy, a.s.		281	352
Issued bonds		2,995	1,997
Total non-current		**4,274**	**3,624**
Liabilities form leaseback		418	414
Liabilities from financial leases		27	25
Loans from České dráhy, a.s.		74	73
Issued bonds		15	4
Total current		**534**	**516**
Total		**4,808**	**4,140**

Loans are initially recognized at fair value less transaction costs, in the following periods, loans are measured at amortized cost using the effective interest method; all differences between the consideration (less transaction costs) and the value of the installments are recognized in the consolidated income statement over the entire period of the loan.

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 2018 split into long-term part in amount of CZK 281 million and short-term part in amount of CZK 74 million.

Portions of long-term loans and borrowings, due within one year from the consolidated financial statements date are recognized 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 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 2018:

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 June 2021

Administrator	Unicredit Bank Czech Republic and Slovakia, a.s.
Date of issue	29 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

14

Administrator	Komerční banka, a.s.
Date of issue	20 July 2018
Trading	Bonds admitted to trading on a regulated market of the Prague Stock Exchange
Total nominal value	1,000,000,000 Kč
Nominal value of the bond	5,000,000 Kč
Interest rate	fixed interest income 2.55 %
Issue rate	100 %
Payment of interest income	annually retrospectively
Date of interest payment	20 July each year
Date of the final maturity	20 July 2025

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:

(CZK million)	Minimum lease payments		Present value of minimum lease payments	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Less than 1 year	502	513	445	439
From 1 to 5 years	944	1,218	857	1,090
5 years and more	144	191	141	185
Total	**1,590**	**1,922**	**1,443**	**1,714**
Minus future financial costs	(147)	(208)	-	-
Present value of min. leasing's repayments	**1,443**	**1,714**	**1,443**	**1,714**
In the financial statement position as:				
- short-term loans			445	439
- long-term loans			998	1,275
Total			**1,443**	**1,714**
In the financial statement position as:				
- financial lease liabilities			61	75
- leaseback liabilities			1,382	1,639
Total			**1,443**	**1 ,714**

The finance lease arising from acquisition of fixed assets is recognized as a non-cash transaction in the statement of cash flows. Instalments of finance lease are recognized as cash flows from financing activities.

Financial lease liabilities and leaseback liabilities are presented in financial Instruments in Note 31.3. Fair value of the finance lease liabilities is disclosed in the Note 31.11.1.

16. Provisions

(CZK million)	Balance at 31 Dec 2017	Adjustments to IFRS 15	Balance at 1 Jan 2018	Set-up	Use	Release	Balance at 31 Dec 2018
Provision for legal disputes	49	-	49	4	-	-	53
Provision for employee benefits	140	-	140	66	(51)	-	155
- of which long-term part	*80*		*80*				*101*
Provision for loss-making transactions	462	-	462	-	(53)	-	409
- of which long-term part	*409*		*409*				*350*
Other provisions*	75	(11)*	64	47	(66)	(6)	39
Total	**726**	**(11)**	**715**	**117**	**(170)**	**(6)**	**656**
– Long-term	*489*						*451*
– Short-term	*237*						*205*

* as a consequence of the implementation of IFRS 15, the provision for claims and balances in the amount of 11 million applied by customers reclassified as a contractual obligation, specifically the "Restitution obligation" under "Other liabilities", see Note 18.

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 53 million (in 2017: CZK 49 million.).

The largest part of the provision represents the provision for the dispute with the company AWT Čechofracht (AWTČ). AWTČ claims reimbursement for the direct damaged caused on the returned vehicles and lost profit for the period when AWTČ could not use the vehicles due to their repairs. Provision is as at 31 December 2018 in the amount of CZK 47 million (principal CZK 34 million, interest accrued in the amount CZK 13 million). The judicial proceedings started in the year 2013.

Other provisions as at 31 December 2018 include mainly provisions for damages and for restructuring. The provision for restructuring and optimization amounted to CZK 11 million as at 31 December 2018 will be used during the first half of 2019. According to the original plan, the optimization process was supposed to be completed by 31 December 2017, respectively in 2018, which was also noted in prior year's financial statements. Based on management decisions, the process of optimizing and streamlining internal processes has been slightly prolonged and will be completed in the first half of 2019. In accordance to this decision, the remaining unused portion of the restructuring provision as at 31 December 2018 of CZK 11 million will be used to cover the costs related to the completion of the optimization process in 2019. It relates mainly for expenses connected to the severance payments.

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 155 million as of 31 December 2018. In comparison with 2017, the balance of provisions increased mainly due to the increased average cost of the heath recovery holidays.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 numberof 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 2017 was CZK 462 million. At the end of 2018, it is CZK 409 million.

17. Other Financial Liabilities

(CZK million)	31 Dec 2018	31 Dec 2017
Hedging derivatives	25	1
Liabilities arising from supplier loans	5	24
Other	27	107
Other long-term financial liabilities	**57**	**132**
Hedging derivatives	13	4
Derivatives for trading	-	1
Liabilities arising from supplier loans	40	121
Other	122	138
Other short-term financial liabilities	**175**	**264**
Total other financial liabilities	**232**	**396**

Financial derivatives for trading are measured at fair value, other financial liabilities are measured at amortized cost.

The item "Other" includes 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 the Note 30.6.

18. Other Liabilities

Other liabilities and contingent liabilities consist of the following items:

(CZK million)	31 Dec 2018	31 Dec 2017
Received grant	-	292
Other	108	95
Other long-term liabilities	**108**	**387**
Advances received	-	1*
Payables to employees	292	257
Liabilities for social security and health insurance	144	124
Tax liabilities - tax withheld employees	44	36
Received grant	330	-
Other	-	2
Other short-term liabilities	**810**	**420**
Contractual liabilities	1*	0*
Refunds liabilities	31**	0**
Other short-term liabilities and contractual liabilities	**842**	**420**
Total other liabilities and contractual liabilities	**950**	**807**

* the value of the contractual liabilities presented in the line "Advance payments received" as at 31 December 2017 was CZK 1 million

** as at 31 December 2017 the value of the Reimbursement Commitments was CZK 11 million, before the implementation of IFRS 15 in 2017 was recognized under "Other provisions"

The Company received the grant in 2016 in the amount of CZK 292 million under the grant project equipment powered board part vehicles of European safety system ETCS. As of 31 December 2017, the grant was classified as long-term and presented as part of the item "Received grant". As of 31 December 2018, the grant was classified as short-term (further details in Note 5).

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 does not recognize past due liabilities to taxation authorities, social security authorities or health insurers past their due dates .

19. Contracts for Operating Lease

19.1. THE COMPANY AS A LESSEE

In 2018 Company's expenses arising from the leasing of railway wagons on the basis of individual contracts amounted to CZK 390 million in 2018 (CZK 348 million in 2017).

The Company's lease related to the Innofreight technology amounted to CZK 61 million in 2018 (CZK 39 million in 2017).

In 2018 Company's expenses arising from the property rental amounted to CZK 97 million (in 2017: CZK 98 million). In 2018, the Parent Company as a tenant recognized an amount of CZK 84 million arising from the lease of constructions and land in the Lovosice Logistics Centre (the same amount was recognized in 2017).

As of the balance sheet date 31 December 2018, the Company has concluded agreements for renting cars and real estate in the amount of CZK 3,157 million. Of which CZK 2,591 million relates to unpaid supplies. The remaining CZK 566 million was already paid on 31 December 2018. A substantial part of the liabilities for expenses in the amount of CZK 1,967 million represents the rent of railway rolling stock and superstructures.

Contractual obligations relating to rents (in millions CZK)	Min. leas. installments as of 31 December 2018	Min. leas. installments as of 31 December 2017
Less than 5 years	564	558
1-5 years	1,868	2,069
over 5 years	159	260
Contractual obligations in total	**2,591**	**2,887**

19.2. THE COMPANY AS A LESSOR

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

In 2018, income from short-term operating leases of movable assets amounts to CZK 339 million (in 2017: CZK 309 million).

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

19.3. CONTRACTUAL OBLIGATIONS

As at 31 December 2018, the Company concluded contracts for the purchase of property, plant and equipment and investment property in the amount of CZK 8,333 million, of which CZK 6,980 million relates to unpaid supplies out of which 3,181 represents investments to be paid in 2019 and 3,799 to be paid in subsequent years. The remaining amount of CZK 1,353 million was paid as of 31 December 2018. A significant part of the contract liabilities in the amount of CZK 6,797 million relates to investments in railroad vehicles.

As at 31 December 2017, 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 1,369 relates to unpaid supplies. The remaining amount of CZK 752 million was paid as of 31 December 2017. A significant part of the contract liabilities in the amount of CZK 1,142 million relates to investments in railroad vehicles.

20. Contingent Liabilities and Contingent Assets

20.1. BANK GUARANTEES ISSUED

Bank guarantees as of 31 December 2018 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 2018

In behalf of	Type of guarantee	Amount	Currency	Termination date	Reason for a bank guarantee
WestInvest Waterfront Towers, s.r.o., Jankovcova 1569/2c, 170 00 Prague 7, Holešovice	Warranty for rent	227,267.17	EUR	20.9.2019	Bank guarantee to meet all liabilities and obligations of tenant-based rental agreement with West Invest Waterfront Towers Ltd. - Lighthouse.
HYPARKOS, s.r.o., Rohanské nábřeží 678/25, 186 00 Prague 8	Warranty for rent	16,517,056	CZK	30.6.2019	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	19.9.2019	Warranty deed - operations other than transit (comprehensive guarantee) to ensure customs and tax debt, which means the obligation to pay duties, taxes and charges levied on imports, including their accessories, with the exception of fines.
Celní úřad pro Jihočeský kraj, Kasárenská 6, 370 21 České Budějovice	Customs guarantee	500,000	CZK	19.9.2019	Guarantor liability - comprehensive guarantee. Certificate of Guarantee issued to the South Bohemian Region Office for securing a customs debt and other fees.
Celní úřad pro Jihočeský kraj, Kasárenská 6, 370 21 České Budějovice	Customs guarantee	3,500,000	CZK	19.9.2019	Warranty deed for the purpose of collecting customs duties by the principal by the customs agent acting on the basis of direct representation. Certificate of Guarantee issued to the South Bohemian Region Office.

20.2. BANK GUARANTEES RECEIVED

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

In behalf of	Type of guarantee	Amount	Currency	Termination date	Reason for a bank guarantee
Siemens, s.r.o., Prague 13, Siemensova 1, PSČ 155 00	Unicredit Bank Czech Republik and Slovakia, a.s.	1,997,500	EUR	28.2.2019	Ensuring delivery of interoperable driving railway vehicles for the needs of ČD Cargo, Inc. and operability under warranty.
Siemens, s.r.o., Prague 13, Siemensova 1, PSČ 155 00	Unicredit Bank Czech Republik and Slovakia, a.s.	1,191,000	EUR	31.7.2020	Ensuring delivery of interoperable driving railway vehicles for the needs of ČD Cargo, Inc. and operability under warranty.
Siemens, s.r.o., Prague 13, Siemensova 1, PSČ 155 00	Unicredit Bank Czech Republik and Slovakia, a.s.	1,438,000	EUR	30.04.2021	Ensuring delivery of interoperable driving railway vehicles for the needs of ČD Cargo, Inc. and operability under warranty.
Wagony Swidnica SP. O.Z.O., Strzelinska 35, 50-100 Swidnica, Poland	Citibank Europe plc, organizační složka	2,408,000	EUR	31.05.2021	Ensuring delivery of 500 new EANOS railway wagons.
CZ Loko, a.s., Semanínská 580, 560 02 Česká Třebová	Československá obchodní banka, a.s.	42,727,500	CZK	24.05.2019	Ensuring delivery of new diesel locomotives for securing route transportation in ČD Cargo, a.s.
CZ Loko, a.s., Semanínská 580, 560 02 Česká Třebová	Československá obchodní banka, a.s.	17,670,000	CZK	28.08.2019	Ensuring modernisation of the selected locomotive (prototype) from the public contract "Implementation of the modernization of 50 locomotives of the 742 series".
CZ Loko, a.s., Semanínská 580, 560 02 Česká Třebová	Československá obchodní banka, a.s.	592,500	EUR	20.11.2020	Ensuring of the responsibilities during the phase of Switch-off of a selected locomotive (prototype) from the public contract "Execution of Modernization of 50 Locomotives of the 742 Series".
SMK, s.r.o., Dukelskych hrdinov 10/143, 960 01 Zvolen, Slovenská republika	Raiffeisenbank a.s.	8,000,000	CZK	30.05.2019	Ensuring the transfer of wagon parts of the Eas rail freight wagons to the obligations under the contract.
TATRAVAGÓNKA, a.s., Štefánikova 887/53, 05801 Poprad, Slovenská republika	Commerzbank Aktiengesel-lschaft, pobočka Praha	592,800	EUR	31.07.2019	Ensuring delivery of 80 new Zacns freight wagons.
Bombardier Transportation Gmbh, Eichhornstrasse 3, 10785 Berlin; Německo	Commerzbank Aktiengesel-lschaft, pobočka Praha	3,558,000	EUR	31.12.2021	Ensuring of delivery of up to 50 Traxx MS3 locomotives (BZ to the reserve for the first 10 locomotives).

21. Revenue

(CZK million)	2018	2017
Revenue from freight transportation:	**11,170**	**10,571**
Revenue from freight transportation - local	3,897*	3,712
Revenue from freight transportation – foreign	7,273*	6,859
– Revenue from freight transportation - Germany	2,427	2,211
– Revenue from freight transportation - Slovakia	1,317	1,261
– Revenue from freight transportation - Poland	1,201	1,193
– Revenue from freight transportation - Austria	725	559
– Revenue from freight transportation - Italy	202	235
– Revenue from freight transportation - Slovenia	195	195
– Revenue from freight transportation - Hungary	210	172
– Revenue from freight transportation - Romania	170	147
– Revenue from freight transportation - Kazakhstan	151	143
– Revenue from freight transportation - other countries	675	743
Other revenue from freight transportation:	**532**	**513**
– Other revenue from freight transportation - local	352*	328
– Other revenue from freight transportation - foreign	180*	185
– Other revenue from freight traffic identified over time	532	513
Other revenue related to transportation	**196**	**158**
Revenue from customer contracts total	**11,898**	**11,242**
Rental proceeds	384	0*
Total revenue from principal operations	**12,282**	**11,242**

* as of 1 January 2018, changed in relation to adoption of IFRS 15, see Notes 3.1. and 22.

Rental revenue income includes revenue from short term and occasional leases of freight wagons and traction vehicles.

Other revenue from freight transportation include mainly revenue 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.
- WOOD & PAPER 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)

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

Other companies

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

21.1. CONTRACT LIABILITIES AND REFUNDS LIABILITIES

Starting from 1 January 2018 the Company (see Note 3.1) under IFRS 15 recognises following contract liabilities (see Note 18) and refunds liabilities (see Note 18) relating to revenue from customers contracts:

Contract liabilities relating to revenue with customers* (CZK million)	31 Dec 2018	1 Jan 2018
Contract liabilities – advances received	1	1
Total contract liabilities	**1**	**1**

* as of 1 January 2018 changed due to IFRS 15 application, see Note 3.1. and 18.

Refunds liabilities* (CZK million)	31 Dec 2018	1 Jan 2018
Refunds liabilities	31	11
Total refunds liabilities	**31**	**11**

* as of 1 January 2018 changed due to IFRS 15 application, see Note 3.1., 16 and 18

21.2. REVENUE RELATING TO CONTRACT LIABILITIES

Revenue included in the opening balance of a contract liability (CZK million)	2018
Revenue from freight transport	1

21.3. REMAINING PERFORMANCE OBLIGATIONS

Remaining liabilities to Performance (CZK million)	31 Dec 2018
Revenue from freight transport	26
Other revenue from freight transport	2
Other revenue from principal activity	1
Other revenue from operating activity	2
Total	**31**

22. Other Operating Income

(CZK million)	2018	2017
Gain on sale of property, plant and equipment and property investments	100	22
Profit from disposal of unneeded assets	70*	143
Compensations for deficits and damage	53*	44
Contractual fines and default interest	5*	32
Exchange rate gains - operational	80	72
Changes in provisions	-	44
Changes in provisions for receivables	3	11
Changes in provisions for inventories	-	3
Dividends received	157	144
Rent revenue	0*	343
Other	10	26
Total other operating income	**478**	**884**

* As of 1 January 2018, changed in relation adoption of IFRS 15, see Note 3.1. and 21.

23. Purchased Consumables and Services

(CZK million)	2018	2017
Traction costs	**(1,258)**	**(1,182)**
– Traction fuel (diesel)	*(430)*	*(403)*
– Traction electricity	*(828)*	*(779)*
Payment for the use of railway route	**(978)**	**(1,222)**
Other purchased consumables and services	**(3,703)**	**(3,291)**
– Consumed material	*(302)*	*(297)*
– Consumed other energy	*(83)*	*(83)*
– Consumed fuel	*(9)*	*(8)*
– Repairs and maintenance	*(287)*	*(226)*
– Travel costs	*(41)*	*(39)*
– Telecommunication, data and postal services	*(56)*	*(51)*
– Other rental	*(141)*	*(131)*
– Rental for rail vehicles	*(669)*	*(623)*
– Transportation charges	*(1,494)*	*(1,251)*
– Services associated with the use of buildings	*(40)*	*(39)*
– Operational cleaning of rail vehicles	*(6)*	*(5)*
– Border area services	*(184)*	*(178)*
– Advertising and promotion costs	*(10)*	*(17)*
– Leases	*(11)*	*(10)*
– Infrastructure capacity allocation	*(28)*	*(26)*
– Operation, maintenance and other services related to IT	*(129)*	*(109)*
– Performance of fire brigade services	*(10)*	*(10)*
– Environmental services	*(8)*	*(7)*
– Other services	*(195)*	*(181)*
Total purchased consumables and services	**(5,939)**	**(5,695)**

Traction electricity in the period from 1 January 2018 to 31 December 2018 includes traction electricity purchased from České dráhy, a.s., in the amount of CZK 828 million (in 2017 CZK 779 million).

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

Cost of services provided by the Company's statutory auditor – PricewaterhouseCoopers are presented in following table.

(CZK million)	2018	2017
Obligatory audit of annual financial statements	(2)	(2)
Other services*	(3)	(3)
Total	**(5)**	**(5)**

* projects in warehouse optimization in the Company

24. Employee Benefit Costs

(CZK million)	2018	2017
Payroll costs	(2,996)	(2,775)
Pension benefits	(649)	(599)
Other social security and health life insurance	(365)	(338)
Contributions to the pension insurance and capital life insurance	(164)	(159)
Benefits resulting from the collective agreement	(24)	(28)
Other employees benefit costs	(37)	(32)
Total employee benefit costs	**(4,235)**	**(3,931)**

Other costs of employee benefits include mainly employee training costs.

Average recalculated registered number of employees:

	2018	2017
Employees	6,958	6,976
Key management	13	13
Total average recalculated registered number of employees	**6,971**	**6,989**

Key management consists of the Board of Directors, the Supervisory Board and the Audit Committee. For more detailed information, see Note 1.8.

Key management compensation:

(CZK million)	2018	2017
Short-term benefits	(18)	(21)
Pension benefits	(4)	(5)
Other social and health contributions	(2)	(2)
Total key management compensation	**(24)**	**(28)**

25. Depreciation and Amortisation

(CZK million)	2018	2017
Depreciation of property, plant and equipment	(1,108)	(1,060)
Amortisation of intangible assets	(87)	(85)
Total depreciation and amortization	**(1,195)**	**(1,145)**

26. Other Operating Expenses

(CZK million)	2018	2017
Change in other provisions related to other operating expenses	(83)	(39)
Contractual fines and default interest expenses	(12)*	(23)
Taxes and fees	(5)	(8)
Exchange rate losses – operational	(76)	(86)
Insurance	(75)*	(79)
Deficits, damages	(31)*	(21)
Other	(52)	(57)
Total other operating expenses	**(334)**	**(313)**

* As of 1.1.2018, changed due to IFRS 15 application, see Note 3.1.

Other operating expenses mainly include exchange rate losses and insurance expenses.

27. Financial Expenses

(CZK million)	2018	2017
Interest on bank overdraft accounts and loans	(2)	-
Interest on finance lease payables and leasebacks	(80)	(95)
Interest expense – bonds	(28)	(18)
Other interest expense	(11)	(20)
Unwinding of the discount of provisions	(3)	(2)
Exchange rate losses – financial	(68)	(102)
Bank expenditures	(2)	(3)
Other financial expenses	(2)	(2)
Total financial expenses	**(196)**	**(242)**

28. Financial Income

(CZK million)	2018	2017
Exchange rate gains – financial	71	82
Interest received	1	-
Other financial income	2	4
Total financial income	**74**	**86**

29. Income Taxation

29.1. INCOME TAX REPORTED IN PROFIT OR LOSS

(CZK million)	2018	2017
Current income tax for the period reported in the statement of profit or loss	(26)	(5)
Deferred tax recognized in the statement of profit or loss	(147)	(147)
Total income tax expense related to continuing operations	**(173)**	**(152)**

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

(CZK million)	2018	2017
Profit for the period from continuing operations before tax	935	886
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected income tax expense	(178)	(168)
Adjustments:		
Income on dividends	30	27
Other non-deductible expenses	(54)	(109)
Tax non-taxable income	53	103
Income tax related to prior periods	(26)	(5)
Income tax reported in profit or loss	**(175)**	**(152)**

29.2. INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME

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

29.3. DEFERRED TAX

(CZK million)	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Other	Total
Balance at 1 January 2017	**(26)**	**1,106**	**(168)**	**456**	**(17)**	**(11)**	**1,340**
Deferred tax reported in Profit or Loss	26	33	24	61	(1)	4	147
Deferred tax recognized in other comprehensive income	-	-	-	-	-	13	13
Balance at 31 December 2017	**-**	**1,139**	**(144)**	**517**	**(18)**	**6**	**1,500**
Deferred tax reported in Profit or Loss	-	70	6	68	(2)	5	147
Deferred tax recognized in other comprehensive income	-	-	-	-	(1) *	(22)	(23)
Balance at 31 December 2018	**-**	**1,209**	**(138)**	**585**	**(21)**	**(11)**	**1,624**

* since 1 January 2018 change in respect to the IFRS 15 application, see chapter 3.1.

30. Related Party Transactions

30.1. TRADE RECEIVABLES AND PAYABLES AT THE END OF REPORTING PERIOD END

31 December 2018 (CZK million)	Receivables	Payables
České dráhy a.s.	5	230
Parent compan	**5**	**230**
CD Cargo Germany GmbH	24	51
CD Cargo Austria GmbH	-	1
CD Cargo Poland Sp. z o.o.	20	44
CD Cargo Slovakia, s.r.o.	27	20
ČD Logistics, a.s.	89	-
ČD-DUSS Terminal, a.s.	1	-
Terminal Brno, a.s.	-	3
Subsidiaries	**161**	**119**
RAILLEX, a.s.	2	1
Ostravská dopravní společnost, a.s.	17	-
Ostravská dopravní společnost - Cargo, a.s	4	12
Joint ventures and associated companies	**23**	**13**
ČD - Telematika, a.s.	-	7
ČD - Informační Systémy, a.s.	-	99
DPOV, a.s.	1	14
ČD travel, s.r.o.	-	1
ČD Relax, s.r.o.	-	3
Dopravní vzdělávací institut, a.s.	-	1
Výzkumný Ústav Železniční, a.s.	9	-
Other companies in the České dráhy Group	**10**	**125**
Total	**199**	**487**

31 December 2017 (CZK million)	Receivables	Payables
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.	0	1
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**

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

2018 (CZK million)	Sale of tangible FA	Sale of services	Other income	Financial income	Total
České dráhy a.s.	-	19	2		21
DPOV, a.s.	-	3	-	-	3
Výzkumný Ústav Železniční, a.s.	-	40	-	-	40
CD Cargo Germany GmbH	-	311	-	1	312
CD Cargo Austria GmbH	-	6	-	-	6
CD Cargo Poland Sp. z o.o.	-	122	(2)	2	122
CD Cargo Slovakia, s.r.o.	69	143	2	-	214
ČD Logistics, a.s.	-	546	-	-	546
ČD-DUSS Terminal, a.s.	-	3	-	-	3
Terminal Brno, a.s.	-	1	-	-	1
RAILLEX, a.s.	-	26	-	-	26
BOHEMIAKOMBI, spol. s r.o.	-	5	-	-	5
Ostravská dopravní společnost, a.s.	-	54	-	-	54
Ostravská dopravní společnost - Cargo, a.s	6	24	-	-	30
Total	**75**	**1,303**	**2**	**3**	**1,383**

2017 (CZK million)	Sale of tangible FA	Sale of services	Other income	Financial income	Total
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 Austria GmbH	-	140	21	1	162
CD Cargo Poland Sp. z o.o.	15	130	-	-	145
ČD Cargo Slovakia, s.r.o.	-	523	-	-	523
ČD Logistics, a.s.	-	22	-	-	22
RAILLEX, a.s.	-	10	-	-	10
BOHEMIAKOMBI, spol. s r.o.	-	54	-	-	54
Ostravská dopravní společnost, a.s.	-	74	-	-	74
Ostravská dopravní společnost - Cargo, a.s	3	18	2	-	23
Total	**18**	**1,370**	**23**	**1**	**1,412**

30.3. PURCHASE FROM RELATED PARTIES

2018 (CZK million)	Assets	Material and energy	Services	Other expenses	Financial expenses	Total
České dráhy a.s.	25	1,411	120	8	7	1,571
ČD - Telematika, a.s.	-	3	19	-	-	22
ČD - Informační Systémy, a.s.	55	5	113	-	-	173
DPOV, a.s.	10	18	20	-	-	48
Dopravní vzdělávací institut, a.s.	-	-	19	-	-	19
ČD Relax, s.r.o.	-	-	20	-	-	20
Výzkumný Ústav Železniční, a.s.	-	-	1	-	-	1
JLV, a.s.	-	-	1	-	-	1
CD Cargo Germany GmbH	-	-	142	-	-	142
CD Cargo Austria GmbH	-	-	6	-	-	6
CD Cargo Poland Sp. z o.o.	-	-	402	-	3	405
CD Cargo Slovakia, s.r.o.	-	-	147	-	1	148
ČD Logistics, a.s.	-	1	9	-	-	10
ČD-DUSS Terminal, a.s.	-	-	1	-	-	1
Terminal Brno, a.s.	-	-	25	-	-	25
RAILLEX, a.s.	-	-	9	-	-	9
Ostravská dopravní společnost - Cargo, a.s.	-	-	65	-	-	65
Total	**90**	**1,438**	**1,119**	**8**	**11**	**2,666**

Purchases from České dráhy, a. s., in 2018 represented mainly purchased traction energy in the amount of CZK 828 million and motor diesel oil worth CZK 430 million.

2017 (CZK million)	Assets	Material and energy	Services	Other expenses	Financial expenses	Total
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
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 2018 represented mainly purchased traction energy in the amount of CZK 779 million and motor diesel oil worth CZK 408 million.

30.4. PURCHASES AND SALES OF INTANGIBLE, TANGIBLE AND FINANCIAL ASSETS WITH RELATED PARTIES

30.4.1. Sales

The most important items sold 2018 include the sale of 150 Eas trucks in CD Cargo Slovakia, s.r.o., in the total amount of CZK 69 million.

30.4.2. Purchases

Purchases (CZK million)	Intangible assets	Property, plant and equipment	Intangible assets	Property, plant and equipment
	2018	2018	2017	2017
České dráhy, a.s.	-	25	-	67
ČD - Informační Systémy, a.s.	53	2	63	17
DPOV, a.s.	-	10	-	61
Total	**53**	**37**	**63**	**145**

30.5. LOANS FROM 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). As of 31 December 2017, the remaining part of the borrowing is split into long-term part in the amount of CZK 352 million and short-term part in amount of CZK 73 million. As of 31 December 2018 remaining part of the borrowing is split into long-term part in amount of CZK 281 million and short-term part in amount of CZK 74 million and is captured in the Note 15 "Loans, borrowings and bonds".

30.6. 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 years 2018 and 2017. The costs for the years 2018 and 2017 are disclosed in Note 23.

In 2018, the income of the Compnay predominantly includes sales from intrastate vehicle transportation of CZK 15 million. In 2017: CZK 11 million.

Expenses and income of the Company resulting from the transactions conducted with SŽDC in 2018 and 2017 were as follows:

31 December 2018 (CZK million)	Expenses	Income
Operation of railway route	1	-
Use of the railway route and allocated route capacity	1,002	-
Property rental	11	-
Revenue from freight transportation	-	15
Performance of firefighter emergency services	10	-
Telecommunication services	41	-
Contractual fines and default interest	18	-
Compensation of damages	22	5
Extraordinary events investigation	3	-
Repairs and maintenance	2	-
Other	10	4
Total	**1,120**	**24**

31 December 2017 (CZK million)	Expenses	Income
Operation of railway route	2	-
Use of the railway route and allocated route capacity	1,244	-
Property rental	10	-
Revenue 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**

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

Receivables (CZK million)	31 Dec 2018	31 Dec 2017
Revenue from freight transportation	3	4
Estimated receivables	3	4
Other	5	5
Total	**11**	**13**

Payables (CZK million)	31 Dec 2018	31 Dec 2017
Use of railway route and allocated capacity of the railway – freight transport	212	138
Property rental – expenses and income	-	2
Court settlement – traction energy	89	152
Settlement Agreement – exclusions	18	30
Court verdict - exclusions	-	-
Radio communication technology	12	12
Other	20	17
Estimated payables	33	123
The fee for the use of transport infrastructure	-	85
Compensation of damaged caused by extraordinary events	2	2
Uncollected capacity ŽDC	14	16
Performance of HZS	10	10
Heat supply	6	7
Office space rental	-	1
Other estimated payables	1	2
Total	**384**	**474**

The settlement of a liability payable to the Parent Company in amount of CZK 18 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 13 million and long-term part in the amount of CZK 5 million.

The settlement of a liability payable to the Parent Company in amount of CZK 89 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 63 million and long-term part in the amount of CZK 26 million.

30.7. 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 December 2018 (CZK million)	Expenses	Income
Use of railway route and allocated capacity of the railway	1	-
Revenue from freight transportation	-	241
Thermal energy	9	-
Other	2	2
Total	**12**	**243**

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

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

Receivables (CZK million)	31 Dec 2018	31 Dec 2017
Revenue from freight transportation	40	30
Total	**40**	**30**

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

30.8. 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.).

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 70 % (according to the internal targets set at 65 %).

The Company's capital structure consists of net debt (borrowings less cash and cash equivalents) and the Company's equity (includes equity, funds, retained earnings).

(CZK million)		31 Dec 2018	31 Dec 2017
Loans, borrowings and bonds	15	4,807	4,140
Cash and bank accounts	12	(595)	(465)
Total net debt		**4,212**	**3,675**

(CZK million)		31 Dec 2018	31 Dec 2017
Share capital	13	8,494	8,494
Capital funds	13	349	423
Accumulated losses (undivided profit)		210	(512)
Total equity		**9,053**	**8,405**

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 under IFRS 9 (CZK million)	Categories of financial assets under IAS 39	Classes of financial assets		31 Dec 2018	31 Dec 2017
Financial assets at amortized cost	Loans and receivables	Cash and cash equivalents	12	595	465
		Trade receivables	9	1,618	1,581
		Other financial assets	10	467	291
Financial assets at fair value presented in statement of profit or loss	Financial assets at fair value presented in statement of profit or loss	Other financial assets - derivatives used in hedge accounting	10	8	96
Total				**2,688**	**2,433**

Categories of financial liabilities under IFRS 9 (CZK million)	Categories of financial liabilities under IAS 39	Classes of financial liabilities		31 Dec 2018	31 Dec 2017
Financial liabilities at fair value presented in statement of profit or loss	Financial liabilities at fair value presented in statement of profit or loss	Other financial liabilities - derivatives used in hedge accounting	17	38	5
		Other financial liabilities – other derivatives	17	-	1
Financial liabilities at amortised cost	Financial liabilities at amortised cost	Finance lease and leaseback liabilities	15	1,443	1,714
		Issued bonds	15	3,010	2,001
		Loans	15	355	425
		Trade payables	14	2,204	1,735
		Liabilities arising from supplier loans	17	44	145
		Liabilities from settlement agreements	17	102	169
		Other financial liabilities	17	48	76
Total				**7,244**	**6,271**

Derivative financial instruments are classified as financial assets / liabilities at fair value through profit or loss.

In 2018, shares in equity that do not have a quoted market price in the active market and whose fair value is determined at Tier 2 are measured under IFRS 9 at fair value and recognized in other comprehensive income.

In 2017, shares in equity that do not have a quoted price on the active market and which are measured at cost due to their fair value cannot be reliably determined were recognized as available-for-sale financial assets under IAS 39.

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 (CZK million)	2018	2017	Presented in profit or loss statement
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.

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 December 2018 (CZK million)	EUR	USD	Other	Total
Financial assets	1,799	3	-	1,802
Financial liabilities	(991)	(11)	(3)	(1,005)
Total	**808**	**(8)**	**(3)**	**797**

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

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:

(CZK million)	2018	2017
Translation of item denominated in foreign currencies at the end of the period	(31)	(12)
Change in the fair value of derivatives at the end of the period	(6)	(9)
Total impact on the profit for the period	**(37)**	**(21)**
Change in the fair value of derivatives at the end of the period	94	79
Total impact on other comprehensive income	**94**	**79**

31.5.2. Currency forwards and options

The Company in accordance with the risk management strategy concludes currency forwards and options to cover future payments received (monetary balance) denominated in foreign currencies with a predetermined hedging ratio of 1 : 1. The hedge ratio is determined by comparing the amount of the hedged item and the hedging instrument used. This calculation is based on a currency paraforward contract that reduces the currency risk resulting from the exchange rate fluctuation of the national currencies and the planned positive EUR balance generated by the company. The hedge ratio is regularly monitored in relation to the risk management objectives.

At the same time, the Company does not separate the hedging cost, and assumes that it is currently insignificant. Possible changes are regularly monitored.

Due to fact, that the key characteristics of the hedging instrument fully correspond to the characteristics of the hedged item, the management of ČD Cargo expects a high efficiency of hedging.

The hedging nominal value is lower than the future expected balance in EUR, i.e. hedging never exceed 80 % of the expected balance in EUR. A CZK/EUR exchange rate is hedged, converts then to foreign currency earnings (EUR) into company currency (CZK). The maximum hedging volumes are set in the Financial Risk Management Strategy of ČD Cargo, a.s., as follows:

- For 2019, maximum 80 % of the underlying asset (expected balance in EUR);
- For 2020, maximum 65 % of the underlying asset (expected balance in EUR);
- For 2021, maximum 50 % of the underlying asset (expected balance in EUR).

Monetary hedging was contracted under regular market conditions (without premium payment), the fair value of derivatives was nil as of the hedge date. Based on the above, the Company expects that the hedging relationship will be effective for its entire period. The result of the transaction is the predictable (fixed) amount of the CZK / EUR exchange rate used to sell the positive balance of EUR.

As credit risk is not part of the hedged risk, credit risk affects only changes in the value of the hedging instrument. Credit risk arises from the credit rating of the Company and the bank, which is counterparty of currency paraforward. The credit risk is associated with both the bank and the Company and is considered minimal and will be reassessed when a significant change in circumstances occurs in one of the parties.

Potential causes of possible inefficiencies may arise from the basis of spread. Another factor may be time discrepancy. The Company does not hedge specific business cases, but only the volume of the planned balance, as well as for a possible significant decline in the creditworthiness of the counterparty. The above points are considered by the Company to be insignificant or highly unlikely, and hence considers currency hedging to be effective.

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

Foreign currency forwards

Sale (CZK million)	Average currency exchange rate	Foreign currency	Nominal value in EUR million.	Fair value
31 Dec 2018	25,969	EUR	96	(18)
31 Dec 2017	26,641	EUR	84	86

Open foreign currency forwards and options on purchase of foreign currency were not closed in 2017 and 2018.

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 2018 (CZK million)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year - 5 years	5 years and more	Total
Hedged future sales in EUR	129	257	1,158	926	-	2,470

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

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:

(CZK million)	2018	2017
Interest from loans and lease with variable rate for the period	(19)	(44)
Change in the fair value of derivatives at the end of the period	-	2
Total impact on the profit for the period	**(19)**	**(42)**
Change in the fair value of derivatives at the end of the period	-	1
Total impact on other comprehensive income	**-**	**1**

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.

ČD Cargo's management decided to secure against the interest rate risk arising from interest rate fluctuations. In particular these are interest rates on overdraft loans that are linked to O / N PRIBOR and also to floating interest rate financing.

The hedge ratio of the hedging relationship is the same as the ratio between the amount of the hedged item and the hedging instrument used, in this case the ratio is 1 : 1. The hedging ratio is determined by comparing the amount of the hedged item and the hedging instrument used. This calculation is based on an interest rate swap agreement maturing in 2020, that compensates the interest rate risk from interest rate payments arising from the lease with variable interest rate and the same parameters (nominal value, date of individual repayments) as individual interest rate swap. The hedge ratio is regularly monitored in relation to the risk management objectives.

Due to fact, that the key characteristics of the hedging instrument fully correspond to the characteristics of the hedged item, the management of ČD Cargo expects a high efficiency of hedging.

Swaps nominal values are the same as the nominal values of the respective volume of individual leases. The float part of the lease payments (12M Pribor) is hedged by 12M Pribor. Maturity of lease payments and interest rate hedging is the same. Interest rate swaps were negotiated at market price (without premium payment), the fair value of derivatives was nil as of the trade date. There are no agreements on limiting the agreed interest rate (interest rate options) included in the swaps. The Company expects no early termination or repayment of lease payments. The individual effectiveness is regularly monitored and measured.

Based on the above, the Company expects that the hedging relationship will be effective over its entire life, and changes in cash flows from lease payments will be compensated by changes in cash flows arising from interest rate swaps. The result of the transaction (after including of interest rate swaps) should be the predictable (fixed) interest cost of the leasing.

As credit risk is not part of the hedged risk, credit risk affects only changes in the value of the hedging instrument. Credit risk arises from the credit rating of the Company and the bank as interest rate swap counterparties. The credit risk associated with both, the bank and the Company, is considered as a minimal and will be reassessed when a significant change in circumstances occurs in one of the parties.

Potential reasons of possible inefficiencies are considered by the Company as significant decline in creditworthiness of ČD Cargo or counterparty. Also, in case of early termination or modification of the lease agreement caused by violation of resolutions specified in the contract, whether by ČD Cargo, a.s., or counterparty.

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

IRS

31 December 2018	Average contracted fixed interest rate	Principal CZK million	Fair value of assets (liabilities) CZK million
Less than 1 year	3.265%	82	(1)
1 to 5 years	3.265%	13	-
Total			**(1)**

31 December 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)**

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.

The hedge ratio of the hedging relationship is the same as the ratio between the amount of the hedged item and the hedging instrument used, in this case the ratio is 1: 1. The hedge ratio is determined by comparing the amount of the hedged item and the hedging instrument used. This calculation is based on an interest rate swap agreement maturing in 2019 that compensate the interest rate risk from variable interest rate leases with the same parameters (nominal value, date of individual repayments) as the interest rate swap itself. The hedging ratio is regularly monitored in relation to the risk management objectives.

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

Due to fact, that the key characteristics of the hedging instrument fully correspond to the characteristics of the hedged item, the management of ČD Cargo, a.s., expects a high efficiency of hedging.

The heading nominal values are the same as the nominal values of the respective lease volume. The float part of the lease payments (12M Pribor) is hedged by 12M Pribor. Maturity of lease payments and interest rate hedging is the same. The interest collateral was negotiated with the premium payment.

As credit risk is not part of the hedged risk, credit risk affects only changes in the value of the hedging instrument. Credit risk arises from the credit rating of the company and the bank as interest rate swap counterparties. The credit risk associated with both, the bank and the Company, is considered as a minimal and will be reassessed when a significant change in circumstances occurs in one of the parties.

Potential causes of possible inefficiencies are seen by ČD Cargo or counterparty's significant decline in creditworthiness. Optionally, in the event of early termination or modification of a leasing agreement on the grounds of breach of the provisions specified in the contract, whether by ČD Cargo, a.s.,or counterparty.

The table presents the terms and conditions for interest rate options that were open at the end of the reporting period.

31 December 2018	Hedged range	Principal CZK million	Fair value of assets (liabilities) CZK million
Less than 1 year	1.13% - 3.13%	177	-
1 to 5 years	1.13% - 3.13%	-	-
Total			**-**

31 December 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)**

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 31.9.1. 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 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:

(CZK million)	2018	2017
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	8	12
Total impact on other comprehensive income	**8**	**12**

31.7.2. Commodity derivatives
In line with the requirements for managing interest rate risk, the Company has entered into contracts to secure fluctuations in traction oil prices. The collateral was made in the form of a commodity swap, which consists in determining the fixed price of traction oil.

The hedge ratio of the hedging relationship is the same as the ratio between the amount of the hedged item and the hedging instrument used, in this case the ratio is 1: 1. The collateral ratio is determined by comparing the amount of the hedged item and the hedging instrument used. Its calculation is based on a commodity swap agreement that compensates for the purchase of the hedged volume of planned consumption under the approved Financial Risk Management Strategy. The Company recognizes that risk components such as excise duties, merchant margins, etc. are included in the hedge ratio calculation, but their effect on the amount is insignificant. The hedging ratio is regularly monitored in relation to the risk management objectives.

At the same time, the Company does not separate the cost of hedge, as it assumes that they are currently insignificant. Possible changes are regularly monitored.

The economic relationship between the hedging instrument and the hedged item is described using the following parameters.

The effectiveness of hedging will be measured by comparing changes in the hedging instrument's internal value and changes in the fair value of the hedged cash flows. According to the fact that the key characteristics of the hedging instrument fully correspond to the characteristics of the hedged item, the management of ČD Cargo expects a high efficiency of hedging. A correlation test is performed at the same time, which compares the actual purchase prices of oil per liter and the cost of the hedging instrument.

The nominal value of guaranties is lower than the future projected volumes of purchased oil, ie. never more than 80% of the prepaid volume of purchased diesel is secured. The commodity Platts ULSD 10ppm FOB Barge Rotterdam is secured. The guarantee is also carried out in CZK, eliminating the risk arising from the CZK / USD exchange rate fluctuation. The maximum hedging volumes are set in the Financial Risk Management Strategy of ČD Cargo, a.s., then:

- For 2019, up to 80 % of the underlying asset (estimated volume of oil purchased);
- For 2020, a maximum of 65 % of the underlying asset (estimated volume of oil purchased);
- For 2021, a maximum of 50 % of the underlying asset (estimated volume of oil purchased).

Commodity hedging was contracted under regular market conditions (without premium payment), the fair value of derivatives was nil at the trade date. Based on the above the Company assumes that the hedging relationship will be effective over the life of the hedging relationship. The result of the transaction is the predictable amount of the price of the purchased volume of oil.

As credit risk is not part of the hedged risk, credit risk affects only changes in the value of the hedging instrument. Credit risk arises from the credit rating of the company and the bank as interest rate swap counterparties. The credit risk associated with both, the bank and the Company, is considered as a minimal and will be reassessed when a significant change in circumstances occurs in one of the parties.

Potential causes of possible inefficiencies are seen by ČD Cargo or counterparty's significant decline in creditworthiness. Optionally, in the event of early termination or modification of a leasing agreement on the grounds of breach of the provisions specified in the contract, whether by ČD Cargo, a.s., or counterparty. In this case, the Company carries out a correlation test for the price of diesel. The Company provides the Platts ULSD 10ppm FOB Barge Rotterdam with the total purchase price of the diesel fuel, and as collateral is carried out in CZK, the currency risk of the USD / CZK pair is also eliminated. Other items that make up the price of diesel are fixed or have very low volatility. The above points are considered by the Company to be insignificant or highly unlikely and therefore considers commodity security to be effective.

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

Purchase of diesel	Edged average price (CZK/mt)	Volume of contract (mt)	Fair value (CZK million)
31 Dec 2018	12,920	7,200	(11)
31 Dec 2017	11,118	9,600	11

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 2018 (CZK million)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	5 years and more	Total
Hedged future purchases of diesel	7	14	61	-	-	82

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

31.8. CREDIT RISK MANAGEMENT

The Company is exposed to credit risk, which involves the risk that one side of the financial instrument will cause financial loss to the other party by failing to meet its obligation. As a result of the Company's business activities (trade receivables) and financial transaction related activities the credit risk arises. Credit risk quantification is based on a number of key criteria, with a major measure being the risk associated with the counterparty's default risk in a transaction that may negatively affect the economic result and the cashflow of the Company. For the counterparties's analysis, services in addition to supporting internal departments the company uses external information. Any insolvency of a partner may lead to immediate losses with undue influence on the Company's performance.

As a source of credit risk associated with the counterparty's default risk in the transaction, the Company was identified as:
- Suppliers to whom the ČDC paid advances;
- Financial institution;
- Employees - natural persons for whom a claim arises;
- Company customers.

For this reason, approval of business activities with new counterparties is subject to standardized approval procedures by authorized departments. Part of credit risk management is active administration and receivables management, where standard financial instruments such as prepay and bank guarantees are used to reduce risks.

Financial assets that expose the Company to possible credit risk consist of cash and cash equivalents, trade receivables, and derivative financial instruments. The Company's cash is deposited at domestic reputable financial institutions. In terms of business subject point of view, the Company is mainly exposed to the following types of credit risk:
- Direct credit risk;
- The risk of credit equivalents.

Direct credit risk is the most common form of receivables from ordinary business relationships. These include the provision of business loans, bills of exchange, retention and financial assistance to companies outside the company. The customer's credit quality is evaluated individually, taking into account its financial position, customer experience, and other factors.

For the purposes of determining expected credit losses through simplified access, short-term receivables are classified according to common characteristics in terms of credit risk and appropriate maturities. On that base, the Company evaluates the expected credit losses determined for trade receivables.

Expected credit loss rates are determined under the payment profile and sales for the 5-years period until 1 December 2018, and respectively 31 December 2018 on the basis of historical actual credit losses. Historical credit loss rates are adjusted to take into account future expected developments in macroeconomic variables that impact on customer solvency. The Company investigated a number of variables (GDP, industry indices, etc.) and their possible correlation with the solvency of customers. As no reliable correlation has been identified, the Company focuses on an individual assessment of customer credibility and, above all, their future ability and remit to meet its obligations to the Company.

Overview of impairment for short-term receivables

31 December 2018	Before due date	Past due date (days)					Total
(CZK million)		1 - 30	31 – 90	91- 180	181 -365	365 and more	
Expected credit loss rate *	0.3%	10%	52%	50%	100%	100%	7%
Short-term trade receivables - Gross residual value	1,514	131	27	2	4	83	1,761
Expected credit loss	(5)	(13)	(14)	(1)	(4)	(83)	(120)
Individual expected credit loss	(23)	-	-	-	-	-	(23)
Expected credit loss total	**(28)**	**(13)**	**(14)**	**(1)**	**(4)**	**(83)**	**(143)**

* devaluation matrix = % of adjustments from historical developments + % of considered future development = % of total adjustment

1 January 2018	Before due date	Past due date (days)					Total
(CZK million)		1 - 30	31 – 90	91- 180	181 -365	365 and more	
Expected credit loss rate *	0.3%	0%	20%	83%	83%	100%	7%
Short-term trade receivables - Gross residual value	1,470	117	20	6	6	100	1,719
Expected credit loss	(4)	-	(4)	(5)	(5)	(100)	(118)
Individual expected credit loss	(20)	-	-	-	-	-	(20)
Expected credit loss total	**(24)**	**-**	**(4)**	**(5)**	**(5)**	**(100)**	**(138)**

* devaluation matrix = % of adjustments from historical developments + % of considered future development = % of total adjustment

Provisions for doubtful receivables (CZK million)	2018	2017
Adjustments as of 1 January 2018	**138**	**151**
Adjusted amount in opening balance of retained profit *	4	-
Adjustments as of 1 January 2018 - impacted by IFRS 9	**4**	**-**
Creation of adjustments - trade receivables	55	38
Use of adjustments - trade receivables	(54)	(51)
Adjustments as of 31 December 2018	**143**	**138**

* the consequence of the implementation of IFRS 9 as of 1 January 2018, see Note 3.1.

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.

Credit quality of receivables that are not past due or otherwise impaired is good and corresponds to the carrying amount. Accordint to the application of the new IFRS 9, both credit risk and receivables were evaluated to maturity. Based on historical experience, which was adjusted for randomness and also reflected the macroeconomic impact on consumer payment discipline. For the group to maturity, the net provisioning rate of 0.3% was established. The first application was recalsified as at 1 January 2018.

Amount of receivables (CZK million)	2018	2017
Gross as receivables to LS	1,514	1,470
Allowance to LS 0.3%	(5)	(4)

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 recognized 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 2018 is "Restricted cash" in the total amount of CZK 330 million (in 2017: CZK 276 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.

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.

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.

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 (more information regarding the open lines of credit is described in the section 31.9.2)

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 2018, the Company issued bonds in the aggregate volume of CZK 3,000 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 2017 and 2018, 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 2018 (CZK million)	Less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and more	Total
Trade liabilities and other financial liabilities not covered below	1,313	793	260	32	-	2,398
Hedging derivatives – net	1	2	9	25	-	37
Gross outgoing cash flows	52	105	471	953	-	1,581
Gross incoming cash flows	(51)	(103)	(462)	(928)	-	(1,544)
Liabilities from finance and leaseback	155	66	281	944	144	1,590
Variable interest rate instruments	3	13	60	286	-	362
Fixed interest rate instruments	-	7	47	2,149	1,041	3,244
Total	**1,472**	**881**	**657**	**3,436**	**1,185**	**7,631**

31 Dec 2017 (CZK million)	Less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and more	Total
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**

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 2018 (CZK million)	Less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and more	Total
Financial assets at amortised cost	2,244	432	4	1	-	2,681
Hedging derivatives	2	3	3	-	-	8
Total	**2,246**	**435**	**7**	**1**	**-**	**2,689**

31 Dec 2017 (CZK million)	Less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	5 years and more	Total
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**

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
Changes in financing commitments including changes not only from cash flows but also from non-monetary changes are presented in the following table:

(CZK million)	Loans - Short-term	Loans - Long-term	Liabilities from financial leases - Short-term	Liabilities from financial leases - Long-term	Issue bonds - Short-term	Issue bonds - Long-term	Total
Liabilities from financing as at 1 January 2017	**77**	**450**	**421**	**1,610**	**2**	**1,997**	**4,557**
Cash flows from financing	(77)	-	(317)	-	-	-	(394)
Loan drawings, loans and bonds			*88*				*88*
Loans repayments, loans and bonds	*(77)*		*(405)*				*(482)*
Non-monetary flows:							
Consequences of changes in exchange rates	(4)	(21)	-	-	-	-	(25)
Loans and borrowings classified as long-term as at 1 January 2017 that became short-term in 2017	77	(77)	335	(335)	-	-	-
Other non-monetary movements	-	-	-	-	2	-	2
Liabilities from financing as at 31 December 2017	**73**	**352**	**439**	**1,275**	**4**	**1,997**	**4,140**
Cash flows from financing	(73)	-	(272)	-	-	998	653
Loan drawings, loans and bonds			*171*			*998*	*1,169*
Loans repayments, loans and bonds	*(73)*		*(443)*				*(516)*
Non-monetary flows:							
Consequences of changes in exchange rates	(3)	6	-	-	-	-	3
Loans and borrowings classified as long-term as at 31 December 2017 that became short-term in 2018	77	(77)	277	(277)	-	-	-
Other non-monetary movements	-	-	1	-	11	-	12
Liabilities from financing as at 31 December 2018	**74**	**281**	**445**	**998**	**15**	**2,995**	**4,808**

The Company uses the following financing facilities:

(CZK million)	31 Dec 2018	31 Dec 2017
Cash-pooling:		
– loan facility at	*600*	*600*
Overdraft loans:		
– loan facility at	*1,200*	*1,200*
Promissory Note programme:		
– loan facility at	*1,500*	*1,500*
Total	**3,300**	**3,300**

31.10. STRATEGY FOR THE COMPANY'S FINANCING IN SUBSEQUENT YEARS

31.10.1. Finance Leases
In February 2018, a new finance lease of two Vectron Siemens traction vehicles was realised (the contract was signed in 2017). In connection with the planned investments, it is that expected financing in the form of financial leasing will benefit the Company in the coming years.

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. The stratification of the lending to several financing entities sufficiently diversifies related risks.

31.10.3. Promissory Note Programme
The 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.

31.10.4. 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 Company limit. During the years 2017 and 2018, 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 the 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 2018, the seventh wave of issue was made in the nominal amount of CZK 1,000 million.

In total, ČD Cargo, a.s., has issued bonds worth CZK 3,000 million as of 31 December 2018. 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. 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 recognized 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 2018 amounts to CZK 1,498 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. As of 31 December 2017 the value was CZK 1,839 million.

The fair value of bonds of ČD Cargo, a.s., as of 31 December 2018 amounted to CZK 2,986 million. As of 31 December 2017 it amounted to CZK 2,015 million. The fair value of bonds is recalculated based on the up-to date issue rate communicated by individual banks.

Financial assets (CZK million)	**Level**	**Fair value as at 31 Dec 2018**	**Book value as at 31 Dec 2018**	**Fair value as at 31 Dec 2017**	**Book value as at 31 Dec 2017**
Financial derivatives used in hedge accounting	level 2	8	8	96	96
Loans, other financial assets	level 2	-	-	277	277
Total		**8**	**8**	**373**	**373**

Financial liabilities (CZK million)	**Level**	**Fair value as at 31 Dec 2018**	**Book value as at 31 Dec 2018**	**Fair value as at 31 Dec 2017**	**Book value as at 31 Dec 2017**
Financial derivatives used in hedge accounting	level 2	38	38	5	5
Financial derivatives for trading	level 2	-	-	1	1
Issued bonds	level 2	2,986	3,010	2,015	2,001
Liabilities from finance lease and leaseback	level 2	1,498	1,443	1,839	1,714
Total		**4,522**	**4,491**	**3,860**	**3,721**

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 recognized 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 recognized by the Company as of 31 December 2018 and 31 December 2017 are included in level 2.

32. Post Balance Sheet Events

On March 11, 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., under the authority of the General Meeting, decided to dismiss Jiří Švachula from the Supervisory Board of ČD Cargo, a.s.

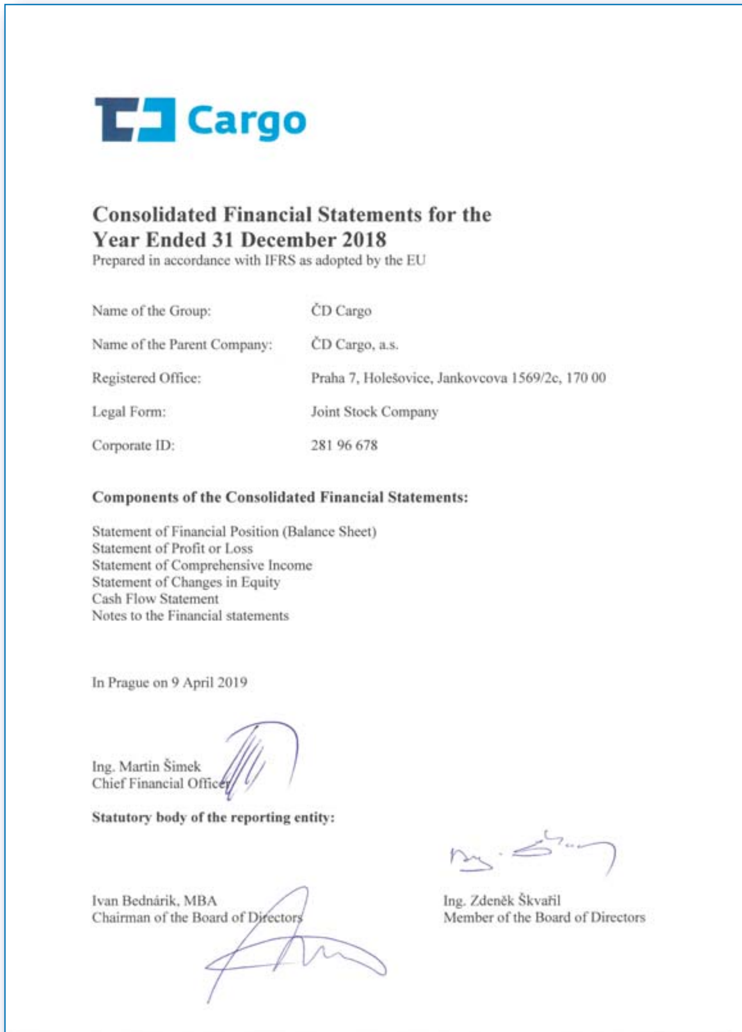
33. Approval of the Financial Statements

TThese financial statements were approved by the Board of Directors on 9 April 2019.

15 Consolidated Financial Statements for the Year 2018

Consolidated Financial Statements for the Year 2018

Prepared under IFRS as adopted by the EU



Cargo

Consolidated Financial Statements for the Year Ended 31 December 2018

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 9 April 2019

Ing. Martin Šimek
Chief Financial Officer

Statutory body of the reporting entity:

Ivan Bednárik, MBA
Chairman of the Board of Directors

Ing. Zdeněk Škvařil
Member of the Board of Directors

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2018

(CZK million)		31 Dec 2018	31. Dec 2017
Property, plant and equipment	5	16,032	14,682
Intangible assets	6	492	444
Investments in subsidiaries and associates	7	60	58
Deferred tax assets	30	15	20
Other financial assets	10	-	422
Other assets	11	1	1
Total non-current assets		**16,600**	**15,627**
Inventories	8	192	187
Trade receivables and contract assets	9	1,756	1,697
Other financial assets	10	505	100
Other assets	11	216	169
Cash and cash equivalents	12	725	690
Total current assets		**3,394**	**2,843**
TOTAL ASSETS		**19,994**	**18,470**
Share capital	13	8,494	8,494
Capital funds	13	360	450
Retained earnings/Accumulated losses		160	(461)
Equity attributable to owners of the Company		9,014	8,483
Non-controlling interests		32	46
Total equity		**9,046**	**8,529**
Loans, borrowings and bonds	15	4,439	3,985
Deferred tax liability	30	1,624	1,500
Provisions	16	451	489
Other financial liabilities	17	57	132
Other liabilities	18	116	395
Total non-current payables		**6,687**	**6,501**
Trade payables	14	2,209	1,806
Loans, borrowings and bonds	15	784	657
Tax payables	30	9	19
Provisions	16	213	246
Other financial liabilities	17	175	266
Other liabilities and contract liabilities	18	871	446
Total current payables		**4,261**	**3,440**
TOTAL LIABILITIES		**19,994**	**18,470**

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK million)		Year ending 31 Dec 2018	Year ending 31 Dec 2017
Revenue	22	13,076	11,923
Other operating income	23	287	807
Purchased consumables and services	24	(6,322)	(6,018)
Employee benefit costs	25	(4,407)	(4,076)
Depreciation and amortisations	26	(1,246)	(1,196)
Other operating expenses	27	(368)	(343)
Operating profit		**1,020**	**1,097**
Financial expenses	28	(243)	(284)
Financial income	29	89	122
Share in the profit of associates and joint ventures	7	12	13
Profit before tax		**878**	**948**
Income tax	30	(215)	(203)
Profit for the period		**663**	**745**
Attributable to equity holders of the Parent Company		661	740
Attributable to non-controlling interests		2	5

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK million)	Year ending 31 Dec 2018	Year ending 31 Dec 2017
Profit for the period	663	745
Actuarial gains / losses on liabilities related to employee benefits	(12)	11
Other comprehensive income for the year (items that are not subsequently reclassified to profit or loss)	**(12)**	**11**
Foreign currency translation reserve fund	(1)	(1)
Cash flow hedging	(121)	70
Relating deferred income tax	23	(13)
Other comprehensive income for the year (items that may be reclassified to profit or loss)	(99)	56
Total comprehensive income for the year	**552**	**812**
Attributable to equity holders of the Parent Company	550	807
Attributable to non-controlling interests	2	5

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK million)	Share capital	Share premium	Reserve fund	Fund from cash flow hedge	Actuarial cash flow hedges	Other funds	Accumulated losses	Equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance at 1 January 2017	**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 December 2017	**8,494**	**197**	**183**	**74**	**(4)**	**-**	**(461)**	**8,483**	**46**	**8,529**
Effects of the IFRS implementation*	-	-	-	-	-	-	(4)	(4)	-	(4)
Balance at 1 January 2018	**8,494**	**197**	**183**	**74**	**(4)**	**-**	**(465)**	**8,479**	**46**	**8,525**
Profit for the period	-	-	-	-	-	-	661	661	2	663
Other comprehensive income for the period	-	-	-	(98)	(12)	(1)	-	(111)	-	(111)
Total comprehensive income for the period	-	-	-	(98)	(12)	(1)	661	550	2	552
Allocation to the reserve fund	-	-	37	-	-	-	(36)	1	-	1
Purchase of NCI**	-	-	-	-	-	(16)	-	(16)	(16)	(32)
Total transactions with owners for the period	-	-	37	-	-	(16)	(36)	(15)	(16)	(31)
Balance at 31 December 2018	**8,494**	**197**	**220**	**(24)**	**(16)**	**(17)**	**160**	**9,014**	**32**	**9,046**

* adoption of new IFRS standards see Note 3.1.
** purchase of non-controlling interest in the company ČD Logistics, a.s., chapter 32.1.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

(CZK million)		Year ending 31 Dec 2018	Year ending 31 Dec 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax		878	948
FFinancial expenses		133	146
Profit from the sale of non-current assets		(105)	(151)
Depreciation and amortisation of non-current assets	26	1,246	1,196
Changes in impairment of non-current assets		83	39
Changes in impairment of trade receivables		12	3
Change in provisions		(83)	(113)
Foreign exchange rate gains		(1)	(9)
Other		9	40
Cash flow from operating activities before changes in working capital		**2,172**	**2,099**
Change in trade receivables		(180)	(94)
Change in inventories		(10)	(54)
Change in other assets		(118)	(47)
Change in trade payables		85	(15)
Change in other payables		35	(86)
Total changes in working capital		**(188)**	**(296)**
Cash flows from operating activities		**1,984**	**1,803**
Interests paid		(121)	(149)
Income tax paid		(67)	(25)
Net cash flow from operating activities		1,796	1,629
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for purchase of property, plant and equipment		(2,375)	(1,513)
Income from property, plant and equipment sold		181	182
Costs of acquisition of intangible assets		(118)	(164)
Received subsidies for acquisition of assets		18	-
Payments for purchase of associates and joint ventures		-	(15)
Net cash flows from investment activities		**(2,294)**	**(1,510)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bonds issue		998	-
Proceeds from loans and borrowings		237	176
Repayments of loans, borrowings and bonds		(670)	(485)
Purchase of non-controlling interest		(32)	-
Net cash flow from financing activities		**533**	**(309)**
Net decrease in cash and cash equivalents		**35**	**(190)**
Cash and cash equivalents at the beginning of the reporting period	12	690	880
Cash and cash equivalents at the end of the reporting period	**12**	**725**	**690**

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 2018, the Parent Company's reported share capital of CZK 8,494 million which was fully paid in.

The sole shareholder and the ultimate parent company of the Company is České dráhy, a.s., and the ultimate controlling party 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 2018. The reporting period is the calendar year, from 1 January 2018 to 31 December 2018.

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 three principal units:
- Transportation of complete trains;
- Transportation of individual wagon loads;
- Additional services related to transportation offered to customers.

The above units 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. 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.

1.3.1. 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 2018 consists of following companies. In year 2018 there were share additions of the company ČD – Telematika a.s. in the amount of 1,78 % to the share 70,96 % and increase 22 % in the company ČD Logistics, a.s.

Name of the entity	Ownership of ČD, a. s. 2018 (%)	Ownership of ČD, a. s. 2017 (%)	Type of influence	Registered office	Corporate ID
ČD - Informační Systémy, a.s.	100.00	100.00	Control	Pernerova 2819/2a , 130 00 Prague 3	24829871
ČD-Telematika, a. s.	70.96*	69.18	Control	Pernerova 2819/2a , 130 00 Prague 3	61459445
Výzkumný Ústav Železniční, a.s.	100.00	100.00	Control	Novodvorská 1698, 142 01 Prague 4	27257258
JLV, a. s.	38.79	38.79	Significant	Chodovská 3/228, 141 00 Prague 4	45272298
DPOV, a. s.	100.00	100.00	Control	Husova 635/1b, 751 52 Přerov	27786331
ČD Cargo, a. s.	100.00	100.00	Control	Jankovcova 1569/2c, 170 00 Prague 7	28196678
Dopravní vzdělávací institut, a.s.	100.00	100.00	Control	Husitská 42/22, 130 00 Prague 3	27378225
ČD travel, s.r.o.	51.72	51.72	Control	28.října 372/5 , 110 00 Prague 1	27364976
ČD Relax, s. r.o.	51.72	51.72	Control	28.října 372/5, Staré město,110 00 Prague 1	05783623
ODP-software, spol.s r.o.	100.00	100.00	Control	Pernerova 2819/2a, 130 00 Prague 3	61683809
CHAPS spol. s r.o.	100.00	100.00	Control	Bráfova 1617/21, 616 00 Brno	47547022
ČSAD SVT Praha , s.r.o.	100.00	100.00	Control	Křižíkova 4-6, 186 00 Prague 8	45805202
SVT Slovakia s.r.o.	80.00	80.00	Control	Partizánska 97, 974 01 Banská Bystrica, Slovakia	36620602
INPROP, s.r.o.	100.00	100.00	Control	Rosinská cesta 12, 010 08 Žilina, Slovakia	31609066
Smíchov Station Development, a.s.	51.00	51.00	Joint Control	U Sluncové 666/12a, 186 00 Prague 8 – Karlín	27244164
Žižkov Station Development, a.s.	51.00	51.00	Joint Control	U Sluncové 666/12a 186 00 Prague 8 – Karlín	28209915
Masaryk Station Development, a.s.	34.00	34.00	Significant	Na Florenci 2116/15, 110 00 Prague 1	27185842
CD Cargo Germany GmbH	100.00	100.00	Control	Kaiserstrasse 60, 60329 Frankfurt on Main, FRG	HRB 73576
CD Cargo Austria GmbH	100.00	100.00	Control	Rotenturmstraße 22/24, 1010 Vienna, Austria	FN 291407s
CD Cargo Poland Sp. z o.o.	100.00	100.00	Control	ul. Grzybowska 4/3, 00-131 Warsaw, Poland	140769114
CD Cargo Slovakia, s.r.o.	100.00	100.00	Control	Seberíniho 1, 821 03 Bratislava, Slovakia	44349793
ČD Logistics, a.s.	100.00*	78.00	Control	Opletalova 1284/37, 110 00 Prague 1	27906931
Terminal Brno, a.s.	66.94	66.94	Control	K terminálu 614/11, 619 00 Brno	28295374
ČD-DUSS Terminál, a.s.	51.00	51.00	Control	Lukavecká 1189, 410 02 Lovosice	27316106
RAILLEX, a.s.	50.00	50.00	Joint Control	Americká 525/23, Prague 2, Vinohrady, PSČ 120 00	27560589
BOHEMIAKOMBI, spol. s r.o.	30.00	30.00	Significant	Opletalova 6, 110 00 Prague 1	45270589
Ostravská dopravní společnost, a.s.	50.00	50.00	Joint Control	U Tiskárny 616/9, 702 00 Ostrava	60793171
Ostravská dopravní společnost - Cargo, a.s.	20.00	20.00	Significant	U Tiskárny 616/9, 702 00 Ostrava	05663041
Auto Terminal Nymburk, s.r.o.	100.00	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

* Changes in 2018

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

1.3.2. Key management
Key management refers mainly to the members of the statutory and supervisory bodies of the Parent Company and statutory bodies of individual group companies. More details about individual bodies are 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. 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.

1.4. ORGANIZATIONAL STRUCTURE OF THE PARENT COMPANY
The organizational structure consists of sections directly managed by the Chairman of the Board of Directors or Directors of the sections:
- Sales Director;
- Operations Director section;
- CFO section.

The organizational structure also includes operating units, rolling stock repair centers, Olomouc Transport Revenue Clearing House and Česká Třebová Traffic Control.

The internal organization of the company (principles of organizational structure, organizational structure, basic management system and the competence of units of the organizational structure, including the responsibility and competence of executives) is governed by the Organizational Rules of ČD Cargo, and the Signature Rules of ČD Cargo, a.s.

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 six-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 2018 was as follows:

Board of Directors

Chairman	Ivan Bednárik
Member	Zdeněk Škvařil
Member	Bohumil Rampula

Supervisory Board

Chairman	Miroslav Kupec
Member	Jan Kasal
Member	Radek Nekola
Member	Marta Urbancová
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 to recall Mr. Pavel Krtek from the position of a member of the Supervisory Board of ČD Cargo, a.s., with the effective date of 24 September 2018 on 24 September 2018.

Mr. Radek Nekola was re-elected by employees of ČD Cargo, a.s., as a member of the Supervisory Board of ČD Cargo, a.s., with the effective date of 1 December 2018.

Mrs. Marta Urbancová was elected by employees of ČD Cargo, a.s., as a member of the Supervisory Board of ČD Cargo, a.s., with the effective date of 1 December 2018.

Audit Committee

Chairman	Oldřich Vojíř
Member	Miroslav Zámečník
Member	Libor Joukl

1.6. ENTITIES INCLUDED IN THE CONSOLIDATION OF THE GROUP ČD CARGO

Name of the company	Main activity	Ownership percentage	Degree of influence
ČD Cargo, a.s.ČD Cargo, a. s.	Mediation of services in freight transportation and shipment		Parent Company
CD Cargo Germany GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping	100	Control
CD Cargo Austria GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping	100	Control
CD Cargo Poland Sp. z o.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping	100	Control
CD Cargo Slovakia, s.r.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping	100	Control
Auto Terminal Nymburk, s.r.o.	Shipping and technical services in transportation	100	Control
Terminal Brno, a.s.	Operations of the combined transport terminal in Brno	66,93	Control
ČD-DUSS Terminál, a.s.	Operations of the container terminal in Lovosice	51	Control
ČD Logistics, a.s.*	Shipping	100	Control
RAILLEX, a.s.	Cargo handling and technical services in transportation, shipping	50	Joint Control
BOHEMIAKOMBI, spol. s r.o.	Mediation of services in transportation except for the transportation by own vehicles	30	Significant
Ostravská dopravní společnost, a.s.	Railway transportation and lease of locomotives and wagons	50	Joint Control
Ostravská dopravní společnost – Cargo, a.s.	Railway transportation and lease of locomotives and wagons	20	Significant

* ČD Cargo, a.s. purchased in 2018 non-controlling interest in the amount of 22 %

The relations within the group of ČD Cargo are in consolidated financial statements eliminated. The consolidation group is hereinafter referred to as the "Group".

2. Significant Accounting Policies

2.1. STATEMENT OF COMPLIANCE

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

2.2. 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.

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

2.2.1. Basis of consolidation

The consolidated Financial Statements incorporate the Financial Statements of the Parent Group and entities controlled by the Group (its subsidiaries). The Group controls those entities in which it has the power to direct the relevant activities that significantly affect their returns and has exposure, or rights, to variable returns and has ability to use its power to affect the amount of the returns.

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.

2.2.2. 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 recognized in profit or loss.

Identifiable assets acquired and commitments are recognized 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 recognized 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 recognized 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 recognized 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 recognized in profit or loss. Results of amounts from shares subject to the target firm before the acquisition date that have previously been recognized 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 recognizes 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.

2.3. REVENUE RECOGNITION

2.3.1. Revenue from contracts with customers

The Group in 2018 implemented IFRS 15 - Revenue from contracts with customers. For the purpose of the first application, the Group chose a retrospective modified method that does not require the adjustment of comparable data.

To identify any performance to the customer all customer contracts are initially analysed. Subsequently, the transaction price is determined, which is allocated in the case of more identified transactions according to the relative separate sale price. Following this, the revenue from individual transaction is recognized in the appropriate amount either at a certain point in time, or over the contract life on an ongoing basis (it may be reported over several accounting periods). Revenues are reduced by expected returns from customers, rebates and other similar discounts.

Revenue is recognized in the amount that reflects the consideration to which the Group expects to be entitled in exchange for services. Revenue is recognized net of value added taxes. Revenue is recognized when the services are transferred to the customer, at the transaction price. Services and goods provided in a bundle together with railway transportation services are considered to be a single performance obligation.

Railway transportation services - Sales of railway transportation services are recognized in the accounting period in which the services are rendered based on the stage of completion of an individual transaction determined by the actual number of days of transportation spent in the reporting period relative to the total number days of transportation.

Transaction price has both fixed and variable considerations. The fixed part represents the transaction price without consideration of fees and penalty fees. If the price per supplied service by the Group is higher than the received payment for the service, the contract asset is booked. If the payment for the service is higher than the price of the service provided, the contract liability is booked. The variable consideration exists in the form of fees and penalty fees connected with the inappropriate fulfilment of the contract liability from the Group to the customer i.e. distortion of time length of the transportation, damages to the transported goods, etc. In case of variable consideration, revenues are recognized to the extent to which it is highly probable that the revenue item is not subject to its reversal.

2.3.2. Other revenue

Dividend and interest income

If the payment is probable, revenue from dividends is recognized when a legal entitlement to receive a payment occurs.

Interest revenue is recognized 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.

Revenues from lease of rolling stock

The Group leases out rolling stock to third parties for a period varying from days to five years. Revenue from operating leases of rolling stock is recognized on a straight-line basis over the term of the lease.

2.3.3. Revenue recognition under IAS 18

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. Sales of services are recognized when services are rendered to counterparties.

Revenues related to transportation services are recognized in the period in which the services are provided by reference to the stage of completion of the service.

2.4. 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 Group acts as a lessee.

Assets held under finance leases are initially recognized as assets of the Group 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 recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized 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 recognized as an expense in the period in which they are incurred.

2.4.1. 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 recognized immediately. The exception is when the loss is compensated by future lease payments set out below market price In this case, the loss must be postponed and offset in relation to the lease payments over the intended period of use of the asset.

2.5. FOREIGN CURRENCIES

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

The Czech crown is also the functional currency of the Parent Company.

Transactions denominated in foreign currencies are recorded at the 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 recognized 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 recognized 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 recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

2.6. BORROWING COSTS

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

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

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

2.7. GRANTS

Government grants are not recognized 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 recognized as a reduced cost of non-current assets in the statements of financial position.

Other government grants are recognized 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 recognized in profit or loss in the period in which they become receivable.

2.8. EMPLOYEE BENEFIT COSTS

Employee benefit costs predominantly include payroll costs, payments 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.

2.9. TAXATION

The income tax includes current tax payable and deferred tax.

2.9.1. 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.

2.9.2. Deferred tax

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, 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.

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

2.10. 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 recognized 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 recognized 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 Group defines components as follows: R3,R2 and R1 repairs relate to locomotives and review repairs relate to rail carriages. In addition, since 2018 new types of D3, D2 and D1 repairs have been implemented for locomotives, concerning the inspections and repairs of traction motors. Radio stations belongs to the components as well. For the cargo vehicles, the Group registers components as the inspection repairs and wheelsets.

Impact of the above-mentioned changes to the financial statements for the year 2018, is stated in the chapter 4.1.

The Group 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 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 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.

Within the repair type R3 (main repair) of locomotives there are activities that relate to repair type R2 (overhauls repair), that is why it was separated from R3.

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 Group 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 derecognized 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 recognized in profit or loss.

2.11. INTANGIBLE ASSETS

2.11.1. Separately acquired intangible assets
Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognized 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 derecognized 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 recognized in profit or loss when the asset is derecognized.

2.12. 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 recognized 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 recognized immediately in profit or loss.

2.13. 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. contractually agreed sharing of control of an arrangement, which exists when the decisions about the relevant activities 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. In this case, the Group usually controls 20-50% of voting rights.

Investments in associates and joint ventures are accounted for using the equity method of accounting and are initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates.

A provision is recognized that reduces the carrying amount of the investment to the recoverable amount in the situation when the carrying amount of the investment in the joint venture or associate is greater than its recoverable amount. The provision is calculated as the difference between the carrying amount and the recoverable amount of the share in the joint venture or associate.

However, when the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

If the Group's entities trade with a joint venture or with an associate of the Group, profits and losses arising from transactions with joint venture or associate are recognized 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.

2.14. INVENTORIES

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

2.15. PROVISIONS

Provisions are recognized 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 recognized 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 recognized 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.

2.16. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized 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 recognized immediately in profit or loss.

In 2018, the Group implemented IFRS 9 - Financial Instruments. For the purpose of its first application, the Group chose a retrospective modified method that does not require comparative adjustment in 2017. According to IFRS 9, financial assets are classified in the following three categories: financial assets at amortized cost, financial assets at fair value through profit or loss, or financial assets at fair value through other comprehensive income. Classification depends on how the Group manages financial assets and on the nature of the contractual cash flows of a particular financial asset.

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

As a result of the application of IFRS 9 as of 1 January 2018, the classification of financial instruments was changed without accounting impact. The change of classification can be seen in Note 33.3.

In 2017, financial assets were classified under IAS 39 into four categories: fair value financial assets recognized in profit or loss, held-to-maturity investments, available-for-sale financial assets, loans and receivables. Classification depends on the nature of financial assets and purpose of use and is determined at initial recognition.

In 2017, financial liabilities were classified under IAS 39 as financial liabilities at fair value through profit or loss or as other financial liabilities.

2.16.1. Effective interest method

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

2.16.2. Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss, when they are intended for trading or are intended as at fair value through profit or loss on initial recognition. Financial assets are also included to this category. Their contract cash flows do not represent exclusively the payment of principal and interest on the outstanding amount of the principal.

In this category, the Group reports financial derivatives for trading in other financial assets.

2.16.3. Financial assets measured at fair value through other comprehensive income

Since 2018, according to IFRS 9, financial assets which are measured at fair value in other comprehensive income represent capital investments that are not held for trading. The Group includes in such assets equity interests that are not traded on an active market. Revenue from dividends from capital investment is recognized in profit or loss if the Group obtains the right to receive the dividend.

Under IAS 39 in 2017, these financial assets were classified as sale financial assets, which were identified as 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. Among these financial assets, the Group included equity investments that were not traded on the active market and reported them at their cost less impairment losses because their fair value could not be measured reliably.

2.16.4. Financial assets at amortized costs

Loans and receivables (including bank balances) are financial assets held under a business model that are intended to collect contractual cash flows that represent only principal and interest payments on unpaid principal amounts. For this reason, the Group recognizes these assets at amortised cost using the effective interest method, less impairment losses. These assets arise when the Group provides cash, goods or services directly to the borrower without planning to trade with the receivable.

In 2017, the Group measured loans and receivables at net book value using the effective interest method less impairment losses.

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

2.16.5. Impairment of financial assets

Financial assets, other than those at FVTPL, will be assessed for the expected credit losses for the year 2018 at the time of recording the asset in the accounts.

Full model (3 stage impairment model): At initial reporting, a financial asset is included in Tier 1 for which an impairment loss is recognized at the level of the expected 12-month credit loss. During the life of the financial asset, the Group identifies whether there has been a significant increase in credit risk. If so, such a financial asset is transferred to a Tier 2 for which an impairment loss is recognized at the level of the expected lifetime loss. In the case of credit counterparty default, such financial asset is transferred to Tier 3. At this level, interest income on a financial asset is reported from the carrying amount of the asset after taking the impairment into account using the original effective interest rate.

For the purpose of determining the expected credit losses, the Group applies a simplified IFRS 9 approach that uses the lifetime expected loss measurement for all short-term receivables from both business and short-term finance lease receivables.

The simplified model is applied to short-term business receivables that do not have a significant financing component. Based on a matrix of impairment that includes historical inputs and inputs with future expectations, the Group calculates provisions for portfolio-rated receivables.

In the case of receivables being assessed individually, the Group considers the following factors that affect the ability of the debtor to meet its obligations:

- Future outlook;
- Payment Morality;
- Customer knowledge (i.e. advance payments).

The Group considers the potential impairment of cash and cash equivalents to be insignificant due to the high credit quality as documented by the investment external rating of the bank's houses with which the Group cooperates.

In 2017, financial assets, other than those at FVTPL, were 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 recognized 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 decreased and the decrease could be related objectively to an event occurring after recognition of the impairment loss, the previously recognized impairment loss was cancelled through profit or loss. The carrying value of the investment at the date of cancellation of the impairment could not be higher than it would be in its residual value if the impairment has not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit were not cancelled through profit or loss. Any increase in fair value after recognition of the impairment loss was recognized in other comprehensive income.

Reconciliation of impairments

The following table compares the amounts of impairments for the prior period that were measured in accordance loss model due to IAS 39 with the new expected credit loss that is determined in accordance with the expected credit loss model under IFRS 9 as of 1 January 2018:

(CZK million)	Impairments before changes in accounting policy as of 31 Dec 2017	Change in impairments due to transition to IFRS 9	Expected credit loss under IFRS 9 as of 1 Jan 2018
Financial asset valuation category	–	–	–
Short-term financial assets	–	–	–
Trade receivables	142	4	146

Management assessed implementation impact of IFRS 9 on category "Other financial assets" and recognized no impairment in respect of those assets.

2.16.6. Derecognition of financial assets

The Group derecognizes 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 recognizes 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 recognize the financial asset and also recognizes 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 recognized in other comprehensive income and accumulated in equity is recognized in profit or loss

2.16.7. Own 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 recognized at the proceeds received, net of direct issue costs.

2.16.8. 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 recognized in profit or loss.

In this category, the Group reports financial derivatives recognized under other financial liabilities.

2.16.9. Financial Liabilities at amortized cost
In 2018, in accordance with IFRS 9, borrowings, bonds, supplied credits and other financial liabilities measured at fair value through profit or loss are classified and measured as financial liabilities at the amortized cost.

In 2017, under IAS 39, other financial liabilities were measured at net book value using the effective interest method.

The group did not identify any significant changes in the fair value of financial liabilities during the implementation of IFRS 9.

2.16.10. Derecognition of Financial Liabilities
The Group derecognizes 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 derecognized and the consideration paid or payable is recognized in profit or loss.

2.16.11. 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 recognized 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 recognized in profit or loss immediately unless the derivative is designated as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group classifies derivatives that do not qualify for hedging derivatives as at FVTPL.

2.16.12. 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 and monitors whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Since 2018, according to IFRS 9 the Group follows up the hedging ratio, inefficiency sources and the impact of credit risk. Hedge accounting corresponds to the Group's risk management strategy. According to IFRS 9, the Group does not separate the internal value of interest rate and commodity options and the spread from currency derivatives as collateral. In 2017, the Group met the hedge accounting conditions of IAS 39.

2.16.13. Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of the cash flow hedging reserve. Since 2018 the Group does not separate costs of hedge accounting under IFRS 9, when conditions to recognize these costs in the other comprehensive income are met. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the statements of profit or loss as the recognized 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 recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

The Group terminates prospectively the entire hedging relationship in the following cases: if the hedging relationship ceases to meet the risk management objectives under which it became eligible for hedge accounting, or if hedging relationship ceases to meet the other eligibility criteria (even after taking into account any possible rebalancing of the hedging relationship), or if the hedging instrument was sold or terminated in relation to the entire amount that was part of the hedging relationship), or if hedging instrument ceases to exist in the economic relationship between the hedged item and the hedging instrument, or if the development of credit risks begins to dominate the changes in value resulting from the economic relationship, or if hedged cash flows (for the entire hedging) cannot be considered as highly probable.

The Group terminates prospectively part of the hedging relationship when: part of the volume of the hedged item ceases to be part of the hedging relationship as a result of the hedge ratio adjustment or if only part of the future transaction volume is no longer probable. In case when hedge accounting or its part is completed, the fair value of derivatives (or their part relating to the terminated part of the hedging relationship) is recognized in the income statement.

2.16.14. 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 recognized 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 2018

During the year ended 31 December 2018 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 9 – Financial instruments	1 January 2018
IFRS 15 - Revenue from Contracts with Customers	1 January 2018
IFRS 2 – Amendment IFRS 2 – Classification and valuation of transactions related to shares	1 January 2018
IFRS 4 – Amendment IFRS 4 – Use of IFRS 9 Financial instruments jointly with IFRS 4 Insurance contracts	1 January 2018
IAS 40 – Amendment IAS 40 – Transfer of investments into property	1 January 2018
Yearly improvement of IFRS – cycle 2014 -2016	1 January 2018
IFRIC 22 - Foreign Currency Transactions and Advance Consideration	1 January 2018

Cumulative impact of changes as of 1 January 2018 due to the adoption of the standards IFRS 15 and IFRS 9 is as follows:

(CZK million)	31 Dec 2017 (recognized)	Impact of adaptation IFRS 15	Impact of adaptation IFRS 9	1 Jan 2018
CURRENT ASSETS				
Trade receivables and contracted assets	1,697	-	(4)	1,693
NON-CURRENT ASSETS				
Deferred tax liability	1,500	-	(1)	1,499
NON-CURRENT PAYABLES				
Provisions	246	(11)	0	235
Other liabilities	446	11	0	457
EQUITY				
Retained earnings	(461)	-	(3)	(464)

Impact of the implementation of IFRS 15 to the income statement:

(CZK million)	2018 (recognized)	Balance without adoption IFRS 15	Adoption impact
Revenue	13,076	13,078	(2)
Other operating income	287	289	(2)
Other operating expenses	(368)	(372)	4

Reimbursements of damages for intrastate and international transportation were before the adoption of IFRS 15 presented as a part of "Other operating expenses". After the adoption of IFRS 15, the reimbursements for damages decrease the amount of "Revenue" and "Other operating income". This came to the amount of CZK 4 million as of 31 December 2018.

(CZK million)	2018 (recognized)	Balance without adoption IFRS 15	Adoption impact
Revenue	13,076	12,617	459
Other operating income	287	746	(459)

Item Rental income" in the amount of CZK 459 million from rail vehicles was reclassified from "Other operating income" to "Revenue".

(CZK million)	2018 (recognized)	Balance without adoption IFRS 15	Adoption impact
Revenue	13,076	13,097	(21)
Other operating income	287	286	1
Other operating expenses	(368)	(388)	20

Revenue in the income statement is reduced by CZK 21 million due to reclassification of provision for complaints from "Other operating expenses".

(CZK million)	31 December 2018 (recognized)	Balance without adoption IFRS 15	Adoption impact
Short-term provisions	213	244	(31)
Other liabilities and contract liabilities short-term	871	840	31

The Group changed presentation of the below-stated items in the Statement of financial position in relation to the contracts with the customers as follows:

- "Refunds liabilities" in the amount of CZK 31 million related to the complaints and levelling are newly presented as part of the "Other liabilities and contract liabilities". It was presented as part of "Provisions" in 2017 (CZK 11 million as of 31 December 2017).

Changes triggered by implementation of IFRS 9:

- The Group creates an impairment for accounts receivables not yet due based on the expected rate of default derived from historical experience. The impact on the calculation of the expected credit loss provision as of 1 January 2018 due to the change was CZK 4 million.
- The adoption of IFRS 9 as of 1 January 2018 led to some changes in the classification categories of financial instruments, with no impact on their presentation on the face of the statement of financial position and no material impact on measurement.

Adoption of the other, above-stated standards and interpretations during the accounting period did not have a significant impact on the Group.

3.2. STANDARDS AND INTERPRETATIONS USED BEFORE THEIR EFFECTIVE DATES
The Group did not apply any standard or interpretations before their effective dates.

3.3. STANDARDS AND INTERPRETATIONS THAT WERE PUBLISHED AND NOT YET USED BY THE GROUP
As of the date of the financial statements, the following standards and interpretations were published that were not yet effective and which the Group did not use before its effective date.

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 9 – Amendments of IFRS 9 – Early repayment with negative compensation	1 January 2019*
IFRS 10, IAS 28 – Amendment of IFRS 10 a IAS 28 – Sale or deposit of assets between the investor and its affiliated or joint company	Date will be determined*
IAS 28 – IAS 28 Amendment – Long-term interests in affiliated and joint companies	1 January 2019*
Yearly improvement of IFRS – cycle 2015 -2017	1 January 2019*
IFRIC 23 – Uncertainty over Income Tax Treatments	1 January 2019*

* Standards, amendments and interpretations, that were not yet approved for the use as EU-adopted

The Group expects to present significant number of concluded rental contracts arising from the standard requirements of IFRS 16 in the Statement of financial position. Standard IFRS 16 will be implemented by the Group as of 1 January 2019 set within the standard. The Group assessed the impact of the adoption of the standard. From the results of performed analysis, it is calculated that the Group's assets increases by CZK 2,271 million and Group's liabilities increases by CZK 2,740 million (short-term part is CZK 612 million). Impact on the retained earnings is calculated on CZK 469 million. Part of the amount is also CZK 409 million that represents the provision for loss-making contract concluded in 2014 (see chapter 16). Due to the implementation of the IFRS 16, the contract will be classified as operating lease and the remaining part of the provision will be presented as decrease of the rights-of-use item. The Group will use the modified retrospective method with two recognition and measurement exemptions applied: short-term lease; and the leases for which the underlying assets of a low value.

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 recognized 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 Group identified no changes in the useful lives of property, plant and equipment, the situation may change in the following periods.

In 2018, there was a change in the Parent Group's accounting estimate when a new maintenance order was implemented for traction vehicles, based on which original, main and overhauls repairs have been replaced by R3, R2 and R1 type repairs, where R3 has the largest scope of work corresponding to the original main repair. R2 repair with its scope corresponds to the overhauls repair, the R1 repair has been carried out again, where the scope of work is less than for the overhauls repair. After the implementation of new types of repairs, the limit of kilometrage for individual repairs was adjusted, with the implementation of R1 type repairs limits for R3 and R2 repairs were extended. In addition, new types of D3, D2 and D1 repairs have been implemented for locomotives, concerning the inspections and repairs of traction motors. Depreciation is carrying out based on hourly operating hours. Impact of the implementation of the new maintenance order resulted in decrease of depreciation in year 2018 by CZK 67 million compared to year 2017.

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 (see Note 5).

5. Property, Plant and Equipment

Cost (CZK million)	Balance at 1 Jan 2017	Additions	Disposals	Transfers	Exchange differences	Balance at 31 Dec 2017	Additions	Disposals	Transfers	Exchange differences	Balance at 31 Dec 2018
Land	131	21	-	-	-	152	1	-	-	-	153
Constructions	1,604	48	(1)	2	-	1,653	21	-	3	-	1,677
Individual movable assets	39,032	1,244	(1,332)	68	(3)	39,009	2,206	(1,964)	74	(14)	39,311
- Machinery, equipment, and furniture and fixtures	445	33	(4)	5	-	479	29	(1)	2	-	509
*- Vehicles**	38,434	1,210	(1,327)	61	(3)	38,375	2,176	(1,963)	76	(14)	38,650
- Vehicles acquired under finance leases	144	-	-	2	-	146	1	-	(4)	-	143
- Other	9	1	(1)	-	-	9	-	-	-	-	9
Assets under construction	135	163	(5)	(71)	-	222	444	(162)	(140)	-	364
Prepayments	-	30	-	-	-	30	184	-	-	-	214
Total	**40,902**	**1,506**	**(1,338)**	**(1)**	**(3)**	**41,066**	**2,856**	**(2,126)**	**(63)**	**(14)**	**41,719**

Accumulated depreciation and impairment allowances (CZK million)	Balance at 1 Jan 2017	Additions	Disposals	Impairment	Balance at 31 Dec 2017	Additions	Disposals	Transfers	Impairment	Balance at 31 Dec 2018
Constructions	858	40	(1)	-	897	42	-	-	-	939
Individual movable assets	25,578	1,069	(1,202)	37	25,482	1,116	(1,938)	-	82	24,742
- Machinery, equipment, and furniture and fixtures	314	21	(4)	-	331	26	(1)	1	-	357
*- Vehicles**	25,224	1,041	(1,197)	37	25,105	1,083	(1,937)	2	82	24,335
- Vehicles acquired under finance leases	33	6	-	-	39	6	-	(3)	-	42
- Other	7	1	(1)	-	7	1	-	-	-	8
Assets under construction	3	-	-	2	5	-	-	-	1	6
Total	**26,439**	**1,109**	**(1,203)**	**39**	**26,384**	**1,158**	**(1,938)**	**-**	**83**	**25,687**

Net book value (CZK million)	Balance at 1 Jan 2017	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Land	131	152	153
Constructions	746	756	738
Individual movable assets	13,454	13,527	14,569
- Machinery, equipment, and furniture and fixtures	131	148	152
*- Vehicles**	13,210	13,270	14,315
- Vehicles acquired under finance leases	111	107	101
- Other	2	2	1
Assets under construction	132	217	358
Prepayments	-	30	214
Total	**14,463**	**14,682**	**16,032**

* Vehicles purchased using sale and leaseback are presented in the financial statements under the „Vehicles". Their net book value amounted to CZK 3,471 million as of 31 December 2017, and CZK 3,185 million as of 31 December 2018. Liabilities arising from these financial leasebacks are part of Note 15.2 "Liabilities from financial lease and leaseback". The Groups' liabilities from sale and 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 include mainly buildings and land. Land and buildings do not include railway routes, which are owned by the company Správy železniční dopravní cesty, s.o.

Vehicles mainly comprise rail vehicles (driving rail vehicles, freight cars) used for railway freight transport. As of 31 December 2018, these assets have been impaired by CZK 277 million, which was determined as a difference between net book value and the recoverable amount. Current year impact on statement of profit and loss is CZK 83 million.

In 2018, the biggest increases of movable tangible assets relate to the revision repairs (components) of trucks in the amount of CZK 927 million, repairs of R and D type (components) of the drive rail vehicles in the amount of CZK 457 million.

In addition, the following acquisitions were made by the Group:

- 86 units of freight wagons Series Sggrrs - innowagon 80 ft (Innofreight technology) in the amount of CZK 265 million;
- Two vehicles of Vectron 383 series in the amount of CZK 201 million;
- Wheelsets (components) to trucks in the amount of CZK 179 million;
- Advances for new Vectron, Traxx and 744 series locomotives, amounting to CZK 270 million;
- 34 units of freight wagons Series Falls in the amount of CZK 30 million.

"Restricted cash" represents a grant in the total amount of CZK 292 million as part of "Other financial assets", provided in 2016 within the subsidy project to equip traction vehicles with the on-board part of the European Train Control System (ETCS). The grant is held by Komerční Banka on the subsidy account. In 2017, the grant was not drawn and the decrease in the amount is due to the revaluation of the amount denominated in Euros. As of 31 December 2017, the subsidy was classified as long-term.

In 2018, ČD Cargo, a.s. has received another part of the subsidy in the amount of CZK 68 million and has already paid out part of the grant for the acquisition of the first prototype of the drive railway vehicle in the amount of CZK 18 million. According to current assumptions the remaining grant should be used to supply prototypes for selected series of locomotives in 2019. For this reason, the remaining part of the grant received in the amount of CZK 330 million was recognized as short-term. Mother company ČD Cargo, a.s. has finished part of the tender with concluded contracts for the delivery of the ETCS security system for railway vehicles. Tenders not yet finalized are in their final stage in respect to all of the grant contracts. At the moment, there are no signs, that the received grant will not be used in the current year in full amount.

Railway vehicles are depreciated to the estimated residual value and in accordance with useful life mentioned in the table below. Components of these railway vehicles are depreciated based on actual kilometres. For other items 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 via the loan in the value of CZK 31 million as of 31 December 2018 and CZK 38 million as of 31 December 2017. The Group's liabilities from leaseback transactions are secured by the lessor right to the leased assets.

6. Intangible Assets

Cost (CZK million)	Balance at 1 Jan 2017	Additions	Disposals	Transfers	Exchange differences	Balance at 31 Dec 2017	Additions	Disposals	Transfers	Exchange differences	Balance at 31 Dec 2018
Software	662	87	-	29	-	778	108	-	52	-	938
Royalties	116	1	(6)	(11)	-	100	6	-	16	-	122
Assets under construction	21	77	-	(19)	-	79	28	(6)	(68)	-	33
Total	**799**	**165**	**(6)**	**(1)**	**-**	**957**	**142**	**(6)**	**-**	**-**	**1,093**

Accumulated amortization (CZK million)	Balance at 1 Jan 2017	Additions	Disposals	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Software	345	79	0	424	83	0	507
Royalties	88	7	(6)	89	5	0	94
Total	**433**	**86**	**(6)**	**513**	**88**	**0**	**601**

Net book value (CZK million)	Balance at 1 Jan 2017	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Software	317	354	431
Royalties	28	11	28
Assets under construction	21	79	33
Total	**366**	**444**	**492**

Transfers represent transfers of asset between asset groups (IAS 38) relating to software and royalties. Amortization of intangible assets has been recognized in the line Depreciation and amortisations in the statement of profit and loss. Assets under construction include items that are developed in cooperation with suppliers, thus these assets do not represent an internally developed assets.

As of 31 December 2018 the valuable rights include licenses with a total net book value of CZK 28 million. The most significant items are SAP licenses in the amount of CZK 11 million, Altworx licenses in the amount of CZK 8 million, Microsoft EA licenses, Exchange and Sharepoint in the amount of CZK 4 million and Virusfree licenses in the amount of 4 million CZK. In 2018, licenses were capitalised in the amount of CZK 22 million.

Additions occurred in 2018 relate to SAP IS upgrades amounted to CZK 33 million, development of operational information systems in the amount CZK 32 million, development of BI solutions totalling CZK 30 million, development of IS PRIS in the amount of CZK 21 million. The rest relates to other economic or operational tasks.

The length of amortization of intangible assets:

	Number of years
Software	3 – 10
Royalties	6 – 10

6.1. SOFTWARE

Net book value (CZK million)	Balance at 1 Jan 2017	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Operational and business tasks under the project PROBIS	188	219	262
SAP	48	41	43
IT Security Program	31	25	24
Other	50	69	102
Total	**317**	**354**	**431**

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 2018 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 28 million, Altworx which monitors evaluation of Group's basic capacities (operating personnel, traction vehicles and freight wagons) in amount of CZK 23 million, computerisation of engine drivers in the amount of CZK 17 million and system development and SAP tasks.

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.	Americká 525/23, 120 00 Prague 2	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 of 31 Dec 2018	Ownership interest as of 31 Dec 2017	Ownership interest as of 1 Jan 2017
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%	50%	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%	20%	-

7.2. SUMMARY OF FINANCIAL INFORMATION ON JOINT VENTURES AND ASSOCIATES

31 December 2018 (CZK million)	RAILLEX a.s.	BOHEMIAKOMBI, spol. s r.o.	Ostravská dopravní společnost, a.s.	Ostravská dopravní společnost - Cargo, a.s.
Total assets	**43**	**30**	**209**	**180**
Current assets	43	28	209	119
Non-current assets	-	2	-	61
Total liabilities	**24**	**22**	**163**	**42**
Current liabilities	24	22	163	42
Non-current liabilities	-	-	-	-
Net assets	19	8	46	138
Share of net assets	**9**	**-**	**23**	**28**

31 December 2017 (CZK million)	RAILLEX a.s.	BOHEMIAKOMBI, spol. s r.o.	Ostravská dopravní společnost, a.s.	Ostravská dopravní společnost - Cargo, a.s.
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**

(CZK million)	2018	2017
Total income	1,383	1,299
Profit for the period	42	42
The Company's share of the profit for the period	**12**	**13**

8. Inventories

(CZK million)	31 Dec 2018	31 Dec 2017
Spare parts and other components for rail vehicles and locomotives	103	95
Other machinery, tools and equipment and their spare parts	56	62
Fuels, lubricants and other oil products	4	3
Work clothes, work shoes, protective devices	2	2
Other	27	25
Total costs	**192**	**187**
Write-down of inventories to their net realizable value	-	-
Total net book value	**192**	**187**

9. Trade Receivables

Trade receivables consist of the items as follows:

(CZK million)	31 December 2017	IFRS 9	1 January 2018	31 December 2018
Trade receivables	1,697	(4)	1,693	1,756
Total	**1,697**	**(4)**	**1,693**	**1,756**

	Category	Before due date	Past due date (days)					Total past due date	Total
(CZK million)			1 - 30	31 – 90	91- 180	181 -365	366 and more		
31 December 2018	Gross	1,629	147	30	2	7	89	275	1,904
	Allowances	(28)*	(13)	(14)	(1)	(4)	(88)	(120)	(148)
	Net	**1,601**	**134**	**16**	**1**	**3**	**1**	**155**	**1,756**
31 December 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**

* includes an amount of CZK 4 million arising from the implementation of IFRS 9 as described in Notes 3.1. and 9.1.

9.1. MOVEMENT OF ALLOWANCES FOR DOUBTFUL RECEIVABLES

Movement of allowances for doubtful receivables (CZK million)	2018	2017
Allowances at 1 January 2018	**142**	**162**
Amounts adjusted in the opening balance of retained earnings*	4	-
Allowances at 1 January 2018 – impacted by IFRS 9	**4**	**-**
Set up of allowances – trade receivables	58	38
Use of allowances – trade receivables	(56)	(58)
Allowances at 31 December 2018	**148**	**142**

* the result of implementation of IFRS 9 as of 1 Jan 2018, see Note 3.1.

10. Other Financial Assets

(CZK million)	31 Dec 2018	31 Dec 2017
Hedging derivatives	-	21
Restricted cash	-	276
Other financial assets	-	125
Other non-current financial assets	**-**	**422**
Hedging derivatives	8	75
Group cash pooling	2	2
Receivables from damages and losses	7	16
Receivables from damages and losses - allowances	(4)	(13)
Restricted cash (see Note 5)	330	-
Other financial assets	180	33
Other financial assets - allowances	(18)	(13)
Other current financial assets	**505**	**100**
Total	**505**	**522**

Hedging derivatives and derivatives held for trading are measured at fair value, other financial assets are measured at amortized cost.

Other financial assets mainly consist of refundable prepayments made by CD Cargo Poland, Sp. z o.o. (the prepayments were paid in installments) related to the purchase price of leased assets to be paid at the end of the lease contract. The balance of the prepayment as of 31 December 2018 was CZK 153 million (as of 31 December 2017, the prepayment was CZK 136 million; CZK 124 million was classified as Other non-current financial assets).

No provision for expected credit losses was made for individual financial assets in the category other financial assets in connection with IFRS 9.

11. Other Assets

(CZK million)	31 Dec 2018	31 Dec 2017
Prepayments	1	1
Total non-current assets	**1**	**1**
Prepayments	30	25
Tax receivables - VAT	133	58
Prepaid expenses	48	40
Other	5	46
Total current assets	**216**	**169**
Total	**217**	**170**

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

12. Cash and Cash Equivalents

Cash and cash equivalents are measured at amortized cost in the balance sheet and tested for impairment under IFRS 9. The Group considers the potential impairment of these items to be insignificant due to the high credit quality of the cash deposits held by reputable financial institutions with a high investment credit rating.

(CZK million)	31 Dec 2018	31 Dec 2017
Cash on hand and cash in transit	2	4
Cash at bank*	723	686
Total**	**725**	**690**

* the contractual partners of the Group are renowned banks with a high credit rating (investment grade required) with which the Group cooperates on the basis of long-term and stable relationships
** in accordance with IFRS 9, impairment losses on the Group's cash and cash equivalents were evaluated as insignificant

Total bank balances in bank institutions of the companies within the Group are presented in the following table:

Bank (CZK million)	Short-term rating	Long-term rating	Bank balances as of 31 Dec 2018	Bank balances as of 31 Dec 2017
Komerční banka	P-1	A1	22	37
ČSOB	P-1	A2	387	287
Citibank	P-1	A1	80	74
ING bank	P-1	Aa3	85	134
Česká spořitelna	P-1	A1	1	1
UniCredit Bank	P-2	A3	41	1
Raiffeisenbank,a.s.	P-2	Baa1	1	-
Všeobecná úvěrová banka a.s.	P-1	A2	61	42
Allior*	B	BB	-	-
Millenium bank	P-2	Baa2	2	7
Deutsche Bank	P-2	A3	0	11
Frankfurter Sparkasse*	A+	F1+	27	4
Bank Austria	P-2	Baa1	12	8
Slovenská sporiteľňa*	P-1	A2	-	80
Tatra banka	P-2	A3	3	-
Fio banka			1	-
Total			**723**	**686**

* the table presents Moody's bank rating at the end of 2018, except for the designated banks with a bank rating from Fitch

13. Equity

13.1. SHARE CAPITAL

As of 31 December 2018, the share capital of Parent Company amounted to CZK 8,494 million and consisted of 100 pieces of dematerialised registered shares. The share capital was fully paid.

13.2. CAPITAL FUNDS

(CZK million)	31 Dec 2018	31 Dec 2017
Share premium	197	197
Statutory reserve fund	220	183
Cash flow hedging reserve	(24)	74
Actuarial losses	(16)	(4)
Foreign currency translation fund	(1)	-
Other funds	(16)	-
Total	**360**	**450**

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

Cash flow hedge reserve

(CZK million)	2018	2017
Balance at the beginning of the year	**74**	**17**
Profit (loss) from revaluation	(50)	86
Reclassifications to profit or loss upon settlement	(71)	(16)
Total change in the cash flow hedging reserve	**(121)**	**70**
Relating income tax	23	(13)
Balance at the end of the year	**(24)**	**74**

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 principle.

Reclassification from hedge reserve into profit or loss

Currency forwards and swaps – securing future income in foreign currencies (CZK million)	2018	2017
1 January 2018	**66**	**1**
Change in the fair value of the hedging derivatives	(38)	83
Reclassification to the income	(66)	(3)
Related corporate income tax – change	20	(15)
31 December 2018	**(18)**	**66**

Interest swaps – securing loans and lease contracts with variable rate (CZK million)	2018	2017
1 January 2018	**(6)**	**13**
Change in the fair value of the hedging derivatives	(13)	3
Reclassification to the financial expenses and income	(9)	(21)
Related corporate income tax – change	(1)	(2)
31 December 2018	**(29)**	**(7)**

Commodity options – securing prices for the purchases of oil and traction energy (CZK million)	2018	2017
1 January 2018	**15**	**2**
Change in the fair value of the hedging derivatives	-	2
Reclassification to the financial expenses and income	4	8
Related corporate income tax – change	4	3
31 December 2018	**23**	**15**

14. Trade Payables

Year	Category	Before due date	Past due date (days)					Total past due date	Total
(CZK million)			1 - 30	31 – 90	91- 180	181 -365	over 365		
31 December 2018	Short-term	2,162	35	3	-	9	-	47	2,209
31 December 2017	Short-term	1,764	37	4	1	-	-	42	1,806

The average maturity of invoices is 90 days. The Group does not recognize any non-current trade payables.

15. Loans, Borrowings and Bonds

(CZK million)	31 Dec 2018	31 Dec 2017
Liabilities from leaseback	1,102	1,584
Liabilities from finance leases	36	50
Issued bonds	2,995	1,997
Borrowing from České dráhy, a.s.	281	352
Other received long-term loans and borrowings	25	2
Total long-term	**4,439**	**3,985**
Liabilities from leaseback	650	504
Liabilities from finance leases	28	25
Overdraft accounts	11	-
Issued bonds	15	3
Borrowing from České dráhy, a.s.	74	73
Other received short-term loans and borrowings	6	52
Total short-term	**784**	**657**
Total	**5,223**	**4,642**

Loans are initially recognized at fair value less transaction costs. In the following periods, loans are measured at amortised cost using the effective interest method, all differences between the consideration (less transaction costs) and instalments are recognized in the consolidated income statement over the entire period of the loan.

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). As of 31 December 2018 the remaining part of the borrowing is split into long-term part in the amount of CZK 281 million and short-term part in the amount of CZK 74 million.

Portions of long-term loans and borrowings, due within one year from the consolidated financial statements date are recognized 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 approved the bond programme of the parent company ČD Cargo, a.s. 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 of 31 December 2018:

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
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

Administrátor	Komerční banka, a.s.
Date of issue	20 July 2018
Trading	Bonds admitted to trading on a regulated market of the Prague Stock Exchange
Total nominal value	1,000,000,000 Kč
Nominal value of the bond	5,000,000 Kč
Interest rate	fixed interest income 2.55 %
Issue rate	100 %
Payment of interest income	annually retrospectively
Date of interest payment	20 July each year
Date of the final maturity	20 July 2025

15.2. FINANCIAL LEASE AND LEASEBACK LIABILITIES

The Group concluded several lease contracts for the purchase of railway vehicles. The loans mature in 10 and more years. Pursuant to a lease contract, the Group has the ability to buy these vehicles upon the expiration of the lease. The Group'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:

(CZK million)	Minimum lease payments		Present value of minimum lease payments	
	31.12.2018	**31.12.2017**	**31.12.2018**	**31.12.2017**
Less than 1 year	744	613	678	529
From 1 to 5 years	1,077	1,552	983	1,412
5 years and more	159	229	155	222
Total	**1,980**	**2,394**	**1,816**	**2,163**
Less future finance expenses	(164)	(231)		
Present value of minimum lease payments	**1,816**	**2,163**	**1,816**	**2,163**
In the statement of financial position as:				
- short-term loans			678	529
- long-term loans			1,138	1,634
Total			**1,816**	**2,163**
In the statement of financial position as:				
- financial lease liabilities			64	75
- leaseback liabilities			1,752	2,088
Total			**1,816**	**2,163**

The finance lease arising from acquisition of fixed assets is recognized as a non-cash transaction in the statement of cash flows. Instalments of finance lease are recognized as cash flows from financing activities.

Finance lease and leaseback liabilities are presented within Financial Instruments in Note 33.3.

Fair value of the finance lease liabilities is disclosed in the note 33.11.1.

16. Provisions

(CZK million)	Balance as of 31 Dec 2017	IFRS 15 adjustments	Balance as of 1 Jan 2018	Creation	Use	Cancellation	Balance as of 31 Dec 2018
Provision for legal disputes	49	-	49	4	-	-	53
Provisions for employee benefits	149	-	149	72	(58)	-	163
– of which long-term part	*80*		*80*				*101*
Provision for loss-making transactions	462	-	462	-	(53)	-	409
- of which long-term part	409		409				350
Other provisions*	75	(11)*	64	47	(66)	(6)	39
Total provisions	**735**	**(11)**	**724**	**123**	**(178)**	**(6)**	**664**
– Long-term	*489*						*451*
– Short-term	*246*						*213*

** In 2018, other provisions include mainly provisions for damages and restructuring, reclassification arising from application of IFRS 15 is described in Note 3.1. (provisions for complaints and levelling are classified as "Contract liability - Refund" under "Other liabilities" as of 1 January 2018), see Chapter 18.*

As of 31 December 2018, 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, potential development of disputes in accordance with the natural rate of prudence, decided to increase the provision by CZK 4 million to cover potential litigation costs. Therefore provision for legal disputes as of 31 December 2018 amounted to CZK 53 million (as of 31 December 2017: CZK 49 million).

The largest part of the provision represents the provision for the dispute with the company AWT Čechofracht (AWTČ). AWTČ claims reimbursement for the direct damaged caused on the returned vehicles and lost profit for the period when AWTČ could not use the vehicles due to their repairs. Provision is as at 31 December 2018 in the amount of CZK 47 million (principal CZK 34 million, interest accrued in the amount CZK 13 million). The judicial proceedings started in the year 2013.

Other provisions as of 31 December 2018 include mainly the Parent Company's provisions for damages and restructuring. The restructuring provision amounted to CZK 11 million is planned be used during the first half of 2019. According to the initial plan, the optimisation process should have been completed as of 31 December 2017, and respectively 2018, as noted in prior financial statements. Based on decision of Group's management, the process of optimising and internal processes streamlining were slightly prolonged and will be completed in the first half of 2019. In accordance with this decision, the remaining unused part of the restructuring provision as of 31 December 2018 of CZK 11 million will be used to cover the costs related to the completion of the optimisation process in 2019. It relates mainly for expenses connected to the severance payments.

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 at the amount of CZK 163 million as of 31 December 2018. In comparison with 2017, the balance of provisions increased mainly due to the increased average cost of the heath recovery holidays.

In calculating the provision, the Group 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 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 discount rate of 7% was used. The total amount of the provision as of 31 December 2017 was CZK 462 million. At the end of 2018, the total amount is CZK 409 million.

17. Other Financial Liabilities

(CZK million)	31 Dec 2018	31 Dec 2017
Hedging derivatives	25	1
Liability arising from supplier loans	5	24
Other	27	107
Total long-term liabilities	**57**	**132**
Hedging derivatives	13	4
Derivatives held for trading	-	1
Liability arising from supplier loans	40	121
Other	122	140
Total short-term other financial liabilities	**175**	**266**
Total other financial liabilities	**232**	**398**

Financial derivatives held for trading are measured at fair value, other financial liabilities are measured at amortised cost.

The item "Other" includes 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 and Contract Liabilities

Other liabilities and contract liabilities consist of items, as follows:

(CZK million)	31 Dec 2018	31 Dec 2017
Received grant	-	292
Other	116	103
Total long-term	**116**	**395**
Advances received	-	1*
Payables to employees	303	262
Liabilities for social security and health insurance	147	127
Tax liabilities - tax withheld employees	47	39
Tax liabilities – VAT	4	7
Received grant	330	-
Other	8	10
Total short-term	**839**	**446**
Contract liabilities	1*	-*
Refunds liabilities	31**	-**
Short-term Other liabilities and contract liabilities	**871**	**446**
Total Other liabilities and contract liabilities	**987**	**841**

* as of 31 December 2017 Contractual Commitments were equal to CZK 1 million and presented the line "Advances received"
** as of 31 December 2017 Reimbursement Commitments were equal to CZK 11 million, and in 2017 were recognized under "Other provisions" before the IFRS 15 implementation

The Parent Company received the grant in 2016 in the amount of CZK 292 million under the grant project equipment powered board part vehicles of European safety system ETCS. As of 31 December 2017, the grant was classified as long-term and presented as part of the item "Received grant". As of 31 December 2018, the grant was classified as short-term (further details in Note 5).

Other long-term liabilities represent liabilities to employees of the Parent Company arising from applicable collective agreement.

Short-term liabilities to employees within the Group represent a liability for unpaid December salaries.

The Group does not recognize past due liabilities to taxation authorities, social security authorities or health insurers past their due dates.

19. Contracts for Operating Leases

19.1. THE GROUP AS A LESSEE

In 2018 Group's expenses arising from the leasing of railway wagons on the basis of individual contracts amounted to CZK 461 million (in 2017: CZK 402 million).

The Group's lease related to the Innofreight technology amounted to CZK 61 million in 2018 (CZK 39 million in 2017).

In 2018 Group's expenses arising from the property rental amounted to CZK 99 million (in 2017: CZK 98 million). In 2018, the Parent Company as a tenant recognized an amount of CZK 84 million arising from the lease of constructions and land in the Lovosice Logistics Centre (the same amount was recognized in 2017).

As of the balance sheet date 31 December 2018, the Group has concluded a car lease and real estate agreement of CZK 3,632 million, of which CZK 3,001 million relates to unpaid supplies. The remaining amount of CZK 631 million was already paid as of 31 December 2018. A substantial part of expenses liabilities of CZK 2,377 million represents the lease of railway rolling stock and superstructures.

Contractual obligations relating to rents (CZK million)	Min. leas. installments as of 31 December 2018	Min. leas. installments as of 31 December 2017
Less than 5 years	630	624
1-5 years	2,212	2,260
over 5 years	159	355
Contractual obligations in total	**3,001**	**3,239**

19.2. THE GROUP AS A LESSOR

Operating leases applies to rental of traction vehicles wagons and cisterns held by the Group with various lease periods.

In 2018, income from short-term operating leases of movable assets amounts to CZK 458 million (in 2017: CZK 383 million).

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

19.3. CONTRACTUAL OBLIGATIONS

As at 31 December 2018, the Group concluded contracts for the purchase of property, plant and equipment and investment property in the amount of CZK 8,333 million, of which CZK 6,980 million relates to unpaid supplies out of which 3,181 represents investments to be paid in 2019 and 3,799 to be paid in subsequent years. The remaining amount of CZK 1,353 million was paid as of 31 December 2018. A significant part of the contract liabilities in the amount of CZK 6,797 million relates to investments in railroad vehicles.

As at 31 December 2017, the Group concluded contracts for the purchase of property, plant and equipment and investment property in the amount of CZK 2,121 million, of which CZK 1,369 relates to unpaid supplies. The remaining amount of CZK 752 million was paid as of 31 December 2017. A significant part of the contract liabilities in the amount of CZK 1,142 million relates to investments in railroad vehicles.

20. Received and Issued Bank Guarantees

20.1. BANK GUARANTEES ISSUED

Bank guarantees as of 31 December 2018 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 2018

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,	Warranty for rent	227,267.17	EUR	20.9.2019	Bank guarantee to meet all liabilities and obligations of tenant-based rental agreement with West Invest Waterfront Towers Ltd. - Lighthouse.
HYPARKOS, s.r.o., Rohanské nábřeží 678/25, 186 00 Prague 8	Warranty for rent	16,517,056	CZK	30.6.2019	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	19.9.2019	Warranty deed - operations other than transit (comprehensive guarantee) to ensure customs and tax debt, which means the obligation to pay duties, taxes and charges levied on imports, including their accessories, with the exception of fines.
Celní úřad pro Jihočeský kraj, Kasárenská 6, 370 21 České Budějovice	Customs guarantee	500,000	CZK	19.9.2019	Guarantor liability - comprehensive guarantee. Certificate of Guarantee issued to the South Bohemian Region Office for securing a customs debt and other fees.
Celní úřad pro Jihočeský kraj, Kasárenská 6, 370 21 České Budějovice	Customs guarantee	3,500,000	CZK	19.9.2019	Warranty deed for the purpose of collecting customs duties by the principal by the customs agent acting on the basis of direct representation. Certificate of Guarantee issued to the South Bohemian Region Office.

20.2. BANK GUARANTEES RECEIVED

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

In behalf of	Type of guarantee	Amount	Currency	Termination date	Reason for bank guarantee
Siemens, s.r.o., Prague 13, Siemensova 1, PSČ 155 00	Unicredit Bank Czech Republik and Slovakia, a.s.	1,997,500	EUR	28.2.2019	Ensuring delivery of interoperable driving railway vehicles for the needs of ČD Cargo, Inc. and operability under warranty.
Siemens, s.r.o., Prague 13, Siemensova 1, PSČ 155 00	Unicredit Bank Czech Republik and Slovakia, a.s.	1,191,000	EUR	31.7.2020	Ensuring delivery of interoperable driving railway vehicles for the needs of ČD Cargo, Inc. and operability under warranty.
Siemens, s.r.o., Prague 13, Siemensova 1, PSČ 155 00	Unicredit Bank Czech Republik and Slovakia, a.s.	1,438,000	EUR	30.04.2021	Ensuring delivery of interoperable driving railway vehicles for the needs of ČD Cargo, Inc. and operability under warranty.
Wagony Swidnica SP. O.Z.O., Strzelinska 35, 50-100 Swidnica, Poland	Citibank Europe plc, organizační složka	2,408,000	EUR	31.05.2021	Ensuring delivery of 500 new EANOS railway wagons.
CZ Loko, a.s., Semanínská 580, 560 02 Česká Třebová	Československá obchodní banka, a.s.	42,727,500	CZK	24.05.2019	Ensuring delivery of new diesel locomotives for securing route transportation in ČD Cargo, a.s.
CZ Loko, a.s., Semanínská 580, 560 02 Česká Třebová	Československá obchodní banka, a.s.	17,670,000	CZK	28.08.2019	Ensuring modernisation of the selected locomotive (prototype) from the public contract "Implementation of the modernization of 50 locomotives of the 742 series".
CZ Loko, a.s., Semanínská 580, 560 02 Česká Třebová	Československá obchodní banka, a.s.	592,500	EUR	20.11.2020	Ensuring of the responsibilities during the phase of Switch-off of a selected locomotive (prototype) from the public contract "Execution of Modernization of 50 Locomotives of the 742 Series".
SMK, s.r.o.; Dukelskych hrdinov 10/143, 960 01 Zvolen, Slovenská republika	Raiffeisenbank a.s.	8,000,000	CZK	30.05.2019	Ensuring the transfer of wagon parts of the Eas rail freight wagons to the obligations under the contract.
TATRAVAGÓNKA, a.s., Štefánikova 887/53, 05801 Poprad, Slovenská republika	Commerzbank Aktiengesel-lschaft, pobočka Praha	592,800	EUR	31.07.2019	Ensuring delivery of 80 new Zacns freight wagons.
Bombardier Transportation Gmbh, Eichhornstrasse 3, 10785 Berlin, Německo	Commerzbank Aktiengesel-lschaft, pobočka Praha	3,558,000	EUR	31.12.2021	Ensuring of delivery of up to 50 Traxx MS3 locomotives (BZ to the reserve for the first 10 locomotives).

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.

2018 (CZK million)	Transportation	Additional services	Elimination	Total
Revenue from the principal operations	**11,779**	**3,205**	**(1,908)**	**13,076**
- within the Group	*1,500*	*408*	*(1,908)*	*-*
- outside the Group	*10,279*	*2,797*	*-*	*13,076*
Purchased consumables and services	**(5,705)**	**(2,482)**	**1,865**	**(6,322)**
Traction costs	(1,367)	-	-	(1,367)
Payment for the use of the railway route	(1,124)	(2)	-	(1,126)
Other purchased consumables and services	(3,214)	(2,480)	1,865	(3,829)
Personnel costs	**(4,047)**	**(360)**	**-**	**(4,407)**
Payroll costs including insurance	(3,868)	(330)	-	(4,198)
Other social costs	(28)	(13)	-	(41)
Benefits arising from the collective agreement	(151)	(17)	-	(168)
Other operating revenues	109	401	(223)	287
Other operating expenses	(221)	(147)	-	(368)
Depreciation	(1,087)	(182)	23	(1,246)
Interest expense	(105)	(31)	-	(136)
Other financial expenses	(75)	(19)	(13)	(107)
Other financial income	69	19	13	101
Profit before tax	**717**	**404**	**(243)**	**878**
Income tax	(120)	(98)	3	(215)
Profit for the period	**597**	**306**	**(240)**	**663**

- 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.

The Board of Directors of the Parent Company is the body who performs the analysis of individual segments and on this basis makes the decisions. Other information the Group does not follow.

2017 (CZK million)	Transportation	Additional services	Elimination	Total
Revenue from principal operations	**11,000**	**2,529**	**(1,606)**	**11,923**
- within the Group	*1 306*	*300*	*-1 606*	*-*
- outside the Group	*9 694*	*2 229*	*-*	*11 923*
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

* as a result of the implementation of IFRS 15, rental income presented in 2018 is "Revenue"

22. Revenue

(CZK million)	2018	2017
Revenue from freight transportation:	**11,869**	**11,234**
Revenue from freight transportation- local	4,134*	3,943
Revenue from freight transportation- foreign	7,735*	7,291
– Revenue from freight transportation - Germany	2,478	2,343
– Revenue from freight transportation - Slovakia	1,383	1,294
– Revenue from freight transportation – Poland	1,493	1,468
– Revenue from freight transportation – Austria	778	551
– Revenue from freight transportation – Italy	202	235
– Revenue from freight transportation – Slovenia	195	195
– Revenue from freight transportation – Hungary	210	172
– Revenue from freight transportation – Romania	170	147
– Revenue from freight transportation – Kazakhstan	151	143
– Revenue from freight transportation - others	675	743
Other revenue from freight transportation:	**525**	**505**
– Other revenue from freight transportation- local	345*	320
– Other revenue from freight transportation- foreign	180*	185
Other revenue related to transportation	**223**	**184**
Total revenue from customer contracts	**12,617**	**11,923**
Revenue from lease	459	0*
Total revenue	**13,076**	**11,923**

* as of 1 January 2018 changed due to IFRS 15 application, see Notes 3.1. and 23.

Rental income includes revenue from short-term and occasional leases of freight wagons and traction vehicles.

The remaining part of revenues from freight transportation are mainly revenues from services performed in railway stations, supplementary services and rail siding agenda.

The most significant local customers in terms of the volume of billed services are as follows:

- NH TRANS SE
- CARBOSPED, spol. s r.o.
- MORAVIA STEEL, a.s.
- Rail Cargo Logistics – Czech Republic, s.r.o.
- WOOD & PAPER 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)

- DB Cargo AG
- Železničná spoločnost´ Cargo Slovakia, a.s.
- Rail Cargo Austria AG
- PKP Polskie Linie Kolejowe

Other companies

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

22.1. CONTRACT LIABILITIES AND REFUNDS LIABILITIES

Starting from 1 January 2018 the Group (see Note 3.1) under IFRS 15 recognizes following, contract liabilities (see Note 18) and refunds liabilities (see Note 18) relating to revenue from customers contracts:

Contract liabilities relating to revenue with customers (CZK million)	31 Dec 2018	1 Jan 2018
Contract liabilities – advances received	1	1
Total contract liabilities	**1**	**1**

* as of 1 January 2018 changed due to IFRS 15 application, see Notes 3.1. and 18.

Refunds liabilities (CZK million)	31 Dec 2018	1 Jan 2018
Refunds liabilities	31	11
Total refunds liabilities	**31**	**11**

* as of 1 January 2018 changed due to IFRS 15 application, see Notes 3.1., 16 and 18

22.2. REVENUE RELATING TO CONTRACT LIABILITIES

Revenue included in the opening balance of a contract liability (CZK million)	2018
Revenue from freight transport	1

22.3. REMAINING PERFORMANCE OBLIGATIONS

Remaining liabilities (CZK million)	31 Dec 2018
Revenue from freight transport	26
Other revenue from freight transport	2
Other revenue from principal activity	1
Other revenue from operating activity	2
Total	**31**

23. Other Operating Income

(CZK million)	2018	2017
Gain from sale of property, plant and equipment and investment property	35	8
Gain from disposal of unnecessary assets	69*	142
Compensations for deficits and damage	53*	44
Contractual penalties and default interest	8*	11
Foreign exchange gains - operational	95	83
Changes in provisions	1	46
Changes in provisions for receivables	1	11
Changes in provisions for inventories	-	3
Revenue from lease	-*	427
Other	25	32
Total other operating income	**287**	**807**

* as of 1 January 2018, changed in relation to adoption of IFRS 15, see Notes 3.1. and 22.

24. Purchased Consumables and Services

(CZK million)	2018	2017
Traction costs	**(1,367)**	**(1,257)**
Traction fuel (diesel)	*(432)*	*(404)*
Traction electricity	*(935)*	*(853)*
Payment for the use of railway route	**(1,126)**	**(1,322)**
Other purchased consumables and services	**(3,829)**	**(3,439)**
– Consumed material	*(308)*	*(300)*
- Consumed other energy	*(83)*	*(84)*
- Consumed fuel	*(12)*	*(11)*
- Repairs and maintenance	*(366)*	*(244)*
- Travel costs	*(64)*	*(43)*
- Telecommunication, data and postal services	*(57)*	*(53)*
- Other rental	*(155)*	*(167)*
- Rental for rail vehicles	*(686)*	*(611)*
- Transportation charges	*(1,488)*	*(1,363)*
- Services associated with the use of buildings	*(41)*	*(39)*
- Operational cleaning of rail vehicles	*(5)*	*(5)*
- Border area services	*(182)*	*(175)*
- Advertising and promotion costs	*(11)*	*(17)*
- Leasing	*(11)*	*(10)*
- Infrastructure capacity allocation	*(28)*	*(28)*
- IT	*(133)*	*(113)*
- Performances of fire brigade service	*(10)*	*(10)*
- Services in the field of ecology	*(8)*	*(7)*
- Other services	*(181)*	*(159)*
Total purchased consumables and services	**(6,322)**	**(6,018)**

Traction electricity in the period from 1 January 2018 to 31 December 2018 includes traction electricity purchased from České dráhy, a.s., in the amount of CZK 828 million (in 2017 CZK 779 million).

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

Cost of services provided by the Group's statutory auditor – PricewaterhouseCoopers are presented in following table:

(CZK million)	2018	2017
Statutory audit of annual financial statements (including subsidiaries)	(4)	(3)
Other services (including subsidiaries)*	(3)	(3)
Total	**(7)**	**(6)**

* warehouse optimisation projects in the Parent Company

25. Employee Benefit Costs

(CZK million)	2018	2017
Payroll costs	(3,113)	(2,871)
Pension benefits	(660)	(609)
Other social security and health insurance	(371)	(345)
Contributions to the pension insurance and capital life insurance	(168)	(163)
Emoluments to key management	(54)	(51)
Other employee benefit costs	(41)	(37)
Total employee benefit costs	**(4,407)**	**(4,076)**

Other employee benefit costs mainly includes employee training costs.

Average recalculated total number of employees within the Group:

	2018	2017
Employees	7,134	7,130
Key management	31	30
Average recalculated total number of employees	**7,165**	**7,160**

Key management consists of Board of Directors and Supervisory Board of individual companies. The Parent Company's key management includes also the Audit Committee. More detailed information on Parent Company is disclosed in Note 1.5.

Key management compensation:

(CZK million)	2018	2017
Short-term benefits	(40)	(38)
Pension benefits	(9)	(8)
Other social and health contributions	(5)	(5)
Total key management compensation	**(54)**	**(51)**

26. Depreciation and Amortisation

(CZK million)	2018	2017
Depreciation of property, plant and equipment	(1,158)	(1,109)
Amortisation of intangible assets	(88)	(87)
Total depreciation and amortisation	**(1,246)**	**(1,196)**

27. Other Operating Expenses

(CZK million)	2018	2017
Change in other provisions related to other operating expenses	(83)	(39)
Contractual fines and default interest expenses	(12)*	(23)
Taxes and fees	(6)	(10)
Exchange rate losses - operating	(93)	(108)
Insurance	(81)*	(83)
Damages and losses	(31)*	(21)
Other	(62)	(59)
Total other operating expenses	**(368)**	**(343)**

* as of 1 January 2018 changed due to IFRS 15 application, see Note 3.1.

Other operating expenses mainly include exchange rate losses and insurance expenses.

28. Financial expenses

(CZK million)	2018	2017
Interest on bank overdraft accounts and loans	(2)	-
Interest on finance lease payables and leaseback	(91)	(107)
Interest expense - bonds	(28)	(18)
Other interest expense	(11)	(20)
Unwinding of the discount of provisions	(3)	(2)
Derivative transactions costs	(1)	-
Exchange rate losses - financial	(90)	(120)
Bank expenditures	(3)	(3)
Other financial expenses	(14)	(14)
Total financial expenses	**(243)**	**(284)**

29. Financial Income

(CZK million)	2018	2017
Exchange rate gains - financial	86	116
Other financial income	3	6
Total financial income	**89**	**122**

30. Income Taxation

30.1. INCOME TAX REPORTED IN PROFIT OR LOSS

(CZK million)	2018	2017
Current income tax for the period reported in the statement of profit or loss	(63)	(57)
Deferred tax recognized in the statement of profit or loss	(152)	(146)
Total tax charge	**(215)**	**(203)**

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

(CZK million)	2018	2017
Profit for the period from continuing operations	878	948
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected income tax expense	(167)	(180)
Adjustments:		
Effect of the different income tax rate in other countries	(7)	(7)
Other non-deductible expenses	(54)	(104)
Tax non-taxable income	39	93
Income tax related to prior periods	(26)	(5)
Income Tax Reported in Profit or Loss	**(215)**	**(203)**

30.2. INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME

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

30.3. DEFERRED TAX

(CZK million)	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Derivatives	Other	Total
Balance at 1 January 2017	**(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 recognized in other comprehensive income	-	-	-	-	-	13	-	13
Exchange differences	-	-	-	-	-	-	2	2
Balance at 31 December 2017	**-**	**1,127**	**(156)**	**510**	**(18)**	**17**	**-**	**1,480**
Deferred tax reported in Profit or Loss	-	72	8	72	(2)	-	2	152
Deferred tax recognized in other comprehensive income	-	-	-	-	(1)*	(22)	-	(23)
Exchange differences	-	-	-	-	-	-	-	-
Balance at 31 December 2018	**-**	**1,199**	**(148)**	**582**	**(21)**	**(5)**	**2**	**1,609**

* as of 01/01/2018 change in relation to the application of IFRS 15 see chapter 3.1.

31. Related Party Transactions

31.1. RADE RECEIVABLES AND PAYABLES AT THE END OF THE REPORTING PERIOD

31 December 2018 (CZK million)	Receivables	Payables
České dráhy, a.s.	**5**	**230**
RAILLEX, a.s.	2	1
Ostravská dopravní společnost, a.s.	17	-
Ostravská dopravní společnost - Cargo, a.s.	4	12
Joint ventures and associates	**23**	**13**
ČD - Telematika, a.s.	-	7
ČD - Informační Systémy, a.s.	-	99
DPOV, a.s.	1	14
ČD travel, s.r.o.	-	1
ČD Relax, s.r.o.	-	3
Dopravní vzdělávací institut, a.s.	-	1
Výzkumný Ústav Železniční, a.s.	9	-
Other companies in České dráhy Group	**10**	**125**
Total	38	368

31 December 2017 (CZK million)	Receivables	Payables
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
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**

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 will be paid by non-cash payment or by netting. No guarantees were received or provided.

31.2. REVENUE WITH RELATED PARTIES

2018 (CZK million)	Sale of tangible fixed assets	Sale of services	Other income	Total
České dráhy, a.s.	-	19	2	21
DPOV, a.s.	-	3	-	3
Výzkumný Ústav Železniční, a.s.	-	40	-	40
RAILLEX, a.s.	-	26	-	26
BOHEMIAKOMBI, spol. s r.o.	-	5	-	5
Ostravská dopravní společnost, a.s.	-	54	-	54
Ostravská dopravní společnost - Cargo, a.s.	6	24	-	30
Total	**6**	**171**	**2**	**179**

2017 (CZK million)	Sale of tangible fixed assets	Sale of services	Other income	Total
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**

31.3. PURCHASE FROM RELATED PARTIES

2018 (CZK million)	Assets	Material and energy	Services	Other expenses	Financial expenses	Total
České dráhy a.s.	25	1,411	120	8	7	1,571
ČD - Telematika, a.s.	-	3	19	-	-	22
ČD - Informační Systémy, a.s.	55	5	113	-	-	173
DPOV, a.s.	10	18	20	-	-	48
Dopravní vzdělávací institut, a.s.	-	-	19	-	-	19
ČD Relax, s.r.o.	-	-	20	-	-	20
Výzkumný Ústav Železniční, a.s.	-	-	1	-	-	1
JLV, a.s.	-	-	1	-	-	1
RAILLEX, a.s.	-	-	9	-	-	9
Ostravská dopravní společnost - Cargo, a.s.	-	-	65	-	-	65
Total	**90**	**1,437**	**387**	**8**	**7**	**1,929**

In 2018, purchases from České dráhy, a.s., are mainly represented by purchases of traction energy amounting to CZK 828 million and diesel amounting to CZK 430 million.

2017 (CZK million)	Assets	Material and energy	Services	Other expenses	Financial expenses	Total
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 Relax, s.r.o.	-	-	15	-	-	15
Dopravní vzdělávací institut, a.s.	-	-	19	-	-	19
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 traction diesel amounting to CZK 408 million.

31.4. PURCHASES AND SALES OF INTANGIBLE, TANGIBLE AND FINANCIAL ASSETS WITH RELATED PARTIES

31.4.1. Sales
No significant sales of assets were made to related parties in 2018.

31.4.2. Purchases

Purchases (CZK million)	Intangible assets	Property, plant and equipment	Intangible assets	Property, plant and equipment
	2018	2018	2017	2017
České dráhy, a.s.	-	25	-	67
ČD - Informační Systémy, a.s.	53	2	63	17
DPOV, a.s.	-	10	-	61
Total	**53**	**37**	**63**	**145**

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). As of 31 December 2017, the remaining part of the borrowing is split into long-term part in the amount of CZK 352 million and short-term part in amount of CZK 73 million. As of 31 December 2018 remaining part of the borrowing is split into long-term part in amount of CZK 281 million and short-term part in amount of CZK 74 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 2018 and 2017. The costs for the accounting periods 2018 and 2017 are disclosed in Note 24.

In 2018, the income of the Group predominantly includes sales from intrastate vehicle transportation of CZK 15 million. In 2017: CZK 11 million.

Expenses and income of the Group resulting from the transactions conducted with SŽDC in 2018 and 2017 were as follows:

31 December 2018 (CZK million)	Expenses	Income
Operation of the railway route	1	-
Use of the railway route and allocated route capacity	1,002	-
Property rental	11	-
Revenues from freight transportation	-	15
Performance of firefighter emergency services	10	-
Telecommunication services	41	-
Contractual fines and default interest	18	-
Compensation for damages	22	5
Extraordinary events investigation	3	-
Repairs and maintenance	2	-
Other	10	4
Total	**1,120**	**24**

31 December 2017 (CZK million)	Expenses	Income
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	10
Extraordinary events investigation	3	-
Repairs and maintenance	2	-
Other	9	4
Total	**1,361**	**25**

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

Receivables (CZK million)	31 Dec 2018	31 Dec 2017
Revenues from freight transportation	3	4
Estimated receivables	3	4
Other	5	5
Total	**11**	**13**

Payables (CZK million)	31 Dec 2018	31 Dec 2017
Use of railway route and allocated capacity of the railway - freight transport	212	138
Property rental – expenses and income	-	2
Court settlement - traction energy	89	152
Settlement Agreement - exclusions	18	30
Court verdict - exclusions	-	-
Radio communication technology	12	12
Other	20	17
Estimated payables	33	123
The fee for the use of transport infrastructure	-	85
Compensation for damages caused by extraordinary events	2	2
Uncollected capacity ŽDC	14	16
Performance of HZS	10	10
Heat supply	6	7
Office space rental	-	1
Other estimated payables	1	2
Total	**384**	**474**

The settlement of a liability payable to the Parent Company in the amount of CZK 18 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 13 million and long-term part in the amount of CZK 5 million.

The settlement of a liability payable to the Parent Company in the amount of CZK 89 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 63 million and long-term part in the amount of CZK 26 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 December 2018 (CZK million)	Expenses	Income
Use of railway route and allocated capacity of the railway	1	-
Revenues from freight transportation	-	241
Thermal energy	9	-
Other	2	2
Total	**12**	**243**

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

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

Receivables (CZK million)	31 Dec 2018	31 Dec 2017
Revenues from freight transportation	40	30
Total	**40**	**30**

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 Group 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 December 2018 (CZK million)	Terminál Brno, a.s.	ČD-DUSS Terminál, a.s.	Total
Non-controlling interests of	**33.07%**	**49%**	**-**
Share capital	**23**	**2**	**25**
Retained earnings – current period	1	3	4
Retained earnings	2	1	3
Total	**26**	**6**	**32**

Mother company ČD, Cargo a.s., in 2018 purchased non-controlling interest in the company ČD Logistics, a.s., in the amount of 22 %.

31 December 2017 (CZK million)	ČD Logistics, a.s.	Terminál Brno, a.s.	ČD-DUSS Terminál, a.s.	Total
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**

32.2. SUMMARY OF FINANCIAL INFORMATION – COMPANIES WITH NON-CONTROLLING INTERESTS

31 December 2018 (CZK million)	Terminál Brno, a.s.	ČD-DUSS Terminál, a.s.
Total assets	**80**	**15**
Long-term assets	63	6
Short-term assets	17	9
Total liabilities	**2**	**3**
Short-term liabilities	2	3
Net assets	78	12
Share of net assets – non-controlling interests	**26**	**6**
Share of net assets – the Group	**52**	**6**

31 December 2017 (CZK million)	ČD Logistics, a.s.	Terminál Brno, a.s.	ČD-DUSS Terminál, a.s.
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**

(CZK million)	2018	2017	2016
Total income	63	821	777
Profit for the period	6	18	13
Share of net assets – non-controlling interests	**2**	**5**	**3**
Share of net assets – the Group	**4**	**13**	**10**

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 70% (according to the internal targets set at 65%) 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).

(CZK million)		31 Dec 2018	31 Dec 2017
Loans, borrowings and bonds	15	5,223	4,642
Cash and cash equivalent	12	(725)	(690)
Total net debt		**4,498**	**3,952**

(CZK million)		31 Dec 2018	31 Dec 2017
Share capital	13	8,494	8,494
Capital funds	13	360	450
Retained earnings/accumulated losses		160	(461)
Total equity		**9,014**	**8,483**

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 under IFRS 9 (CZK million)	Categories of financial assets under IAS 39	Classes of financial assets		31 Dec 2018	31 Dec 2017
Financial assets at amortized cost	Loans and receivables	Cash and cash equivalents	12	725	690
		Trade receivables	9	1,757	1,697
		Other financial assets	10	497	426
Financial assets at fair value presented in statement of profit or loss	Financial assets at fair value presented in statement of profit or loss	Other financial assets - derivatives used in hedge accounting	10	8	96
Total				**2,987**	**2,909**

Categories of financial liabilities under IFRS 9 (CZK million)	Categories of financial liabilities under IAS 39	Classes of financial liabilities		31 Dec 2018	31 Dec 2017
Financial liabilities at fair value presented in statement of profit or loss	Financial liabilities at fair value presented in statement of profit or loss	Other financial liabilities - derivatives used in hedge accounting	17	38	5
		Other financial liabilities – other derivatives	17	-	1
Financial liabilities at amortised cost	Financial liabilities at amortised cost	Finance lease and leaseback liabilities	15	1,816	2,164
		Issued bonds	15	3,010	2,001
		Loans	15	398	477
		Trade payables	14	2,209	1,806
		Liabilities arising from supplier loans	17	44	158
		Liabilities from settlement agreements	17	102	169
		Other financial liabilities	17	47	65
Total				**7,664**	**6,846**

Derivative financial instruments are classified as financial assets / liabilities at fair value through profit or loss.

In 2018, shares in equity that do not have a quoted market price in the active market and whose fair value is determined at Tier 2 are measured under IFRS 9 at fair value and recognized in other comprehensive income.

In 2017, shares in equity that do not have a quoted price on the active market and which are measured at cost due to their fair value cannot be reliably determined were recognized as available-for-sale financial assets under IAS 39.

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 33.11.3.

Income from individual classes of financial assets is as follows:

Class of financial asset (CZK million)	2018	2017	Presented in statement of profit or loss
Interest on cash and cash equivalents	-	-	Financial income
Total	**-**	**-**	

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 2018 (CZK million)	EUR	USD	Other	Total
Financial assets	2,128	8	45	2,181
Financial liabilities	(1,394)	(11)	(41)	(1,446)
Total	**734**	**(3)**	**4**	**735**

31 Dec 2017 (CZK million)	EUR	USD	Other	Total
Financial assets	1,711	18	31	1,760
Financial liabilities	(1,579)	(9)	(40)	(1,628)
Total	**132**	**9**	**(9)**	**132**

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:

(CZK million)	2018	2017
Translation of items denominated in foreign currencies at the end of the period	(30)	(5)
Change in the fair value of derivatives at the end of the period	(6)	(9)
Total impact on the profit for the period	**(36)**	**(14)**
Change in the fair value of derivatives at the end of the period	94	79
Total impact on the other comprehensive income	**94**	**79**

33.5.2. Currency Forwards and options

Group in accordance with the risk management strategy concludes currency forwards and options to cover future payments received (monetary balance) denominated in foreign currencies with a predetermined hedging ratio of 1 : 1. The hedge ratio is determined by comparing the amount of the hedged item and the hedging instrument used. This calculation is based on a currency paraforward contract that reduces the currency risk resulting from the exchange rate fluctuation of the national currencies and the planned positive EUR balance generated by the Group. The hedge ratio is regularly monitored in relation to the risk management objectives.

At the same time, the Group does not separate the hedging cost, and assumes that it is currently insignificant. Possible changes are regularly monitored.

Due to fact, that the key characteristics of the hedging instrument fully correspond to the characteristics of the hedged item, the management of ČD Cargo expects a high efficiency of hedging.

The hedging nominal value is lower than the future expected balance in EUR, i.e. hedging never exceed 80% of the expected balance in EUR. A CZK/EUR exchange rate is hedged, converts then to foreign currency earnings (EUR) into Group's currency (CZK). The maximum hedging volumes are set in the Financial Risk Management Strategy of ČD Cargo, a.s., as follows:

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

Monetary hedging was contracted under regular market conditions (without premium payment), the fair value of derivatives was nil as of the hedge date. Based on the above, the Group expects that the hedging relationship will be effective for its entire period. The result of the transaction is the predictable (fixed) amount of the CZK / EUR exchange rate used to sell the positive balance of EUR.

As credit risk is not part of the hedged risk, credit risk affects only changes in the value of the hedging instrument. Credit risk arises from the credit rating of the Group and the bank, which is counterparty of currency paraforward. The credit risk is associated with both the bank and the Group and is considered minimal and will be reassessed when a significant change in circumstances occurs in one of the parties.

Potential causes of possible inefficiencies may arise from the basis of spread. Another factor may be time discrepancy. The Group does not hedge specific business cases, but only the volume of the planned balance, as well as for a possible significant decline in the creditworthiness of the counterparty. The above points are considered by the Group to be insignificant or highly unlikely, and hence considers currency hedging to be effective.

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

Foreign currency forwards

Sale (CZK million)	Average currency exchange rate	Foreign currency	Nominal value in EUR million	Fair value
31 December 2018	25.969	EUR	96	(18)
31 December 2017	26.641	EUR	84	86

Open foreign currency forwards and options on purchase of foreign currency were not closed in 2017 and 2018.

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 2018 (CZK million)	Less than 1 month	1 - 3 months	3 months to 1 year	1- 5 years	5 years and more	Total
Hedged future **sales in EUR**	129	257	1,158	926	-	**2,470**

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

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:

(CZK million)	2018	2017
Interest from loans and lease with variable rate for the period	(19)	(44)
Change in the present value of long-term provisions at the end of the period	-	2
Total impact on the profit for the period	**(19)**	**(42)**
Change in the fair value of derivatives at the end of the period	-	1
Total impact on other comprehensive income	**-**	**1**

33.6.2. Interest Rate Swaps

Based on interest rate swap contracts, ČD Cargo, a.s., 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 IRS below.

The management of ČD Cargo's Parent Company decided to secure against interest rate risk arising from interest rate fluctuations. Interest rates on overdraft loans are assigned to O/N PRIBOR and also to sources of floating interest rate financing.

The hedge ratio of the hedging relationship is the same as the ratio between the amount of the hedged item and the hedging instrument used, in this case the ratio is 1 : 1. The hedging ratio is determined by comparing the amount of the hedged item and the hedging instrument used. This calculation is based on an interest rate swap agreement maturing in 2020, that compensates the interest rate risk from interest rate payments arising from the lease with variable interest rate and the same parameters (nominal value, date of individual repayments) as individual interest rate swap. The hedge ratio is regularly monitored in relation to the risk management objectives.

Due to fact, that the key characteristics of the hedging instrument fully correspond to the characteristics of the hedged item, the management of ČD Cargo expects a high efficiency of hedging.

Swaps nominal values are the same as the nominal values of the respective volume of individual leases. The float part of the lease payments (12M Pribor) is hedged by 12M Pribor. Maturity of lease payments and interest rate hedging is the same. Interest rate swaps were negotiated at market price (without premium payment), the fair value of derivatives was nil as of the trade date. There are no agreements on limiting the agreed interest rate (interest rate options) included in the swaps. The Group expects no early termination or repayment of lease payments. The individual effectiveness is regularly monitored and measured.

Based on the above, the Group expects that the hedging relationship will be effective for its entire period and changes in cash flows from leasing payments will be compensated by changes in cash flows arising from interest rate swaps. The result of the transaction (after including interest rate swaps) should be the predictable (fixed) interest cost of the leasing.

As credit risk is not part of the hedged risk, credit risk affects only changes in the value of the hedging instrument. Credit risk arises from the credit rating of the Group and the bank, which is counterparty of interest rate swap. The credit risk is associated with both the bank and the Group and is considered minimal and will be reassessed when a significant change in circumstances occurs in one of the parties.

Potential reasons of possible inefficiencies are considered by the Group as significant decline in creditworthiness of ČD Cargo or counterparty. Also, in case of early termination or modification of the lease agreement caused by violation of resolutions specified in the contract, whether by ČD Cargo, a.s., or counterparty.

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

IRS

31 December 2018	Average contracted fixed interest rate	Principal CZK mil.	Fair value of assets (liabilities) CZK mil.
Less than 1 year	3.265%	82	(1)
1 to 5 years	3.265%	13	-
Total			**(1)**

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

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, ČD Cargo, a.s 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.

The hedge ratio of the hedging relationship is the same as the ratio between the amount of the hedged item and the hedging instrument used, in this case the ratio is 1 : 1. The hedging ratio is determined by comparing the amount of the hedged item and the hedging instrument used. This calculation is based on an interest collateral contract maturing in 2019, that compensates the interest rate risk from interest rate payments arising from the lease with variable interest rate and the same parameters (nominal value, date of individual repayments) as individual interest rate collateral. The hedge ratio is regularly monitored in relation to the risk management objectives.

The economic relationship between the hedging instrument and the hedged item is described using the following parameters.

Due to fact, that the key characteristics of the hedging instrument fully correspond to the characteristics of the hedged item, the management of ČD Cargo, a.s., expects a high efficiency of hedging.

The heading nominal values are the same as the nominal values of the respective lease volume. The float part of the lease payments (12M Pribor) is hedged by 12M Pribor. Maturity of lease payments and interest rate hedging is the same. The interest collateral was negotiated with the premium payment.

As credit risk is not part of the hedged risk, credit risk affects only changes in the value of the hedging instrument. Credit risk arises from the credit rating of the Group and the bank, which is counterparty of interest rate swap. The credit risk is associated with both the bank and the Group and is considered minimal and will be reassessed when a significant change in circumstances occurs in one of the parties.

Potential reasons of possible inefficiencies are considered by the Group as significant decline in creditworthiness of ČD Cargo or counterparty. Also, in case of early termination or modification of the lease agreement caused by violation of resolutions specified in the contract, whether by ČD Cargo, a.s., or counterparty.

The table presents contracts' conditions for interest rate options that were open at the end of the reporting period.

31 December 2018	Hedged range	Principal CZK mil.	Fair value of assets (liabilities) CZK mil.
Less than 1 year	1.13% - 3.13%	177	-
1 to 5 years	1.13% - 3.13%	-	-
Total			**-**

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

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:

(CZK million)	2018	2017
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	8	12
Total impact on other comprehensive income	**8**	**12**

33.7.2. Commodity Derivatives

In line with the requirements for managing interest rate risk, the Parent Company has entered into contracts to secure fluctuations in traction oil prices. The hedge was made in the form of a commodity swap, which consists in determining the fixed price of traction oil.

The hedge ratio of the hedging relationship is the same as the ratio between the amount of the hedged item and the hedging instrument used, in this case the ratio is 1 : 1. The hedging ratio is determined by comparing the amount of the hedged item and the hedging instrument used. This calculation is based on a commodity swap agreement that compensates for the purchase of the hedged volume of planned consumption under the approved Financial Risk Management Strategy. The Group is aware that risk components such as excise duties, merchant margins, etc. are included in the hedge ratio calculation, but their effect on the amount is insignificant. The hedge ratio is regularly monitored in relation to the risk management objectives.

At the same time, the Group does not separate the cost of hedging, as it assumes that they are currently insignificant. Possible changes are regularly monitored.

The economic relationship between the hedging instrument and the hedged item is described using the following parameters.

The effectiveness of hedging will be measured by comparing changes in the hedging instrument's internal value and changes in the fair value of the hedged cash flows. According to the fact that the key characteristics of the hedging instrument fully correspond to the characteristics of the hedged item, the management of ČD Cargo expects a high efficiency of hedging. A correlation test is performed at the same time, which compares the actual purchase prices of diesel per litre and the cost of the hedging instrument.

The nominal value of guaranties is lower than the future projected volumes of purchased oil, i.e. never more than 80% of the prepaid volume of purchased oil is secured. The commodity Platts ULSD 10ppm FOB Barge Rotterdam is secured. The guarantee is also carried out in CZK, eliminating the risk arising from the CZK / USD exchange rate fluctuation. The maximum hedging volumes are set in the Financial Risk Management Strategy of ČD Cargo, a.s. then:

- For 2019, a maximum of 80 % of the underlying asset (expected volume of oil purchased);
- For 2020, a maximum of 65 % of the underlying asset (expected volume of oil purchased);
- For 2021, a maximum of 50 % of the underlying asset (expected volume of oil purchased).

Commodity hedging was contracted under regular market conditions (without premium payment), the fair value of derivatives was nil as of the trade date. Based on the above, the Group expects that the hedging relationship will be effective for its entire period. The result of the transaction is the predictable amount of the price of the purchased volume of oil.

As credit risk is not part of the hedged risk, credit risk affects only changes in the value of the hedging instrument. Credit risk arises from the credit rating of the Group and the bank, which is counterparty of commodity swap. The credit risk is associated with both the bank and the Group and is considered minimal and will be reassessed when a significant change in circumstances occurs in one of the parties.

Potential causes of possible inefficiencies are seen by ČD Cargo or counterparty's significant decline in creditworthiness. Optionally, in the event of early termination or modification of a leasing agreement on the grounds of breach of the provisions specified in the contract, whether by ČD Cargo, a.s., or counterparty. In this case, the Group carries out a correlation test for the price of diesel. The Group provides the Platts ULSD 10ppm FOB Barge Rotterdam with the total purchase price of the diesel fuel, and as collateral is carried out in CZK, the currency risk of the USD / CZK pair is also eliminated. Other items that make up the price of diesel are fixed or have very low volatility. The above points are considered by the Group to be insignificant or highly unlikely and therefore considers commodity security to be effective.

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

Purchase of diesel	Hedged average price (CZK/mt)	Volume of contract (mt)	Fair value (CZK million)
31 December 2018	12,920	7,200	(11)
31 December 2017	11,118	9,600	11

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 2018 (CZK million)	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5 years and more	Total
Hedged future purchases of diesel	7	14	61	-	-	82

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

33.8. CREDIT RISK MANAGEMENT

The Group is exposed to credit risk, which involves the risk that one party to the financial instrument will cause financial loss to the other party by failing to meet its obligation. Credit risk arises as a result of the Group's business activities (trade receivables) and financial transaction related activities. Credit risk quantification is based on a number of basic criteria, with a major measure being the risk associated with the counterparty default risk in a transaction that may negatively affect the economic result and the cash-flow of the Group. For the analysis of counterparties, the Group uses external information services in addition to supporting internal departments. Any insolvency of a partner may lead to immediate losses with undue influence on the Group's performance.

As a source of credit risk associated with the counterparty's default risk in the transaction, the Group was identified as:

- Suppliers to whom ČDC paid advances;
- Financial institutions;
- Employees - natural persons for whom a claim has arisen;
- Corporate customers.

For this reason, approval of business activities with new counterparties is subject to standardised approval procedures by authorised departments. Credit risk management includes asset management and asset management, where standard financial instruments such as prepay and bank guarantees are used to reduce risks.

Financial assets that expose the Group to possible credit risk consist of cash and cash equivalents, trade receivables and derivative financial instruments. The Group's cash is deposited at domestic reputable financial institutions. In terms of the business, the Group is mainly exposed to these types of credit risk:

- Direct credit risk;
- Credit equivalents risk.

Direct credit risk is the most common form of receivables from ordinary business relationships, which include the provision of trade loans, bills of exchange, retention and financial assistance to companies outside the Group. The customer's credit quality is evaluated individually, taking into account its financial position, customer experience, and other factors.

For the purposes of determining expected credit losses through simplified access, short-term receivables are classified according to common characteristics in terms of credit risk and appropriate maturities. On that basis, the Group evaluates the expected credit losses determined for trade receivables.

Expected credit loss rates are determined under the payment profile and sales for the 5-years period until 1 December 2018, and respectively 31 December 2018 on the basis of historical actual credit losses. Historical credit loss rates are adjusted to take into account future expected developments in macroeconomic variables that impact on customer solvency. The Group investigated a number of variables (GDP, industry indices, etc.) and their possible correlation with the solvency of customers. As no reliable correlation has been identified, the Group focuses on an individual assessment of customer credibility and, above all, their future ability and remit to meet its obligations to the Group.

Overview of impairment for short-term receivables

31 December 2018	Before due date	Past due date (days)					Total
(CZK million)		1 - 30	31 – 90	91- 180	181 -365	365 and more	
Expected credit loss rate *	0.3%	9%	47%	50%	57%	99%	**7%**
Short-term trade receivables - Gross residual value	1,629	147	30	2	7	89	**1,904**
Expected credit loss	**(5)**	**(13)**	**(14)**	**(1)**	**(4)**	**(88)**	**(125)**
Individual expected credit loss	(23)	-	-	-	-	-	(23)
Expected credit loss total	**(28)**	**(13)**	**(14)**	**(1)**	**(4)**	**(88)**	**(148)**

* devaluation matrix = % of adjustments from historical developments + % of considered future development = % of total adjustment

1 January 2018	Before due date	Past due date (days)					Total
(CZK million)		1 - 30	31 – 90	91- 180	181 -365	365 and more	
Expected credit loss rate *	0.3%	0%	13%	38%	88%	99%	**7%**
Short-term trade receivables - Gross residual value	1,556	129	30	13	8	103	**1,839**
Expected credit loss	**(4)**	**-**	**(4)**	**(5)**	**(7)**	**(102)**	**(12)**
Individual expected credit loss	(20)	-	-	-	-	-	**(20)**
Expected credit loss total	**(24)**	**-**	**(4)**	**(5)**	**(7)**	**(102)**	**(142)**

* devaluation matrix = % of adjustments from historical developments + % of considered future development = % of total adjustment

Provisions for doubtful receivables (CZK million)	2018	2017
Adjustments as of 1 January 2018	**142**	**162**
Adjusted amount in opening balance of retained profit*	4	-
Adjustments as of 1 January 2018 - impacted by IFRS 9	**4**	**-**
Creation of adjustments - trade receivables	58	38
Use of adjustments - trade receivables	(56)	(58)
Adjustments as of 31 December 2018	**148**	**142**

* the result of IFRS 9 implementation as of 1 January 2018, see Note 3.1.

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 off-setting 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 individual 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.

Credit quality of the receivables not overdue which are not subject to any impairment is good and its value corresponds to its book value. Receivables not overdue were assessed based on its credit risk with regard to the IFRS 9.The percentage in the amount of 0.3% applied to trade receivables not overdue was determined based on historical data of receivables that were written off in the past and, at the same time, taking into account one-off items that occurred and the macroeconomic impact on the development of the customers" payment discipline. The first implementation was reclassified as of 1 January 2018.

Amount of receivables (CZK million)	2018	2017
Gross LS receivables	1,629	1,556
Allowance up to LS 0.3%	(5)	(4)

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 recognized 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 2018 is "Restricted cash" in the total amount of CZK 330 million (in 2017: CZK 276 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.

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.

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.

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 (more information regarding the open lines of credit is described in the section 33.9.2).

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. As of 31 December 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 Group 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 2018, 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 2018 (CZK million)	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5 years and more	Total
Trade payables and other financial liabilities not covered below	1,276	833	262	32	-	2,403
Hedging derivatives - net	1	2	9	25	-	37
Gross outgoing cash flows	52	105	471	953	-	1,581
Gross incoming cash flows	(51)	(103)	(462)	(928)	-	(1,544)
Liabilities from finance and leaseback	163	80	502	1,077	159	1,981
Variable interest rate instruments – loan	14	15	66	311	-	406
Fixed interest rate instruments - bonds	-	7	47	2,149	1,041	3,244
Total	**1,454**	**937**	**886**	**3,594**	**1,200**	**8,071**

31 Dec 2017 (CZK million)	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5 years and more	Total
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 - loan	44	16	69	297	64	490
Fixed interest rate instruments – bonds	-	-	31	1,570	507	2,108
Total	**1,437**	**690**	**717**	**3,551**	**800**	**7,195**

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 2018 (CZK million)	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5 years and more	Total
Financial assets at amortised cost	2,315	492	170	2	-	2,979
Hedging derivatives	2	3	3	-	-	8
Total	**2,317**	**495**	**173**	**2**	**-**	**2,987**

31 Dec 2017 (CZK million)	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5 years and more	Total
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**

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:

(CZK million)	Loans - Short-term	Loans - Long-term	Financial lease liabilities – short-term	Financial lease liabilities – long-term	Issued bonds - short-term	Issued bonds - long-term	Total
Liabilities from financing activities as of 1 January 2017	**90**	**464**	**485**	**1,936**	**2**	**1,997**	**4,974**
Cash flows from financing activities	(51)	-	(258)	-	-	-	**(309)**
Loan drawings ,loans and bonds	40		176				**216**
Loan repayments, loans and bonds	(91)		(434)				**(525)**
Non-monetary flows:							
Consequences of changes in exchange rates	(5)	(22)	(2)	(18)	-	-	**(47)**
Loans and credits classified as of 1 January 2017 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 of 31 December 2017	**125**	**354**	**529**	**1,634**	**3**	**1,997**	**4,642**
Cash flows from financing activities	(110)	25	(348)	-	-	998	**565**
Loan drawings, loans and bonds	17	25	195			998	**1,235**
Loan repayments, loans and bonds	(127)		(543)				**(670)**
Non-monetary flows:							
Consequences of changes in exchange rates	(3)	7	-	12	-	-	**16**
Loans and credits classified as of 31 December 2017, as long-term which became short-term during the 2018	79	(79)	496	(508)	-	-	**(12)**
Other non-monetary movements	-	-	-	-	12	-	**12**
Liabilities from financing activities as of 31 December 2018	**91**	**307**	**677**	**1,138**	**15**	**2,995**	**5,223**

The Group uses the following financing facilities:

(CZK million)	31 Dec 2018	31 Dec 2017
Cashpooling:		
– loan facility at	*600*	*600*
Overdraft loans:		
– loan facility at	*1,210*	*1,210*
Promissory note programme:		
– loan facility at	*1,500*	*1,500*
Total	**3,310**	**3,310**

33.10. STRATEGY FOR THE GROUP'S FINANCING IN SUBSEQUENT YEARS

33.10.1. Finance Lease
In February 2018, a new finance lease of two Vectron Siemens traction vehicles was realized (the contract was signed in 2017). In connection with the planned investments, it is that expected financing in the form of financial leasing will benefit the Group in the coming years.

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. 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 2016 and 2017, this loan was not used.

33.10.5. Bond
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 2018, the seventh wave of issue was made in the nominal amount of CZK 1,000 million.

In total, the Parent Company ČD Cargo, a.s., has issued bonds worth CZK 3,000 million as of 31 December 2018. 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. 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 recognized 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 2018 amounts to CZK 1,947 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 the lease as of 31 December 2017 amounted to CZK 2,288 million.

The fair value of bonds of ČD Cargo, a.s., as of 31 December 2018 amounts to CZK 2,986 million As of 31 December 2017 amounted to CZK 2,015 million. The fair value of bonds is recalculated based on the up-to date issue rate communicated by individual banks.

Financial assets (CZK million)	Level	Fair value as of 31 Dec 2018	Book value as of 31 Dec 2018	Fair value as of 31 Dec 2017	Book value as of 31 Dec 2017
Financial derivatives used in hedge accounting	Level 2	8	8	96	96
Loans, other financial assets	Level 2	-	-	277	277
Total		**8**	**8**	**373**	**373**

Financial liabilities (CZK million)	Level	Fair value as of 31 Dec 2018	Book value as of 31 Dec 2018	Fair value as of 31 Dec 2017	Book value as of 31 Dec 2017
Financial derivatives used in hedge accounting	Level 2	38	38	5	5
Trading financial derivatives	Level 2	-	-	1	1
Bonds issued	Level 2	2,986	3,010	2,015	2,001
Liabilities from finance lease and leaseback	Level 2	1,947	1,816	2,288	2,163
Total		**4,971**	**4,864**	**4,309**	**4,170**

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 Recognized 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 recognized by the Group as of 31 December 2018, 31 December 2017 are included in Level 2.

34. Post Balance Sheet Events

On March 11, 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., under the authority of the General Meeting, decided to dismiss Jiří Švachula from the Supervisory Board of ČD Cargo, a.s.

35. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 9 April 2019.

16

Events after the Balance Sheet Date

On March 11, 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., under the authority of the General Meeting, decided to dismiss Jiří Švachula from the Supervisory Board of ČD Cargo, a.s.

17

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 2018 to 31 December 2018 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: 09 94 226
Recorded at the Commercial Register held at the Municipal Court in Prague, Section B, File 8039.

Miroslav Kupec, Chairman of the Board of Directors from 11 September 2018 to 31 December 2018 (commencement of membership on 7 December 2016, office established on 11 September 2018),
Miroslav Kupec, member of the Board of Directors from 1 January 2018 to 31 December 2018 (commencement of membership on 7 December 2016)
Pavel Krtek, Chairman of the Board of Directors from 1 January 2018 to 11 September 2018 (commencement of membership on 21 February 2014, office established on 10 November 2014),
Pavel Krtek, member of the Board of Directors from 1 January 2018 to 18 September 2018 (commencement of membership on 21 February 2014),
Ludvík Urban, Vice-chairman of the Board of Directors from 1 January 2018 to 11 September 2018 (commencement of membership and office established on 10 November 2014)
Michal Štěpán, member of the Board of Directors from 1 January 2018 to 31 December 2018 (commencement of membership on 21 February 2014)
Martin Bělčík, member of the Board of Directors from 1 January 2018 to 11 September 2018 (commencement of membership on 7 December 2016),
Radek Dvořák, member of the Board of Directors from 11 September 2018 to 31 December 2018 (commencement of membership on 11 September 2018)

(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 2018 to 31 December 2018 (commencement of membership on 1 November 2014, office established on 3 November 2014)
Bohumil Rampula, member of the Board of Directors from 1 January 2018 to 31 December 2018 (commencement of membership on 1 November 2014)
Zdeněk Škvařil, member of the Board of Directors from 1 January 2018 to 31 December 2018 (commencement of membership on 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 8 – Karlín, Prvního pluku 621/8a, postal code 186 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, 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 Municipal 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 9,053 million of the Controlled Entity as identified from the most recent financial statements amounts to CZK 905.3 million, such activities that would take place between 1 January 2018 and 31 December 2018 are not recorded.

Article III.

Contracts and Agreements Effective between Related Entities

During the relevant reporting period (i.e. from 1 January 2018 to 31 December 2018), the following trade agreements were concluded between the Controlled Entity and the Controlling Entity and other related entities:

Name of the partner entity	Number of contracts effective during the reporting period				
	Contract for work	Purchase	Lease	Other	Total
ČD-Informační Systémy, a.s.	44	1	-	22	67
České dráhy a.s.	9	2	47	117	175
ČD – Telematika, a.s.	-	1	1	4	6
ČD Reality, a.s.	-	-	-	-	-
ČD relax s.r.o.	-	-	-	1	1
ČD Restaurant, a.s.	-	-	-	-	-
ČD travel, s.r.o.	-	-	-	1	1
Dopravní vzdělávací institut, a.s.	-	-	-	2	2
DPOV, a.s.	4	1	3	15	23
ODP-software, spol. s r.o.	-	-	-	-	-
Smíchov Station Development, a.s.	-	-	-	-	-
Výzkumný Ústav Železniční, a.s.	-	-	-	6	6
JLV, a.s.	-	-	-	1	1
Žižkov Station Development, a.s.	-	-	-	-	-
TOTAL	57	6	51	169	282

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 2018 to 31 December 2018) 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.	20,834	1,571,916
ČD Telematika, a.s.	337	21,371
Výzkumný Ústav Železniční, a.s.	40,183	811
DPOV, a.s.	2,924	48,436
ČD - Informační Systémy, a. s.	-	173,151
Dopravní vzdělávací institut, a.s.	-	18,626
ČD travel, s.r.o.	-	-
ČD relax s.r.o.	-	19,790
Smíchov Station Development, a.s.	-	-
Žižkov Station Development, a.s.	-	-
ODP-software, spol.s r.o.	-	-
ČD Restaurant, a.s.	-	-
JLV, a.s.	-	1,293
TOTAL	**64,278**	**1,855,394**

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 2018 to 31 December 2018:

- 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 2018
- In the reporting period from 1 January 2018 to 31 December 2018, 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 2018 to 31 December 2018, 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 2018 to 31 December 2018, 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 26 February 2019

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

18

List of Used Abbreviations

AEO	Authorised Economic Operator
BOZP	Occupational health and safety (OHS)
ČD	České dráhy, a.s.
ČDC	ČD Cargo, a.s.
Eas, Zaes, Falls, Eanos, Zacns, Sggrrs, Laaps	Business series of freight wagons
EU	European Union
hrtkm	Gross tonne kilometer
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
ISO	International Organisation for Standardisation
JPO	Unit of fire protection
MU	Extraordinary event
OHSAS	Occupational Health and Safety Assessment Series
OSŽ	Union of Railway Workers
OSŽD	Railway Cooperation Organization
PHM	Fuel
PJ	Operating unit
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

19 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