







Annual Report 2019

Cargo




Annual Report 2019

Cargo

Czech Railways Group

Transporting almost 65 m tons of goods yearly

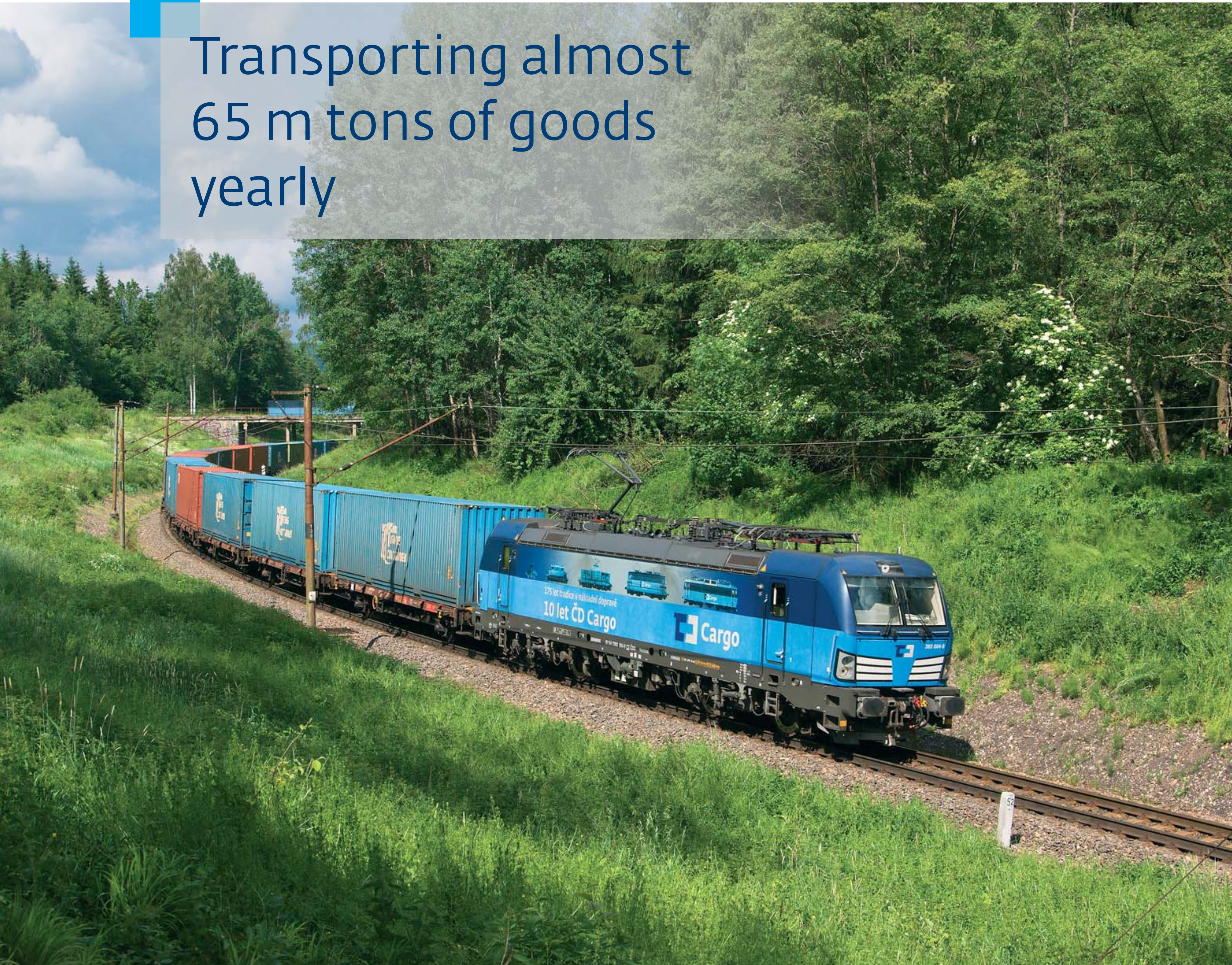


Table of contents

Investing in modernization of rolling stock

01

Mission, Vision and Goals

ČD Cargo, a.s. is the leader of railway freight transportation in the Czech Republic with an established position on the European freight transportation market. The Company's strategic goal is to keep this leading position as well as further increase its market share on foreign markets, especially in Germany, Austria and Poland. ČD Cargo, a.s. will continue to expand and adapt its current service portfolio to not only retain existing customers but, above all, attract new ones. We see our future in interoperability, intermodality and in a socially responsible and environmentally friendly approach to goods transport. These will be the three basic pillars the Company will rely on in the nearest future.

Transporting wide spectrum of goods

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.

The business activity of ČD Cargo, a.s., can be divided into two principal segments:

- Transportation
- Additional Services.

Transportation segment is furter structured according to the type of transportation, as follows:

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

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,
- 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.

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

Key financial indicators of ČD Cargo Group according to IFRS consolidated financial statements

Indicator	2019	2018	2017	2016	2015	2014
Structure of assets and liabilities (CZK million)						
Total assets**	25,016	20,093	18,470	18,172	17,742	17,333
Fixed assets**	22,190	16,698	15,626	15,280	14,588	14,528
Equity	9,726	9,126	8,529	7,718	6,727	6,122
Structure of profit (CZK million)						
Revenues	13,037	13,076	11,923	11,760	12,063	12,352
Operating profit	988	1,020	1,097	1,372	968	1,568
Profit before tax	791	878	947	1,153	698	1,273
Ratio indicators (%)						
Current liquidity (current assets/current liabilities)	50 %	80 %	83 %	83 %	62 %	59 %
Total indebtedness (liabilities /total assets)**	61 %	55 %	54 %	58 %	62 %	65 %
Average number of employees	7,115	7,134	7,130	7,065	7,335	7,451
Performance indicators						
Amount of transports (millions of tons)	65.0	68.4	66.1	65.9	66.4	68.6
Transport performance (million of tariff tonne-kilometres)	11,516	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 "Revenues" since 2018
** Since 2019, the level of assets and indebtness have been affected by the implementation of IFRS 16

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. In 2019, the development of transport in Poland continued in cooperation with the subsidiary CD Cargo Poland, new transports were carried out in Austria, where ČD Cargo, a.s. established its branch - Niederlassung Wien. The ČD Cargo Group has already had a license for rail transport operation in Slovakia and Germany.

With a transport volume of 65 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
Revenues*	2019	11,606	3,591	(2,160)	13,037
	2018	11,779	3,205	(1,908)	13,076
Services, material and energy consumption**	2019	(5,331)	(2,655)	2,275	(5,711)
	2018	(5,672)	(2,482)	1,865	(6,289)
Employee benefits costs	2019	(4,135)	(427)	(1)	(4,563)
	2018	(4,047)	(360)	-	(4,407)
Depreciation and amortization**	2019	(1,454)	(339)	(62)	(1,855)
	2018	(1,120)	(182)	23	(1,279)
Operating profit	2019	606	466	(85)	**988**
	2018	828	435	(242)	**1,020**
Profit before taxation	2019	439	448	(96)	**791**
	2018	717	404	(243)	**878**
Profit for the period from continuing operations	2019	347	359	(98)	**608**
	2018	597	306	(240)	**663**

* as a result of IFRS 15 implementation, the revenue from rental are reported newly within the "Revenues" since 2018
** The year-on-year change is also affected by the implementation of IFRS 16

TRANSPORTATION SEGMENT

In 2019, the Transportation Segment generated a profit before tax of CZK 439 million. This result was influenced by an unexpected decrease in the volume of transport on the domestic transport market in the second half of 2019. The year-on-year lower volume of transport in this period was recorded mainly in brown coal, iron (incl. engineering products) and automotive commodities. The decrease in revenues from the main activity was partially offset by lower volume of variable costs and savings of short-term unnecessary operating costs. On the other hand, depreciation and financial expenses increased year-on-year, in connection with higher investments in renewal, modernization and maintenance of the fleet of freight wagons and locomotives. It resulted with increase in the reliability, flexibility and interoperability of railway fright wagons, which is necessary not only for the continuing expansion of the ČD Cargo brand to foreign transport markets, but also above all for the long-term sustainability of the company's vehicle fleet.

The result was also reflected by increase of labor costs. The released capacities of the Company in connection with the lower volume of transport were utilised in the framework of additional transport services, which contributed to achieving a comparable level of profit of the ČD Cargo Group.

ADDITIONAL SERVICES RELATED WITH TRANSPORTATION

In the segment of additional services, the ČD Cargo Group generated a profit before tax of CZK 448 million for 2019, which represents a year-on-year increase of CZK 44 million. We succeeded in utilising the temporarily remaining capacity of freight wagons on the transport market and the activity of companies with the capital participation of ČD Cargo, that provide logistic and other accompanying transportation services, continued. These services contribute to the stable profitability of this segment despite higher investment costs, growth in labour costs, increase in the price of electricity and some material inputs and services.

Dispatching more than 800 trains daily

04
Major Events in 2019

January

- 20 January – realisation of the first business case in Austria by a new branch ČD Cargo Niederlassung Wien (precast concrete products from Skovice to Villach)
- 29 January – last three Vectron locomotives has been took over of from Siemens

February

- 21 February – the conference "Railway Infrastructure in Central and Eastern Europe" organized by Ermewa, held in Prague with the participation of ČD Cargo, a.s.

March

- 12 – 14 March – extraordinary transport of replacement transformer from Mochov to Nučice;
- 19 March – delivery of the first locomotive 163.022 equipped with ETCS;
- 26 March – conclusion of a contract with ŽOS Zvolen for periodic repairs of locomotives 750 series

April

- 1 April – implementation of coal transport to the Werndorf power plant in cooperation with ČD Cargo, a.s. and ČD Cargo Niederlassung Wien;
- 11 April – extension of the locomotive fleet of ČD Cargo, a.s. by the hired locomotive TRAXX 187.344, intended for operations in ČD Cargo, a.s. in Austria;
- 15 – 17 April – ČD Cargo, a.s. attended the trade fair Transrussia in Moscow. Within this event, ČD Cargo Logistics and CD Cargo Poland were introduced and a memorandum of cooperation with RŽD Logistics was signed;
- 26 – 27 April – ČD Cargo, a.s. attended the event "Future is on the Railway" organised by ŽESNAD.CZ association

May

- goods transported from ESAB Vamberk to DB Schenker logistics centre in Pardubice-Rosice reached one million ton

June

- 3 – 14 June – transportation of soldiers and military equipment for military exercises Tobrug Legacy 19 in Poland
- 4 – 7 June – participation of ČD Cargo, a.s. at the Transport & Logistics trade fair in Munich
- 5 June – the first loading of wood using GigaWood superstructures on 90-foot InnoWaggons took place in Hradec nad Moravicí
- 11 – 13 June – participation of ČD Cargo, a.s. in the 20th Czech Raildays trade fair in Ostrava
- discontinuation of supply of new tanks of Zacns series

July

- 11 July – a memorandum of strategic cooperation between ČD Cargo, a.s. and Chinese Railways (CRCT responsible for all container shipments from China to Europe and Russia) was signed
- 17 July – new bonds issue
- 18 July – the launch of the 363.506 locomotive with an advertising label intended to attract new employees
- 29 July – acquisition of the first upgraded locomotive 742.711 from CZ LOKO manufacturer
- first deliveries of composite brake blocks to SOKV Ústí nad Labem with preferential mounting on wagons in the direction of Switzerland and Germany
- launch of deliveries of new Eanos wagons

August

- 7 August – the 200th jubilee of MalaTrain connection set up in cooperation with ČD Cargo, a.s. and CD Cargo Poland

September

- model loading of wood on GigaWood superstructures in several stations, especially in Moravia
- 26 September – deployment of the ČD Cargo, a.s. 383.009 locomotive on the so-called Green Train Škoda Auto
- 30 September – delivery of the first new 744 locomotive (EffiShunter 1000), specifically the 744.110 from CZ LOKO

October

- 9 October – inauguration of a new hall for repairs of railway wagons in SOKV Ústí nad Labem

November

- 7 November – trial transports of limestone from the Mořina quarry to Prunéřov power plants started using RockTainer extensions
- 13 – 16 November – participation of ČD Cargo, a.s. and its subsidiary ČD Cargo Logistics at the China Chengdu International Supply Chain trade fair and Smart Logistics Expo 2019

December

- 12 December – acceptance of the first new 753.6 locomotive (EffiLiner 1600), specifically the 753.615 from CZ LOKO
- 20 December – arrival of the first new TRAXX 388.001 locomotive to SOKV Ústí nad Labem

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 I would like to share with you the most important moments and events in ČD Cargo, a.s. in 2019.

Whole last year I consider as the successful one. First of all, the performance in international transport increased in cooperation with our foreign subsidiaries. In particular, I would like to highlight the rapid development of the activities of our new branch in Austria. However, our subsidiaries in Slovakia and Poland are not staying behind, and we are constantly expanding the territory where we are able to meet our customers' requirements.

The development of international transport would not be possible without continuing massive investments in the modernisation and renewal of the vehicle fleet. To the fleet of 12 Vectrons are gradually added other interoperable locomotives Traxx MS3. We do not forget about diesel traction designed especially for performance on the domestic market. We already have a complete fleet of five 744 EffiShunter machines, we modernise the 742 series, we have managed to repair the 750 series locomotives, and are gradually taking over the EffiLiner 1600 locomotives, that are being built through the complete refurbishment of the 753 series.

Other major investments heading to the carrier lines of freight wagons. We acquire 80 Zacns fuel tanks, increasing the number of combined transport vehicles in the Innofreight system. We started taking over the Eanos wagons. We have immediate operational use for all vehicles we purchase. The major investment represents equipment of selected locomotives with mobile units of the European Train Control System (ETCS) and the assembly of so-called silent brake blocks on freight wagons. We can invest this massively thanks to our successful bond program, which we continued last year by another issue of seven-year bonds with a nominal value of CZK 1 billion.

Despite the overall positive assessment of last year, we again faced many challenges. Our activity was negatively influenced by higher prices of electricity and diesel and by the situation on the labour market. Keeping our employees in key professions is a priority for us, but even here we must invest prudently. This is also due to the fact that, in the second half of the year in particular, we have experienced signs of an emerging recession in some fields, such as metallurgy. However, we managed to compensate the declines in such affected sectors with other commodities.

The situation on the transport market is getting worse and ČD Cargo, a.s. has to be prepared by the quality and price of the services offered to compete with other carriers for transport volumes. For this reason, we are preparing the launch of our branch in Germany and we are looking for other opportunities for example in China or Russia. In both countries, we signed significant memoranda of cooperation last year.

Let me thank everyone who contributed to the fact that last year was also successful for ČD Cargo, a.s., whether employees or business partners. Thanks to our results, ČD Cargo, a.s. remains a stable and dynamic company that is constantly developing, and thus consolidates its position among the most important rail freight 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: 44 years
(re-elected a member of the Board of Directors since 2 November 2019, Chairman since 4 November 2019)

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). Effective from 2 November 2019, he was re-elected a member of the Board of Directors of ČD Cargo, a.s. and at the meeting of Board of Directors on 4 November 2019 was re-elected Chairman of the Board of Directors.

Ivan Bednárik
Chairman of the Board of Directors

2. Bohumil Rampula

Member of the Board of Directors (since 1 November 2014), age: 63 years (re-elected a member of the Board of Directors since 2 November 2019)

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: 62 years (re-elected a member of the Board of Directors since 2 November 2019)

Zdeněk Škvařil graduated from the Transport University at Žilina. Throughout his whole 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.

Supervisory Board

1. Václav Nebeský

Chairman of the Supervisory Board (member of the Supervisory Board since 26 October 2019, Chairman since 30 October 2019), age: 42 years

Václav Nebeský graduated from the Secondary Technical School of Transport in Prague and later he graduated with bachelor's degree in Transport Management, Marketing and Logistics at the Jan Perner Transport Faculty of the University of Pardubice. From 1996 to 2000 he worked for ČD, a.s., as a train dispatcher, then as a technologist at the Regional Operational Office (OPŘ) Pardubice and a system specialist in the Department of Strategy and Informatics of the General Directorate of ČD. Later he also worked in the Group's subsidiaries, namely ČD Telematika and ČD Informační systémy. In 2009, he held the position of Deputy Director at CDT Internacional. Two years later he became a crisis manager at ČSAD SVT Praha. He also held managerial positions at RPP International, UniControls, VISEFI and XT-Card. From 2015 to 2017 he worked as an external consultant at the Ministry for Regional Development. In December 2017 he became political deputy at the Ministry for Regional Development of the Czech Republic. He was a member of the ČD Steering Committee and a member of the Government Council for the Information Society. On September 25, 2019 he was elected CEO and Chairman of the Board of Directors of ČD, as.

2. Lukáš Týfa

Member of the Supervisory Board (since 4 January 2019), age: 41 years

Lukáš Týfa graduated from the Trutnov Grammar School and the Czech Technical University in Prague, Faculty of Transportation Sciences. In 2002, he graduated from the Czech Technical University with a master's degree in Transport Infrastructure and in 2006 with a doctoral degree in Transport Systems and Technology. Since 2002 he has been working at the same faculty as a university teacher in the field of rail infrastructure and operation, where in 2013 he received a doctorate in the field of Transport Systems and Technology. From 2015 to 2018 he held the position of Head of the Department of Logistics and Management of Transport at Czech Technical University in Prague, Faculty of Transportation Sciences. From 2000 to 2003 he worked for GJW Praha, spol. s.r.o., and in 2006 he was the Ministerial Council of the Public Transport Department of the Ministry of Transport. He was a member of the Supervisory Board of České dráhy, a.s. (2018). He is a member of the Inter-Ministerial Steering and Working Team of the Quick Connections Program and the Technical-Standardisation Commission No. 141/1 of the Czech Standardisation Agency. He is also a member of two expert groups of the Technology Platform Interoperability of railway Infrastructure.

3. Radek Nekola

Member of the Supervisory Board (from 1 December 2007 to 30 November 2008 and since 1 December 2008), age: 55 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: 42 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: 54 years

Roman Onderka graduated from Karel English 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. He is a Deputy of Brno and, since October 2017, a Member of the Parliament of the Czech Republic and Vice-Chairman of the Budget Committee of the Chamber of Deputies of the Parliament of the Czech Republic.

6. Pavel Kysilka

Member of the Supervisory Board (since 26 October 2019), age: 61 years

Pavel Kysilka graduated from the Faculty of Economics of University of Economics in Prague. From 1982 to 1989 he worked there as a lecturer and continued his internal postgraduate studies. In 1986 - 1990 he worked at the Institute of Economics of the Czechoslovak Academy of Sciences. In 1990, he became the Vice-Dean for Science at the Faculty of Economics, of University of Economics in Prague. From September 1990 to the end of 1991 he worked as an advisor to the Minister for Economic Policy and Local Development of the Czech Republic. At the beginning of 1992, he joined the State Bank of Czechoslovakia, where he managed the headquarters for the Czech Republic. From 1993 to 1999, he was the member of the Czech National Bank (CNB) Bank Board, Vice-Governor and Executive Governor of the CNB.

From 2000 to 2004, he worked as the chief economist of Česká Spořitelna. In 2004, he became the member of the Board of Directors and Deputy Director General of Česká spořitelna. From 2011 to 2015, he was the Chairman of the Board of Directors and CEO of Česká spořitelna. He is the founder of 6DAcademy, the Chairman of the Supervisory Board of the Czech Aviation Centre. Since 2019, he is the Chairman of the Supervisory Board of ČD, a.s., and the member of the Supervisory Board of ČD Cargo, a.s.

Changes in the Supervisory Board

On 4 January 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., exercising the powers of the General Meeting, decided to recall Jan Kasal from the Supervisory Board of ČD Cargo, a.s., with effect from 4 January 2019.

On 4 January 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., exercising the powers of the General Meeting, decided to appoint Lukáš Týfa as a member of the Supervisory Body of ČD Cargo, a.s. with effect from 4 January 2019.

On 11 March 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., exercising the powers of the General Meeting, decided to recall Jiří Švachula, from the position of a member of the Supervisory Body of ČD Cargo, a.s. with effect from 11 March 2019.

On 30 April 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., exercising the powers of the General Meeting, decided to appoint Michal Vereš as a member of the Supervisory Body of ČD Cargo, a.s. with effect from 30 April 2019.

With effect from 24 July 2019, Miroslav Kupec resigned from the Supervisory Board of ČD Cargo, a.s.

On 25 October 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., exercising the powers of the General Meeting, decided to recall Michal Vereš from the position of member of the Supervisory Body of ČD Cargo, a.s. with effect from 25 October 2019.

On 25 October 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., exercising the powers of the General Meeting, decided to appoint Pavel Kysilka as a member of the Supervisory Body of ČD Cargo, a.s. with effect from 26 October 2019.

On 25 October 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., exercising the powers of the General Meeting, decided to appoint Václav Nebeský to the Supervisory Body of ČD Cargo, a.s. with effect from 26 October 2019.

On 30 October 2019, Supervisory Board of ČD Cargo, a.s., at its meeting, appointed Václav Nebeský as the Chairman of the Supervisory Board of ČD Cargo, a.s.

Audit Committee

1. Oldřich Vojíř

Chairman of the Audit Committee (member since 15 December 2009, Chairman since 18 February 2010), age: 58 years
(Since 17 December 2019 re-appointed as a member of the Audit Committee for another term)
Oldřich Vojíř graduated from the Faculty of Education of Jan Evangelista Purkyně University in Ústí nad Labem and graduated from a doctoral study at the Transport Faculty of the University of Pardubice. He was a member of the Parliament of the Czech Republic and he 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

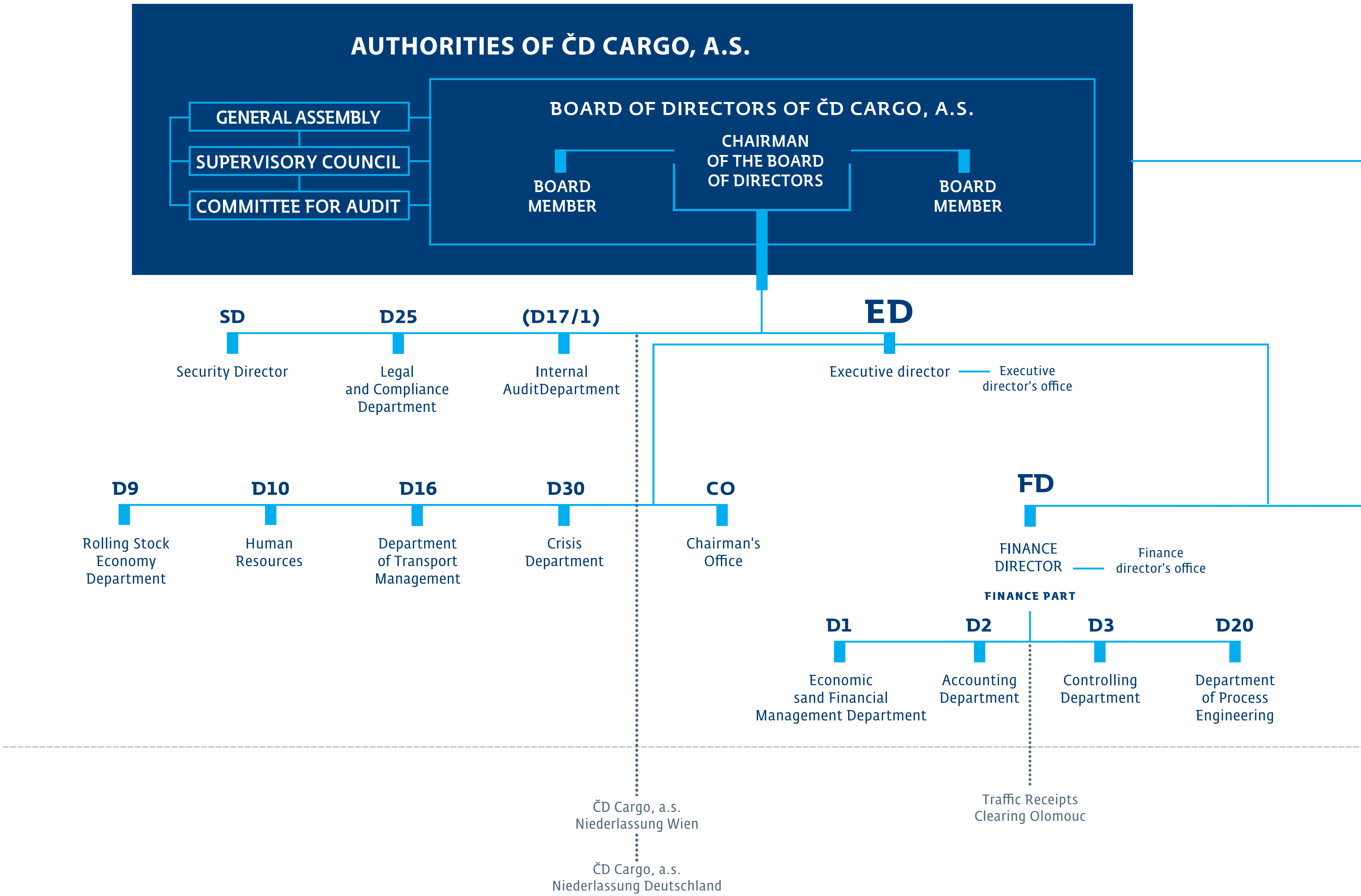
Member of the Audit Committee (since 15 December 2009), age: 53 years,
(on 17 December 2019, he was re-appointed for another term)
Libor Joukl graduated from the Brno University of Technology. In 1989, he joined ŽĎAS in Žďár nad Sázavou, dealing with plant equipment construction and design. From 1991 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: 57 years,
(on 17 December 2019, he was re-appointed for another term)
Miroslav Zámečník graduated from the University of Economics in Prague and was a Pew Fellow at the School of Foreign Services, Georgetown University, Washington. From 1990 to 1993, he worked as an advisor to the federal Minister of Finance and then the head of the Centre for Economic Analysis of the Office of President Václav Havel. Between 1994 and 1998, he was a representative of the Czech Republic at the World Bank in Washington, D.C. Since 2001, he has worked as an independent economic consultant specialising in the restructuring of companies. He was a member of the National Economic Council of the Czech Government.

07

Organisational Structure of ČD Cargo, a.s. as at 31. 12. 2019

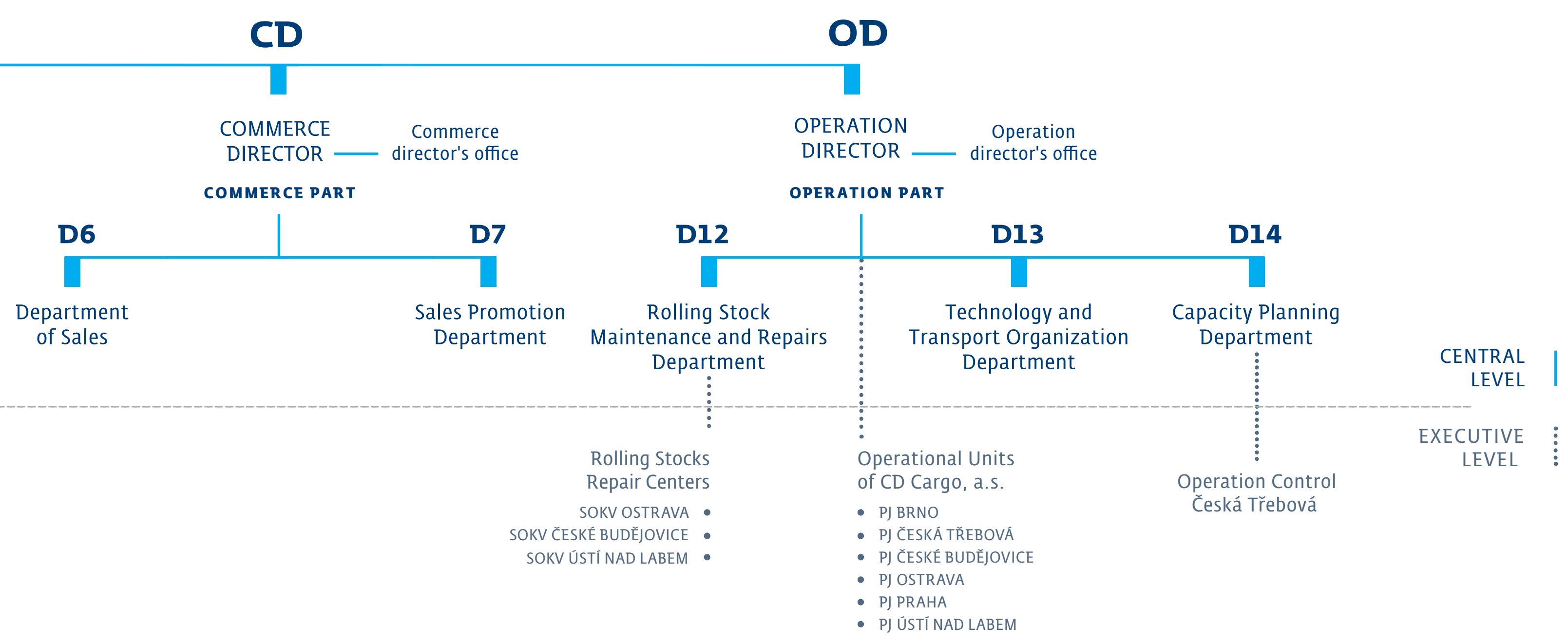


Joint ventures, capital interests

RAILLEX, a.s. (based in Prague)
BOHEMIAKOMBI, spol. s r.o. (based in Prague)
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 Prague)
ČD-DUSS Terminál, a.s. (based in Lovosice)
Auto Terminal Nymburk, s.r.o. (based in Prague)
CD Cargo Slovakia, s.r.o. (based in Bratislava)



We are leaders in using advanced technologies

We care about tradition and history

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 Company's Assets.

Freight Transportation Operations

FREIGHT TRANSPORTATION

In 2019, ČD Cargo, a.s. trains transported total of 64 million tonnes of goods in the Czech Republic, which is in comparison with the previous year a decrease of about 2.6 million tons. The lower volume of transport is fully connected with the overall decrease in the performance of Czech railways, which represents a year-on-year decrease of approximately 3.6%. In 2019, the subsidiary CD Cargo Poland transported 3.1 million tons, while approximately 40 % were transportation for the parent company.

Revenues from own transport reached to CZK 8.773 billion in 2019, which is CZK 361 million less than in 2018. The highest sales were generated from the commodity of hard coal and coke and food and agricultural products; while the biggest decrease was recorded in the commodities iron and engineering products, brown coal and wood.

The beginning of the year in the iron and engineering products commodity was influenced by the persisting unfavourable situation in Ukraine, which had an impact on the volume of imported iron ore. From the middle of the year, the emerging recession in metallurgy began to fully manifest itself. Not only transport of iron ore, but mainly metallurgical products decreased. In addition to the decline in production, the results were also negatively affected by competition from road transport, even indirectly – metallurgical products are also transported on semi-trailers. Iron scrap shipments also had a downward trend, but in the autumn the offer of special prices reduced the decline. An important contract was the transport of pipes for the construction of the Antelope gas pipeline. At the end of the year, cooperation with ČD Cargo-Niederlassung Wien was of great importance for the commodity, when new shipments of metallurgical products and scrap iron were obtained.

The results in the building materials commodity were significantly affected by the loss of desulphurisation limestone transport to the power plants in Chvaletice and Melnik. In November, however, transportation of desulphurizing limestone from the Mořina Quarries to the North Bohemian power plants was newly acquired using the RockTainer system. New were also transports of desulphurizing limestone to the Böhlen power plant in Germany and the Turoszów power plant in Poland. In 2019, ČD Cargo, a.s. continued to actively participate in the delivery of construction materials, particularly gravel for lock-outs events, such as the modernization of Brno's main railway station or the construction of a new line in Prague-Vršovice. We also transported mined soil to the storage in Nové Strašecí.

Compared to 2018, results in brown coal commodity were worse throughout the year. Globally, they reflected both the situation in the energy and heating sectors (increase in prices of emission allowances). Overfilling of landfills in power plants and heating plants, especially in Chvaletice, was also unfavourable. Both, autumn and December were relatively warm months, i.e. the heating plants did not need as much fuel for their operation. Some energy sources switched to gas combustion, which also had a negative impact on the performance of ČD Cargo, a.s. The hard coal and coke commodity is one of those where the volume of transport increased year-on-year. This was largely due to cooperation with the CD Cargo Poland subsidiary and the ČD Cargo-Niederlassung Wien branch. In the case of the first mentioned, a large share of black coal shipments from Baltic ports and Polish shafts to domestic smelters was acquired. The Vienna branch carried out the fuel transport to the power plant in Werndorf. However, these activities were definitively stopped at the end of the year. Transit transport of coke also performed with slight fluctuations. However, there was also a decline in metallurgical production and the related demand for coke. The key to the good results in this commodity was to ensure enough wagons for the Polish market.

In transportation in the chemical products and liquid fuels commodity was provided with large fluctuations. The most important for ČD Cargo, a.s. was the deployment of new tank wagons for diesel transport from Germany for ČEPRO. They maintained a stable level throughout the year, respectively they grew. On the other hand, we lost part of the fuel transport in favour of other carriers. In general, also transports of chemical products and fertilizers decreased.

Development in the wood and paper products commodity was quite volatile in 2019. There was a significant year-on-year drop in performance by almost 1 million tonnes. During the year, the bark beetle calamity moved from Jeseníky to other areas, especially to the Bohemian-Moravian Highlands. As a result of the relocation of mining sites near the processing plants, part of the transport was switched to cheaper truck transport. More than 10 carriers were involved in the wood transport, which could only be countered by special offers. Over the course of the year, the situation was complicated by overfilling of border crossing points during transports to Romania. Among the positive factors it is necessary to mention for example the deployment of GigaWood technology to transports for the company Wood & Paper and the acquisition of new export transports to Poland.

In the course of the year, in the food and agricultural products commodity, the transit transport of grain to German ports in cooperation with the subsidiary ČD Cargo Logistics, a.s., was significantly increased. The Vectron locomotive is now being deployed in Germany. Other significant transport volumes are realized by the branch in Vienna – transit of grain, soy, etc. to Germany. The beet campaign was also successfully implemented, and the beet was also imported from Slovakia to Hrušovany nad Jevišovkou. In the spring, the transport of mineral water on a new route from Prague to Kecskemét began.

VIn the other commodity, numbers of military transports were carried out. During the year, we hastily carried out the transport of several transformers, as well as so-called castors, nuclear waste storage containers.

The year-on-year decline in combined transport volumes was due to several reasons. The most important thing was to end the road semi-trailers transport for RailRunner from Bratislava to Braunschweig, due to the insolvency of the customer. Expectations of an increase in transportation from China to Lovosice and other destinations in cooperation with ČD Cargo Logistics, a.s. remained unfulfilled. By contrast, the MalaTrain product train service had an upward trend. Operation on the new line for the customer LKW Walter was launched, in the relation Rostock - Lovosice, but unfortunately at the expense of the line from Rostock to Brno. In 2019, problems started to appear due to the depleted capacity of the terminals in Mělník, Lovosice and Brno.

During the year, the automotive commodity began to show a decline in car production, which, of course, also affected the volumes of transport with ČD Cargo, a.s. Contrary to expectations, the car body transports from Mladá Boleslav to Osnabrück were terminated significantly earlier due to the timely completion of the new coating plant. The year-on-year decline in revenues was also due to the fight with competing carriers on some relations.

OPERATIONAL MANAGEMENT (OPERATIONAL STRUCTURE)

Operational management at ČDC has three basic components – planning, management and executive. The planning component is the Capacity Management Department, which forms long-term and medium-term capacity plans in response to the requirements of the Trade Department, with which it has been closely cooperating continuously since the bid preparation phase. The result is the long-term and medium-term operational plan, that is continually updated and refined, and submitted to the management unit for implementation. The management unit is Operating Unit Česká Třebová (ČDC dispatching apparatus), which further refines the medium-term operational plans, in cooperation with the Customer Centre, and responds to the current development of customer orders and creates "short-shift plans". The executive component represents the "Operating Units of ČDC", which reports the Operation Control Česká Třebová. During the 2019, the Capacity Planning Department in cooperation with the Operation Control Česká Třebová continuously fulfilled standard tasks related to the organisation and operational management of freight trains of ČD Cargo, a.s. and with organisation of additional wagons for loading. Since 1 April 2019, due to change in the organisational structure of ČD Cargo, a.s., the product planning group was assigned to the Capacity Planning Department, in order to create even more precise plan for dispatching management to ensure the realisation of transportation more efficiently. An integral part of this activity is the creation of an Overview of product transport and planning and implementation of "ad hoc" trains transports.

The result of set-up and implementation of the Shift Plans was complete fulfilment of the role of the dispatching apparatus of ČD Cargo, a.s., in the extent stipulated by the Organisational Regulations.

In the operations of ČD Cargo, a.s. 12 dispatch centres for the organisation of running of trains and 7 wagon dispatcher centres for the organisation of empty wagon extensions are involved. Great emphasis continues to be placed on better preparation of plans for the implementation of transport.

In 2019, the Capacity Planning Department and Operation Control Česká Třebová significantly contributed to the ongoing development of Customer Traffic Management projects. Within these projects, the large share in the successful realisation has implementation of changes in the transport of trains to Austria, which are realised in Austria on behalf of ČD Cargo, a.s. managed by the ČD Cargo Niederlassung Wien branch. Furthermore, the organisation of transports to Poland with ČD Cargo Poland continues successfully. Based on the positive impacts on the quality of shipments managed within the Customer Traffic Management project (in cooperation with the ČDC Customer Centre), other shipments in the brown coal and wood commodities are included in this regime.

Further refinement of the creation of operational plans (implementation technologies) will be emphasised in the future in the framework of other internal projects and process changes in ČD Cargo, a.s. The goal is to increase capacity utilisation and to achieve higher quality of transports according to customer requirements.

Therefore, employees of operational management department are continuously involved in the role of consultants and methodologists, in the development and pilot verification of modifications of the information system to support the planning and management of operations. In this area, work on the development of IS TMS (order management) and E-PROV (short-term plan) continued.

In the second half of 2019, there was a decrease in transports, therefore it was necessary to continuously implement optimisation steps in the field of operations in order to reduce the operating costs. However, these measures are always consulted with the Trade Department, in order to avoid any disruption of shipments and to avoid harm to the customer, as focus on the target customer with the aim to satisfy customer demands on timeliness and information of the movement of his consignments is a must.

OPERATIONAL SAFETY

Implementation of the system for ensuring the safety of rail operation and railway transport operation is one of the basic duties of the railway operator and railway transport operator (hereinafter referred to as the "carrier"), which is stipulated by valid legislation. It is an essential element for obtaining the Safety Certificate, for which ČD Cargo, a.s. achieves.

At the date of commencement of rail transport on the national or on the regional rail, the carrier must have a carrier certificate, which covers the national and regional railways or their part. The carrier's certificate proves that the carrier has an internal organisational structure and management system for ensuring rail transport and has established a system of ensuring the safety of rail transport operation, which means a set of organisational and technological measures implemented for safe operation of rail transport.

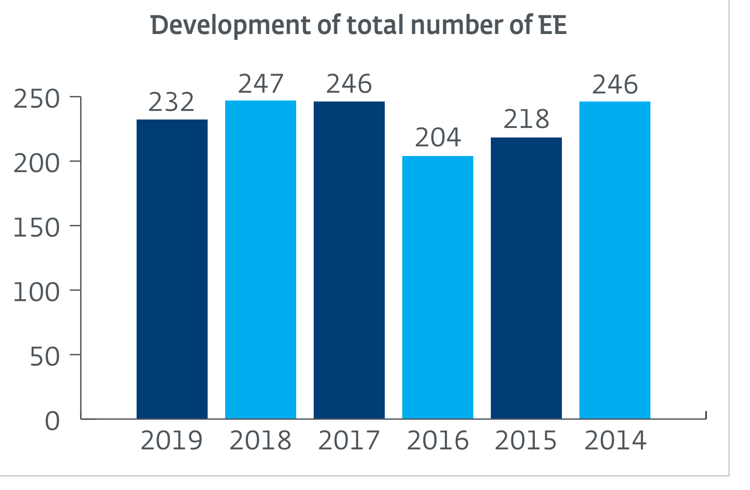
The Decree No. 376/2006 Coll. ("Decree on the management system for rail operation safety and rail transport safety and on procedures in the event of incidents on railways, as amended), specifies the individual elements and, above all, the requirements for the safety management system. It is a whole range of activities related to ensuring the operation of rail transport. These include, for example, establishing safety policies and communicating them to all employees, risk assessment procedures and methods, implementation of risk control measures in the event that changes in operating conditions or materials pose new risks to the railway infrastructure or the operation of railway transport, staff training programs and systems, which ensure the maintenance of staff qualifications and an adequate level of performance of tasks, as well as determining provisions on the implementation of periodic internal controls of the safety management system.

One of the most important elements of the system is also the determination of procedures upon which serious accidents, accidents, incidents and other events affecting the safe operation of rail and railway transport are reported, their causes are investigated, analysed and necessary preventive measures taken.

In 2019, ČD Cargo, a.s. ensured the fulfilment of statutory obligations in the area of investigation of extraordinary events by means of the "Agreement on cooperation in cases of extraordinary events in railway transport and in cases of fatal and serious accidents at work" (hereinafter the Agreement). Investigation of the causes and circumstances of the origin of extraordinary events in railway transport for ČD Cargo, a.s. was carried out by Správa železnic, státní organizace (hereinafter SŽ), by its authorized persons based on the Agreement.

For reporting and investigating extraordinary events, ČD Cargo a.s. applies Measures No. 38/2016 of the Operational Director of ČD Cargo, a.s. and the internal regulations SŽ D17 "Regulation for reporting and investigating extraordinary events", including "Implementing measures for regulations on reporting and investigating extraordinary events" - SŽDC D17 – 1.

In 2019, ČD Cargo, a.s. recorded a total of 232 extraordinary events, of which 4 serious accidents, 39 accidents and 189 incidents.



The total material damage caused by all extraordinary events is estimated at CZK 87,885,443. Compared to 2018, this is almost double the amount, which was affected by 4 serious accidents. The estimated damage caused by these 4 extraordinary events amounted to CZK 55,039,130. The aforementioned amounts are not final and will be gradually refined in the course of 2020, according to both the completed extraordinary events investigations according to completed repairs and overall liquidation of extraordinary events consequences.

As of 28 January 2020, the investigation of 213 extraordinary events was completed. Out of these, 116 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 99 extraordinary events.

The total number of 232 extraordinary events we have recorded included for example 20 collisions of railway vehicles, 58 derailments, 4 fires, 39 extraordinary events primarily caused by prohibited movement of the railway vehicle past the signal and 37 extraordinary events caused on the traction vehicle pantograph interface and traction lines.

In 2019, while operating railway transport, our Company was involved in 17 collisions of railway vehicles at the level crossing with a road vehicle or a person moving within a level crossing.

Within activities aimed at increasing safety, ČD Cargo, a.s. as implements various measures in order to eliminate the occurrence of extraordinary events. Responsible employees analyse the causes and react accordingly by introducing relevant preventive measures.

Information on the Company's Assets

THE REAL ESTATE OF ČD CARGO, A.S.

In addition to common basic means of production, i.e. railway vehicles, the ČD Cargo, a.s. also owns real estate. Without this, the business activity of the Company would be limited, therefore it should be considered as strategically significant. A total of 227 buildings and 250 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 has almost 118 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 Repair Centres for the Railway Wagons in line with the financial plan. The investment activity is 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. Property tax returns were previously applicable only to immovable assets which were not directly related to activities of public interest or were, at least partially, subject to lease agreements. ČD Cargo, a.s., paid property tax to 10 relevant tax offices in the amount of CZK 3,806 thousand.

LEASE OF RAILWAY VEHICLES

One of the important business activities within additional services is the lease of railway vehicles in the form of long-term and short-term lease. In the form of a long-term lease, our partners lease vehicles designed for operation territory, outside the Czech Republic. Short-term lease is performed for locomotives in individual business cases, outside our infrastructure, where mainly interoperable locomotives are used.

With regard to the lease of freight 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, wagons released from total unbound capacity are used. We offer the lease of most lines of wagons, including tanks. Additionally, we try to cooperate in projects for the use of non-operating vehicles. These are various forms of ensuring the operation of unused wagons and their subsequent operation.

Increasingly, we use the spare capacity of rail vehicles in commercial transactions in cooperation with other subsidiaries, as part of joint expansion on foreign markets.

VEHICLES FLEET, MANAGEMENT OF VEHICLES

As of 31 December 2019, in order to ensure the operation of freight trains, ČD Cargo, a.s., held 772 traction vehicles, of which 59 were locomotives subject to financial lease agreements. As of 31 December 2019, 663 locomotives were used for operations, while the freight wagons fleet consisted of around 20.9 thousand own freight wagons of different types. The fleet size was expanded according to needs to 3,200 leased wagons, in average. Approx. 18.5 thousand vehicles of the total fleet were in operating condition.

During 2019, 810 wagons and 200 wagons of Eas series were scrapped due to wear and tear, obsolescence or poor technical condition. The 100 Falls series and 29 Faccs series wagons have been rebuilt and upgraded. Further 147 Faccs and 150 Eas wagons will be upgraded in the same way to further increase vehicle operability. For the year 2020, 650 outdated and technically worn-out freight wagons are selected for disposal or scrapping. In the course of 2019, 30 unserviceable locomotives were scrapped, and 14 machines were purchased for nostalgic reasons by interest groups. Suitable spare parts from disposed vehicles were recovered for their use in the repair of other vehicles.

Maintenance and repair of railway vehicles were carried out mainly by own repair centres, also by České dráhy a.s., DPOV a.s. Přerov and externally. In 2019, 4,128 vehicles underwent periodic repairs.

The Repair Centres for the Railway Wagons of ČD Cargo, a.s. participated in the installation of fuel measurement equipment for locomotives, assembly of stations for GSM-R and Occupational Health and Safety (OHS) operations on traction units. Within the Eas freight wagons used for the transport of wood, scrap or coal the change of combined wooden floors with full metal floors continued.

At the beginning of 2019, 3 Siemens Vectron interoperable locomotives were delivered (383 010 to 383 012), what increased the total number of this series to 12 units. In 2019, 1 modernized locomotive 742.711 was delivered (modernization of locomotive 742 series) and also 4 locomotives for light rail operations of 744 series and 1 locomotive 753.6 series for service vehicles were purchased.

In 2018, the adaptation of the freight wagon fleet to the needs of the transport market with the aim to increase the operability of wagons in international traffic continued. Further 175 eight-axle 80-feet Sggrrs wagons, specifically designed for transportation of containers and Innofreight superstructures, were added to fleet of ČD Cargo, a.s. The wagons in combination with SteelPallets are used for the transport of cast-iron and slabs, whereas in combination with WoodTainers and MonTainers for the transport of lignite and wood chips for various customers who adapt the unloading to the new technology.

In 2019, it was decided to deploy a group of 20 INNO Sggrrs wagons for container transports. At the same time, 20 eight-axle 90-feet Sggmrrs wagons were purchased, fitted with timber pallets so-called GigaWood. Overall, ČD Cargo, a.s. operates 381 its own and 40 leased wagons in INNO technology.

In addition, 145 new Eanos high-sided wagons and 80 new Zacns tank wagons were purchased (50 of Zacns wagons were transferred to ČD Cargo's assets in December 2019 due to lease term completion). In 2020, the purchase of 295 new Eanos wagons andanother 20 Zacns wagons under the exercised option is contracted. The planned and tendered delivery of 100 container wagons of the Sgnss series was not realized in 2019 due to the poor quality of delivered wagons.

In order to comply with European legislation in the area of the use of so-called "silent wagons", ČD Cargo, a.s. stared to retrofit the wagons with LL-brake blocks. The obligation to use silent wagons for transport comes into force in Germany on 13 December 2020, and the ban on the use of noisy wagons in Switzerland is effective since 1 January 2020. By the end of 2019, the Company had already 1,679 wagons retrofitted and by the end of 2020, approx. 6 thousand wagons of different series will be upgraded.

In the area of freight wagons management, in 2019 and in the following years great attention will be paid to the planning and utilization of vehicle capacity. The aim of this effort is to minimize inefficiencies in transport and vehicle management.

The Company's reporting includes regular evaluation of vehicle capacity utilization, including identification of key issues by individual business groups of freight wagons. Any excess vehicle capacity is used as part of additional services for lease purposes, so that the management of the available fleet of vehicles is as efficient as possible and provides additional resources to ensure its operability.

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. All of these activities focus primarily on existing and potential customers, but communication activities have also significantly influenced other business partners as well as the professional and general public.

The most important tools were again the ongoing www.1vagon.cz digital campaign, which, in addition to expanding the awareness of the Company's services by dedicated microsite (business section), was also an extensive brand campaign aimed at strengthening awareness of the Company and its brand.

Other means used to fulfil the set goals in the area of marketing and communication activities include, for example, web presentation, creation of own printed materials, participation in international specialized trade fairs and conferences, realization of own events or customer conferences, support of selected cultural and sports projects, and last but not least, PR presentation in professionally printed and electronic media.

It is also important to mention the importance of internal communication activities with the internal magazine for ČD Cargo employees - Cargovák as one of the main tools.

WEB PRESENTATION

The number of visitors to the ČD Cargo website increased again in 2019. The number of 67 news were posted, the information regarding ČD Cargo offer was continuously updated, etc. For several years, EROZA (Electronic Customer Interface) has been giving our customers access to applications. On 1 November, a new version of this customer interface was launched. It is divided into several sections, of which Applications section belongs to the most popular amngst our customers, where portlets for work and use of data from internal systems of ČD Cargo, a.s. can be found.

The www.1vagon.cz platform was used to promote the offer of transport of individual wagon consignments which pointed out the advantages of this service also for small and medium-sized enterprises and enabled the customers to easily calculate the cost for transport.

During the year 2019, the Company profile on Facebook was also used for communication. Facebook was used not only for the presentation of ČD Cargo, a.s. activities, but also for recruitment purposes and promotion of rail freight transport in general. "ČD Cargo from spring to winter" photo competition is one of the most interesting projects. Submitted photographs were subsequently used to design wall and table calendars of ČD Cargo.

PRINT AND MEDIA COMMUNICATION WITH CUSTOMERS

Communication with journalists was carried out via Press Department of České dráhy. All important topics, such as the investment activities of ČD Cargo, a.s., bond program, development of activities in Austria and successfully managed business cases were communicated.

Print communication focused on advertising ČD Cargo, a.s. services in professional magazines. Targeted advertising and PR articles have been published in Dopravní noviny, Železniční magazin and Railvolution. We presented our special services portfolio (transports for energy industry using the Innofreight system, transports for lockouts) in specialised journals such as Silnice-Železnice or All for Power. Through Železničář, the group's newspaper, ČD Cargo addressed a wide range of people interested in rail transport.

In 2019, we addressed our customers at the trade fairs with the "ČD Cargo Profile" and also with the specialized material "Opening Gates to the East". On the occasion of a business conference in Harrachov, a special issue of the ČD Cargo Bulletin presenting the range of services and important contact details was published.

As in previous years, the basis of the internal print communication was the Cargovák magazine enriched by two special attachments.

TRADE FAIRS AND CONFERENCES

Trade fair presentations are an important element of active trade policy support as it meets one of the main strategic goals - expansion to foreign transport markets. In recent years, the trade fair display of ČD Cargo has been present at most of the significant international transport and logistics fairs.

In 2019, trade fair presentations were carried out in the spirit of the "Across Europe" slogan. The most important one was undoubtedly the participation in a prestigious and the largest European transport fair - Transport Logistic, which took place at the beginning of June in Munich. In the traditionally attractive design exposition, we introduced ourselves as well as our subsidiaries operating on foreign markets, namely CD Cargo Germany and CD Cargo Poland, together with ČD Cargo Logistics. In mid-April, after a three-year break, we returned to Moscow at another major international trade fair - TransRussia. At the joint Czech-Slovak exposition we presented ourselves together with our subsidiaries CD Cargo Poland and ČD Cargo Logistics.

Domestic trade fair presentations were clearly dominated by the traditional participation in the international fair of railway technology, products and services for rail and urban rail transport, Czech Raildays Ostrava. In addition to the spacious outdoor exhibition, the "Across Europe" themed Habbilnns wagon presentation was one of the main attractions. Beside the presentation of all foreign subsidiaries of ČD Cargo, the interior of the wagon also provided many opportunities for amusement, especially for the smallest visitors to the fair.

Participation and partnership in the Railway Day 2019 which took place at the end of September at the railway museum in Lužná u Rakovníka can also be classified as domestic trade fair presentation.

The year can be considered equally rich in terms of conferences. The pivotal 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 trade and pricing policy for the upcoming period.

Among other significant participations and partnerships in professional conference events, the Railway Conference in Pardubice, subtitled as „Czech and European Railway for The 21st Century – Single Market" should be mentioned as well as active participation in the 3rd conference of The Association of Railway Freight Carriers of the Czech Republic, ŽESNAD. CZ, which took place at the end of May in Špindlerův Mlýn.

RESEARCH, DEVELOPMENT AND COOPERATION WITH UNIVERSITIES

During 2019, the Company continued its cooperation with certain Czech universities, in particular technical and economic universities, i.e. with the Jan Perner Transport Faculty at University of Pardubice, the Faculty of Transportation Science at the Czech Technical University in Prague, the VSB - Technical University of Ostrava and abroad mainly with the University of Žilina - Faculty of Operation and Economics of Transport and Communications in Slovakia. Students of these universities are offered with topics for bachelor and master theses in which they can link theory with practice. Topics of these theses are designed so that the results can be used or applied in practice. At the same time, we allow these students to get to know freight carrier's environment as part of their professional internship at the Company.

ČD Cargo considers the cooperation with universities as highly important and beneficial for both parties. The Company can use the results or findings from diploma theses to improve the quality of its activities while the universities, or students, can verify their theoretical knowledge by expanding on given topics from the freight carrier's environment. At the same time, ČD Cargo, a.s. attempts to cooperate with students during their studies, offering temporary work or professional work opportunities to interested persons with a higher level of knowledge of railway transport.

INFORMATION SYSTEMS

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

- Operational and business activities covered by the PROBIS information system,
- Economic management of the Company covered by the SAP information system,
- Information and communication technology (ICT) for core business support and ICT safety.

During 2019, the planning and operating systems were gradually modified so that they could be used for planning and managing trains not only in the Czech Republic. In 2020, development will continue towards handover/takeover of wagons abroad and selling/delivering consignments.

IT support was also launched to manage and monitor key transports of block trains. This allows to plan and manage the business case as a whole, starting from the movement of the empty wagon, loading wagon up, to transporting the wagon to the target customer. In the area of planning, it is the short-term planning of individual operations, including the possibility of planning local technologies at the border station. Part of the planning newly includes IT support to create the freight wagons schedule plans for selected business cases.

In addition, the development of a mobile application for operational employees (the so-called mobile PRIS) has also begun, which will enable the replacement of existing PDAs with new tablets in mid-2020.

Long-term projects have been launched:

- ZEVO-O upgrade – IT support for fleet manager's work, which includes freight wagons as well as traction vehicles. The solution will also include support for capacity planning.
- Dynamic Train Formation Planning – the change of the train formation planning process in order to create and modify a short-term train formation plan. The aim is to create train-forming information for a particular day in information systems, including the incorporation lockouts in the plans. Subsequently, this information should be transmitted to the information systems as a basis - substitution of lockouts, data for PRIS and DISCM or train-forming connection.
- Station operation management – this is the modification and development of information system in the area of planning and management of station operations, focusing on areas that are currently not covered at all or only partially by information system support, i.e. short-term planning and management of its implementation.

In 2019, the development of a special application for train drivers continued as part of a significant change involving the introduction of tablets as working aids for drivers. The project was completed at the end of the year. Following the drivers' digitalisation, the development of the Electronic Time Table (ETD) application began, which enables electronic distribution of timetables. The first stage of development was fully operational and launched in November 2019.

In 2019, the UDIV application was extended with a separate "Forecast" module which is used to predict the use of ČD Cargo, a.s. wagons of a specified series in the medium term (30 days). Users here have comprehensive information about the expected use of wagons. It is possible to analyse which commercial vehicle series have a shortage of wagons and, conversely, which vehicle series will be unused.

In the area of customer service, the new EROZA web application was launched, which was separated from www.cdcargo.cz. EROZA newly includes extended information for customers. In addition to the original applications- Data and Queries, Principles for announcing (ZAN) and ZAN Exceptions, new applications have been added, such as contract overview and invoice overview. Ergonomic improvements have been made based on the numerous customer's comments on the original solution. User management is now transferred to the customer's administrator. The website www.cdcargo.cz has been transformed into a public website providing basic information to customers without the need for registration and access.

In the field of business information systems, a generational upgrade of the OSCAR application (Carga Business System) has been launched.

As for SAP, the "Implementation of accounting adjustments and other internal processes in accordance with IFRS standards" project for direct parallel accounting under this standard was completed in 2019. Within this project, the "Implementation of SAP Treasury" project was launched. Furthermore, the construction of a fully responsive SAP FIORI user environment began which will be used in the first phase of the handover and acceptance of wagons between ČD Cargo, as and external repair centres.

In the field of Information and Communication Technologies (ICT) in 2019, preparations for the upgrading of the service infrastructure and the replacement for outdated versions of Microsoft products took place with an emphasis on the functionality and security of the new The target architecture of the proposed solution was refined, various licensing models, impacts and links to the existing infrastructure were assessed.

Several steps have been taken to improve the operational and security parameters of ICT infrastructure. Specifically, the deployment of the 802.1X security standard was launched using Cisco ISE technology to control access to the internal network via Wi-Fi. The pilot site for deployment of technology was the one of General Directorate of ČD Cargo, a.s.

During 2019, the systems operated by self-sustaining obsolete technology in the Olomouc data centre gradually migrated to the newly acquired infrastructure in the same location, providing higher performance and reliability and enabling applications running in high availability mode. Existing security technologies for centralized LOGmanager log collection were also developed, where several other applications were linked. The Zabbix monitoring system was successfully implemented which is an integrated enterprise-level software designed to monitor the availability and performance of IT infrastructure components and to automatically notify of abnormal events and behaviours. It provides administrators with a comprehensive overview of the status of managed systems and allows them to respond faster to potential operational and security events.

INVESTMENT

In 2019, ČD Cargo, a.s. investments reached CZK 4.16 billion and another CZK 335 million were paid as advances for the acquisition and modernization of locomotives in the following years. This represents a year-on-year progress of approx. CZK 1.77 billion. In addition to the above, an advance payment was made for the implementation of European Train Control System (ETCS) in locomotives of 163 and 363 series. The project is co-financed by the subsidy from the CEF programme.

The Company's investment activities primarily focused on the renovation and modernisation of railway vehicles fleet, where investments amounted to CZK 3.86 billion (including component repairs of freight wagons and locomotives), representing 93 % of the total value of acquired fixed assets.

Investments in freight wagons

In 2019, in terms of freight wagons investments, the most significant event was the purchase of 180 new freight wagons of Sgg(m)rrs for combined transport and transport using Innofreight swap bodies, the purchase of 145 new high-sided Eanos wagon and the purchase of 80 new large-capacity Zacns tank wagons. Purchase option was executed upon completion of lease term of 1,141 various series wagons. The change of the floors of the Eas wagons to metal floors continued. Substantial part of the funds was then spent on revision repairs of nearly 3,000 wagons.

Investments in traction vehicles

In 2019, within investments to traction vehicles, most significant investment projects were the purchase of four Vectron locomotives, which extended the fleet of interoperable locomotives, the purchase of four Effishunter locomotives for railway operations, the purchase of one Effiliner locomotive for medium-duty freight line service and payment of advances for the delivery of further interoperable locomotives and locomotives for medium-duty freight line service in 2020. At the same time, the project of modernizing diesel locomotives of the 742 series continued.

In 2019, additional funds were again invested in component repairs of locomotives (including their traction engines) in accordance with the new maintenance scheme which should have a significant influence on the increased reliability and operability of traction vehicles.

Furthermore, technical improvements of traction vehicles of various tractions and series were carried out, including the assembly of the traction energy and fuel consumption meter. At the same time, the project of implementation of the ETCS in locomotives of the 742 series continued, and the project newly concerns 163 and 363 series locomotives.

Within central activities in the area of Occupational Health and Safety (OHS), the drivers' workplaces are gradually being modernised (installation of safety glass, air-conditioning or auxiliary heating etc.).

Investments in Construction and Machinery

Another significant part of the Company's investments are activities in the area of construction and machinery. These investments were focused on renewal of machinery for the needs of organisational structure units, reconstruction of administrative and repair centres within these units, including the improvement of the working environment, and renovation of tracks in repair centers, etc. Among others, the construction of a new steel hall for the freight wagons cleaning Ústí nad Labem was completed in 2019, and also the underfloor lathe project in Ústí nad Labem was completed.

Other investments

Other investments include IT investments, acquisition of handling technology and other. In the area of IT, the development of internal information systems continued in 2019, however, a new projects were also launched, in line with the medium-term IT strategy aiming to build a comprehensive IT architecture for sub-processes including reporting and support of ČD Cargo, a.s. business activity. Other investments included, for example, the reconstruction of foot lifts, the acquisition of forklifts and other logistics-related equipment, reconstruction of assembly bridges and renewal of other equipment at Repair Centres for Railway Wagons and Operating Units.

08

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. ČD Cargo, a.s. also takes care of the continuous compliance and protection of human rights and realizes that it is an area that is increasing importance to both the Company's employees and customers. Therefore, there is a business and moral obligation to ensure respect for human rights across organisational 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, among others, on anti-corruption behaviour, prevention of criminal liability and personal data protection. No direct or indirect discrimination is permitted at ČD Cargo, a.s. The recruitment of new employees is determined by the education, expertise, qualifications and abilities of each candidate. During recruitment and other activities, ČD Cargo, a.s. does not exclude any candidate, with due respect for the principles of diversity.

The Code of Conduct helps ensure that daily activities of the Company and behaviour of all employees complies with the laid down principles. In the event of unethical conduct, violation or reasonable suspicion of violation of the Code of Conduct and accepted principles of morality, each employee can report such case. 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 Anti-Corruption Rules of ČD Cargo a.s.", 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 2019, no cases of the Code of Conduct or human rights abuses were reported nor suspected.

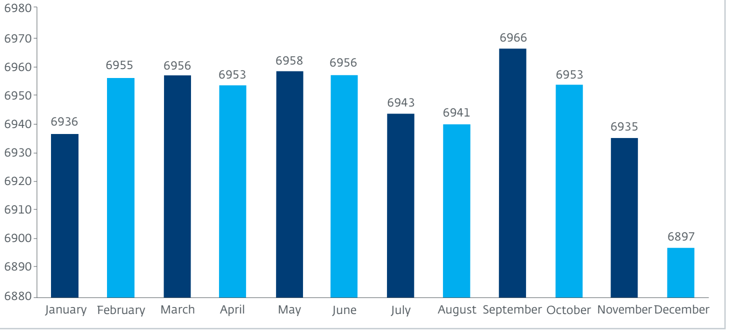
The corporate culture and compliance with ethical principles are regularly one of the points examined during audits at ČD Cargo, a.s.

STAFF POLICY

In 2019, the average registered number of full-time employees was 6,945.65. The number of employees as of 31 December 2019 was 6,900, of which 1,410 were women and 5,490 were men.

As of 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 twelve years of operation of ČD Cargo, a.s. on the market, the technological processes have been revised and optimized, and thus the number of employees was reduced by 4,856, which is more than 41 %.

The average number of employees calculated to full-time employment in individual months of 2018



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

Age structure in key occupation as of 31 December 2019			
Position name	Total employees' number	Number of employees up to 55 years	Number of employees over 55 years
Railcar Repairman	498	339	159
Wainwright	562	355	207
Shunter	577	429	148
Shunter manager	652	443	209
Driver	1,705	1,071	634

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 railcar repairman. For this reason, we use a number of new recruitment tools. Vacancy information is available to interested ones not only on our website, but also on various work sites.

Jobseekers are 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 training or shunter and repair staff. It is granted up to CZK 80,000 and its payment is spread over the entire education and training of the employee. We also need to reach out potential jobseekers with regard to the age structure of existing employees.

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

As part of the medical services, the Company cares for the good health of its employees and supports them in their further professional growth and education.

At ČD Cargo, a.s. there is not only an active recruitment of employees for selected operating jobs, but the Company also presents itself at various job fairs or job exchanges. Moreover, the Company uses some high schools and universities presentations.

In this area, ČD Cargo, a.s. successfully cooperates with high schools and universities. Currently we are cooperating with thirteen high schools, including training of the students. For the students of these schools, this collaboration offers the benefit of an ensured practice at various operational working positions. In the case of higher education institutions, cooperation is based on educational, scientific and research activities, in which the main pillar from our Company's side is conduction or, eventually, consultation of bachelor, diploma 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 personnel specialisation.

WAGE AND SOCIAL AREA, COOPERATION WITH TRADE UNIONS

In 2019 the average salary from the payroll costs, excluding other staff costs on ČD Cargo, a.s., amounted to CZK 37,600.

The principles of remuneration and employee benefits have been enshrined in the "ČD Cargo, a.s., collective business agreement for 2019-2020" valid for the period from 1 January 2019 to 31 March 2020. Fulfilment of ČD Cargo, a.s. collective business agreement was regularly evaluated at employer and trade union meetings. In 2019, the Company duly fulfilled all its commitments to employees in the area of remuneration and employee benefits.

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.

In 2019, eight trade unions were active in ČD Cargo, a.s.

EDUCATION

ČD Cargo, a.s. has set requirements, described by internal standards, for qualifications, competences, skills and experience of employees. For their continuous development, employee's education focuses on providing training to meet qualification requirements in accordance with legislative requirements, offering specific training to acquire the necessary knowledge and skills even beyond qualifications, including the implementation of not only presenting, but also e-learning and combined training and sharing support knowledge and experience.

OHS

The area of occupational health and safety was fulfilled in accordance with applicable legislation and in cooperation with trade unions. The management of objectives and system management policy of OHS proceeded in accordance with the OHSAS standard. In 2019 there were two mortal work injuries without any involvement of the employer. Based on an investigation, ČD Cargo, a.s. has adopted measures to prevent recurrence in the form of extraordinary notification of operating personnel to the principles of movement in the railway yard. During 2019, the Company continued its active approach to improving the working and social conditions of its 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, prospective 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. All the activities of ČD Cargo, a.s. are based on the principle of zero tolerance for corrupt in all its forms, as well as for other forms of unlawful conduct, especially criminal conduct.

ČD Cargo, a.s. has adopted an internal standard entitled "Criminal liability prevention programand anti-corruption rules of ČD Cargo, a.s.", which comprehensively regulates the issue of criminal liability of legal entities, including the anti-corruption approach of ČD Cargo, a.s. The internal standard is essential not only in terms of its content, but also in terms of its type, therefor it became the basic control act adopted by ČD Cargo, a.s. (i.e. document of ultimate importance, respectively extraordinary importance).

The above-mentioned internal standard sets up periodic e-learning training, which must be attended by members of the Board of Directors of ČD Cargo, a.s., as well as management and administrative employees. The last periodic training was held in November 2019.

As part of the fight against corruption and other illegal activities, ČD Cargo, a.s. has established so-called Compliance Team, which handles notifications of unlawful conduct which could give rise to criminal liability for ČD Cargo, a.s. (such as corruption) or a notice of a reasonable suspicion of an unlawful conduct. Contact addresses for receiving such announcements are published on the website of ČD Cargo, a.s., www.cdcargo.cz.

In 2019, 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 quality, environment, OHS and energy management system of ČD Cargo, a.s. is certified according to the following standards:

- ISO 9001 (quality certificate) for business activities in the field of railway freight transport and shipping, realisation of services in the area of railway freight transport and shipping, operation of railway and railway transport on siding, maintenance and repairs of railway vehicles and their parts, rental and hire of railway vehicles,
- ISO 14001 (environmental certificate) for the maintenance and repair of railway vehicles and their parts,
- OHSAS 18001 (certification of occupational OHS management system) for business activities in the area of railway freight transport and shipping, realisation of services in the area of railway freight transport and shipping, operation of railway and railway transport on siding, maintenance and repairs of railway vehicles and their parts, rental and hire of railway vehicles,
- ISO 50001 (energy management certificate) for commercial activities in the field of railway freight transport and shipping, realisation of services in the area of railway freight transport and shipping, operation of railway and railway transport on sidings, maintenance and repairs of railway vehicles and their parts, rental and hire of railway vehicles.

In supervisory or re-certification audits, an independent evaluator is required annually:

- verifies that ČD Cargo, a.s., complies with the requirements of standards for quality, environment, OHS and energy management; and
- confirms that the corporate governance system is well established and operational.

In addition to the above-mentioned certifications, ČD Cargo, a.s. has been certified by SQAS (Rail) according to CEFIC methodology since 2015 (SQAS is a European rating system used in road, rail, river, sea or combined transport of bulk and packaged goods, in cleaning station mode in distribution, storage terminals and in cooperation between companies, which takes into account the issue of hazardous chemicals).

During SQAS (Rail) attestation, carried out every three years by an independent accredited assessor, quality, safety, environmental impact and compliance with the requirements of the chemical industry in the implementation of provided transport services are reviewed.

AEO Certificate

ČD Cargo, a.s. is the holder of the Authorized Economic Operator CZAEOF0801B7 legitimacy - 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 recognised and taken into account in all EU Member States and in some "third countries" based on agreement, in particular when assessing risks related to safety aspects. Without AEO permission, access to customs simplifications is nowadays not possible.

Customs services

As part of supplementary services ČD Cargo, a.s. provides to its customers representation services 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.

Amongst the Company's customers there are also many smaller companies that transport their goods by type of transport other than rail, especially at internal workplaces, 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.

As a further service, ČD Cargo offers its customers a temporary warehouse in Lovosice 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. We can offer complete services related to placement in a temporary warehouse as well as possible further transport to the final destination on T1 in NCTS regime. The logistics hall in Lovosice is convenient for reloading goods from railway wagons for further distribution on the road.

SIMPLIFIED TRANSIT REGIME BASED ON NL CIM

As of 1 May 2019, long-awaited changes to the rules for the application of the simplified transit regime based on NL CIM have occurred. On that date, the obligation for railway undertakings benefiting from simplified transit procedures to guarantee the customs debt during the transport of the consignment came into force. Since ČD Cargo, a.s. is an authorised railway undertaking to use the simplified transit procedure and has sufficient amount to secure the customs debt, a smooth transition to the new conditions for shipments where a simplified transit procedure based on NL CIM was used before the rules has changed was possible. In connection with the occurrence of the obligation to secure a customs debt, changes have also occurred in the transport of goods within the European Union. If a consignment between countries of the European Union passes through a 'third country', it is necessary to transport the consignment in transit regime and to guarantee the customs debt for transit. In these shipments the simplified transit regime is the best solution that is the least burdening the customer.

The Company and the Community

INTERNATIONAL ACTIVITIES AND RELATIONSHIPS

International activities of ČD Cargo, a.s. are coordinated in cooperation with the parent company ČD, a.s. This is done, among others, within the framework of the rules set out in the Agreement on the Provision of International Business concluded between ČD Cargo and ČD. ČD Cargo is an independent member only in the Central Clearing Center (BCC) and the Trans-Siberian Coordination Committee (KSTP). We are members of the Freight Transport Forum and its study groups within the International Railway Union (UIC). Currently, ČD Cargo's representative leads the ISR Assembly in RAILDATA organisation, which operates central European data exchange systems. Within the Community of European Railways and Infrastructure Companies (CER), we focus on legislation related to wagon noise, combined transport, ERTMS, freight corridors and capacity allocation. The main focus within the Organization for Cooperation of Railways (OSŽD) and KSTP is, besides establishing and strengthening business contacts, mainly in the area of development of the unified consignment note CIM / SMGS and container transports. We are involved in an international project to implement the Telematics Applications for Freight Interoperability Specifications (TSI TAF). In doing so, we make use of our experience from the already described ties with the infrastructure manager.

In 2019, ČD Cargo, a.s. actively presented itself at the Transport Logistics trade fair in Munich and TransRussia in Moscow, where a memorandum of cooperation with RŽD Logistics was signed. Cooperation with Chinese partners has also been developed by signing a memorandum of strategic cooperation with the Chinese Railways subsidiary CRCT and promoting it at the China Chengdu International Supply Chain and Smart Logistics Expo 2019. ČD Cargo's development measures and INNOFREIGHT technology were presented at the 2nd RŽD Transport and Business Conference in Kaliningrad. Joint activities of carriers of the V4 group also developed during the year.

At the end of September, the OPTIYARD project was successfully completed with financial support from the European Union under the Shift2Rail Support Program. The result is pilot software for process optimisation in marshalling yards and terminals based on real-time information gathered and processed.

In 2019, the Rail Freight Forward (RFF) initiative, of which ČD Cargo, a.s. is a member, presented a major information campaign for the so-called Noem train. The goal is to double the current share of rail freight by 2030 up to 30 %. The initiative seeks to involve railway undertakings, infrastructure managers and politicians across whole Europe in realising this division of transport work.

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 executive units of ČD Cargo a.s. (SOKV, PJ).

České dráhy, a.s. provides methodical support for ČD Cargo, a.s. in the area of ecology on the basis of the Mandate Agreement concluded on 27 May 2008 and Amendment No. 1 concluded on 22 April 2016. Such includes especially comprehensive service related to removal of consequences of incidents, methodical support during implementation of existing environmental remedies, supervision and post-remedial monitoring, environmental protection trainings.

In June 2019, ČD Cargo, a.s. managed to keep its ISO 14001: 2015 certification. The relevant certificate valid until 2 June 2021 is available on the website of ČD Cargo, a.s. The external audit did not identify any discrepancies but only a few recommendations, which were resolved immediately after the external audit.

By adopting the environmental policy, all employees of ČD Cargo, a.s. are bound to environmental management, primarily goalf of which are 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 during operations. 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 2019, a number of activities with a positive impact on the environment were implemented. For example, ecological disposal of unnecessary traction wagons, 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 traction wagons cleaning (reduction of particulate pollutant emission during dismantling of traction wagons 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. In SOKV Ostrava, the installation of an exhaust system in the old OHV electrical hall was implemented (reduction of emissions resulting from the turning of HDV wheelsets by means of exhaust units equipped with air filtration).

Fire protection in 2019:

In accordance with the "Organisational Rules" of ČD Cargo, a.s., the Maintenance and Repairs of Railway Vehicles department continues to be the guarantor of fire prevention. The documentation is updated on a continual basis and eventual inspections, performed by the Czech Fire Service, identifies no failures.

As of 31 December 2018, the Agreement on the termination of the Contract on Mutual Assistance in Emergencies, Fires and Other Contract Specified Activities No. 04066-2015-O12 was concluded. Since 1 January 2019, ČD Cargo, a.s. has been charged only for the actual interventions of JPO HZS SŽ.

In 2019, there were 125 interventions in total for ČD Cargo a.s., out of which 8 were fires in traction vehicles due to technical failures, and 2 were fires of vehicles, mostly due to someone else's fault and 2 cases of ignition of overheated bearing. Two 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 can be described as so-called additional services performed under contractual relationship and were related to securing loose cargo on vehicles, transfer of cargo, tree pruning, wagon washing, securing roof covering damaged by weather conditions or disposal of troublesome insects in ČD Cargo premises.

The total costs of ČD Cargo, a.s., allocated to the fire protection for 2019, amounted to CZK 958,146 (see table).

Constant attention at all levels of management is given to prevention in the field of fire protection.

ČD Cargo, a.s. total cost for interventions in 2019	Of which:				
	ČD Cargo, a.s. total number of interventions for the year 2019	Fires and burns	Drips and reseals	Assistance in removing the consequences of emergency	Other operations
CZK 958,146	125	17	19	33	56

Corporate Social Responsibility

ČD Cargo, a.s. participates in various projects in this area. The Company 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. Also in 2019 so-called Legiovlak continued to travel around the Czech Republic, which helps the public and especially young people to restore awareness of Czechoslovak legions and their contribution to forming independent Czechoslovakia. The first stop of Legiovlak in 2019 was Frýdlant nad Ostravicí, the last Zbiroh. An independent and traditional project is the Prevention Train of Safe Railway, whose next edition was also supported by ČD Cargo, a.s.

We supported youth sports activities, such as floorball or young athletes. In 2019 we were active participants in the project Wheel for Life. Support for railway modelling also has also a place in our portfolio of social responsibility.

As part of its corporate social responsibility, ČD Cargo, a.s. decided to support the OBROK scout festival. It was an event that really deserved support, because in 2019 celebrated the 30th anniversary of free scouting, which was renewed for the third time after the Velvet Revolution

In 2019, we continued to issue the certificate of a socially responsible company, to which ČD Cargo, a.s. appreciating the cooperation with companies that have decided to transfer at least part of their transports from road to rail. Traditionally, ČD Cargo, a.s. cooperates with Diakonie Broumov. For many years we have been providing transportation of selected textiles and other humanitarian material for this social cooperative. From approximately fifty stations in the Czech Republic, goods are transported by rail to the sorting centre in Broumov. In total, we transported almost 350 wagons for the Diakonia Broumov in 2019.

As part of the promotion of rail transport, ČD Cargo, a.s., participated in the Railway Day, which took place in September in Lužná u Rakovníka. We also supported various celebrations to mark the commencement of operation on railway lines, etc.

08

Companies in which ČD Cargo has an Equity Interest

CD CARGO GERMANY GMBH
Date of entry in the Commercial Register: 11 October 2004
Share capital: EUR 50,000
ČD Cargo, a.s. interest: 100 %
Principal business activity: mediation of services in freight transportation on behalf of and for ČD Cargo, a.s., shipping.

CD CARGO AUSTRIA GMBH
Date of entry in the Commercial Register: 30 March 2007
Share capital: EUR 275,000
ČD Cargo, a.s. interest: 100% granddaughter (100 % CD Cargo Germany GmbH)
Principal business activity: mediation of services in freight transportation, shipping.

CD CARGO SLOVAKIA, S.R.O.
Date of entry in the Commercial Register: 24 September 2008
Share capital: EUR 5,397,475
ČD Cargo, a.s. interest: 100 %
Principal business activity: 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 Commercial Register: 18 December 2006
Share capital: PLN 41,966,000 (Polish zloty)
ČD Cargo, a.s. interest: 100 %
Principal business activity: 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 Commercial Register: 16 June 2007
Share capital: CZK 10,000,000
ČD Cargo, a.s. interest: 100 %
Principal business activity: shipping.

AUTO TERMINAL NYMBURK, S.R.O.
Date of entry in the Commercial Register: 24 October 2012
Share capital: CZK 200,000
ČD Cargo, a.s. interest: 100 %
Principal business activity: shipping and technical activities in transportation. The company is dormant.

TERMINAL BRNO, A.S.
Date of entry in the Commercial Register: 25 July 2008
Share capital: CZK 71,550,000
ČD Cargo, a.s. interest: 66.93 % (CZK 47.89 million)
Principal business activity: operations of a combined transportation terminal in Brno.

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

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

BOHEMIAKOMBI, SPOL. S R.O.
Date of entry in the Commercial Register: 17 April 1992
Share capital: CZK 6,000,000
ČD Cargo, a.s. interest: 30 % (CZK 1.8 million)
Principal business activity: mediation of services in the field of transportation except for transportation by own means.

OSTRAVSKÁ DOPRAVNÍ SPOLEČNOST, A.S.
Date of entry in the Commercial Register: 30 May 1995
Share capital: CZK 15,000,000
ČD Cargo, a.s. interest: 50 % (CZK 7.5 million)
Principal business activity: operation of railway transport and lease of locomotives.

OSTRAVSKÁ DOPRAVNÍ SPOLEČNOST - CARGO, A.S.
Date of entry in the Commercial Register: 1 January 2017
Share capital: CZK 2,100,000
ČD Cargo, a.s. interest: 20 % (CZK 420 thousand)
Principal business activity: operation of railway transport.

BUREAU CENTRAL DE CLEARING SOCIÉTÉ COOPÉRATIVE À RESPONSABILITÉ LIMITÉE (BCC S.C.R.L.)
Date of entry in the Commercial Register: 17 December 1996
Share capital (fixed part): EUR 18,750
ČD Cargo, a.s. interest: 3.36 % (EUR 3,750)
Principal business activity: non-cash settlement of mutual payments in railway transport.

In 2019, there were no changes in the structure of the ČD Cargo, a.s. equity interest within ČD Consolidation Group.

- On 19 Janury 2019, the branch of ČD Cargo, a.s. was registered in Austria under the trade name ČD Cargo, a.s. Niederlassung Wien with principal business activity 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.) under IFRS	2019	2018	2017	2016
Acquisition of freight wagons	1,190	267	313	-
Renovation and modernisation of freight wagons	51	17	23	20
Acquisition of traction vehicles	548	295	104	621
Renovation and modernisation of traction vehicles	107	47	83	35
Machinery investments	37	4	8	26
Construction investments	59	78	51	23
Other investments	198	194	224	174
Component accounting for inspection repairs of railway vehicles	1,969	1,609	628	621
Total investments	**4,159**	**2,511**	**1,434**	**1,520**
Advances paid for investments	335	213	30	-
Advance payments for subsidies	141	19	-	-

* The investments are presented according to the International Financial Reporting Standards in Annual report 2019 of ČD Cargo

Funding

In 2019, the ČD Cargo, a.s. investment and operational activities were financed by a combination of the Company's own cash flow and external sources, which comprises short-term bank loans, intercompany loans, supplier loans, leases and bonds.

OPERATING BANK LOANS AND INTERCOMPANY LOANS

In funding its operational needs, ČD Cargo, a.s. has limits of overdraft loans in the maximum amount of CZK 1.5 billion provided by four banks. Furthermore, ČD Cargo, a.s. has been included in the Group's cash-pooling of ČD, a.s. Within the cash-pooling, ČD Cargo, a.s. has a drawing limit of up to CZK 0.3 billion and an additional contractual limit of CZK 0.7 billion. As of 31 December 2019, the amount of CZK 0.25 billion was drawn in excess of the cash-pooling limit. As of 31 December 2019, other limits or credit frames were not drawn up.

PROMISSORY NOTES PROGRAMME

The Promissory Notes Programme was approved in the amount of CZK 1.5 billion. The The Supervisory Board of ČD Cargo, a.s must be informed about the intention of drawing over CZK 1 billion. Framework contracts are approved for individual banks in total amount of CZK 2 billion. During 2019, the Promissory Notes Programme was not used, however, the promissory note framework is left as a form of short-term financing provision, directly independent of bank resources.

LEASES

In 2019, a lease contract was concluded with ČSOB Leasing, a.s. for the purpose of financing 4 Siemens Vectron traction vehicles of the 383 series. In the same year, leasing contracts were concluded with ČSOB Leasing, a.s. in order to finance 4 Effishunter traction vehicles of the 744 series.

BONDS

This funding source significantly strengthens the financial stability of the Company's cash flow due to its long-term nature. In 2019, there was the Company's 8th bond issue in the nominal value of CZK 1 billion, followed by the 9th bond issue in the nominal value of CZK 0.77 billion. As of 31 December 2019, ČD Cargo, a.s. has issued bonds in the total amount of CZK 4.77 billion.

Risk Management

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

The basic documents of risk management system are:

- Risk Management Policy - defines the Company's objectives, basic principles and risk management strategy, further defines the framework of the risk management roles, responsibilities and competencies.
- Risk Management Committee Statute - defines the role, competence, responsibility and manner in which the Risk Management Committee acts and decides.
- 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, a.s. Group.
- Risk Management Strategy - identifies risks, their regular monitoring, quantification and limitation of the risk impact on the Company's profit. Within Risk Management Strategy, the Company's Risk Appetite is approved once a year.
- 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.

Unified software support for risk management "eRisk" also significantly contributes to the standardisation of procedures. The introduced unified method of risk management created preconditions for further developments and improvements of the processes of monitoring, assessment 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 economic result of the Company, i.e. minimise the impact of unused opportunities on revenue and reduce the negative impact of costs. In 2019, 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.

The outputs from the risk monitoring systems are e regularly discussed by the Risk Management Committee and subsequently shered with other bodies of the Company.

BUSINESS RISK

In 2019, in connection with the development of the transport market, ČD Cargo, a.s. continued to face strong downward pressure on prices in particular from private railway carriers (in the segment of block trains). However, the competitiveness of ČD Cargo, a.s. incresed significantly, thanks to the offer of transportation abroad, especially in Poland and Austria. Business negotiations were conducted to stabilise freight volumes and revenues, and thus offer customers modern transport technologies.

OPERATIONAL RISK
Operational risks are defined as risks related to extraordinary events, property damage or criminal act regarding property and transported goods.

ČD Cargo, a.s. adresses a range of operational risks by negotiating the liability or property insurance. The responsibility of a carrier for a damage caused to another party in connection with operations of railway transport on national and regional railways, the responsibility of a holder of freight wagons or insurance of selected tranction vehicles are the most significant risks insured in this way.

FINANCIAL RISKS
Financial risks are manage based on the "Financial Risk Management Strategy of ČD Cargo, a.s." This document defines the objectives and methods for each risk as well as the permitted derivative operations to hedge them.

LIQUIDITY RISK
The liquidity risk at ČD Cargo, a.s. is with regard to the permanent provision of a sufficient volume and diversification of available funds necessary for the settlement of financial liabilities and planned investments in Company's development. On a daily basis, the Company assesses the available funds and cash flows and liquidity development.

The Company is actively engaged in securing planned external financial resources and thus ensures sufficient funds for short and long-term financing, while maintaining the Company's financial health.

CREDIT RISK
Standard instruments are used in various combinations for additional hedge of potential risk receivables. In the same time, ČD Cargo, a.s. is applying continuous monitoring of individual receivables by individual companies, by default periods and other facts, using the set methodology and reports. Individual responsible employees of the parent company and the senior staff of the Receivables Commission are continuously engaged in past due receivables development.

CURRENCY RISK
Given that a significant part of the Company's revenue 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 instruments is used, which are applied on a short-term as well as medium-term basis based on their underlying characteristics.

The goal of the currency risk management is to implement currency hedging so that the negative impact on the management of the company is not higher than the approved risk appetite of the Company. To achieve the required status, methods and instruments for the currency risk management arising from the Financial Risk Management Strategy are approved.

During 2019, ČD Cargo, a.s. 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 the respect the estimated revenue for the rendered serices in EUR and its internal price calculation, reduced by the expenses in the same currency, the hedging of the CZK/EUR exchange rate will be subsequently agreed based on he current market situation and in line with the Financial Risk Management Strategy, as approved by the Company's Board of Directors.

COMMODITY RISK – PRICE OF DIESEL
The significant cost component represents diesel, which ČD Cargo, a.s. consumes during its operations. In 2019, in line with the Financial Risk Management Strategy, the Company used hedging of the price of diesel, which reduced the Company's potential commodity risk.

The goal of the commodity risk management is to implement hedging so that the negative impact on the management of the Company is not higher than the approved risk appetite of the Company. To achieve the required status, the methods and instruments for the commodity risk management arising from the Financial Risk Management Strategy are approved.

INTEREST-RATE RISK
Interest rate risk may be represented by changes in floating interest rates. The goal of the commodity risk management is to implement hedging so that the negative impact on the management of the Company is not higher than the approved risk appetite of the Company. The maximum share of funding using a floating interest rate is specified at 50 % of the total volume under the Financial Risk Management Strategy. To achieve the required status, the methods and instruments for the interest rate risk management arising from the Financial Risk Management Strategy are approved.

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

10
Expected Development, Objectives and Intended Activities

In the near future, ČD Cargo, a.s. expects to stabilise its transport performance, despite continued competition from other railway carriers and the expected global economy cooling down. Decreases, due to possible losses in the area of domestic transport, caused by the decarbonisation of electricity and heating, will be balanced by international transport performance, in connection with expansion of the fleet. The fleet will be expanded by further intermodal locomotives and by obtaining the necessary certificates for rail transport operation in Germany.

The Company will continue to implement measures to increase the efficiency of its internal processes and utilization of its capacities and assets. In the area of investments, ČD Cargo, a.s. will proceed in the modernisation and renewal of the locomotive and wagon fleet. Further, the Company will focus mainly on wagons for transportation of commodities, where recession is not expected (intermodal transport, fuel). Replacement of brake blocks and implementation of the mobile parts of ETCS will also continue. The Compan will focus on reducing of operating costs and improving the employees' working environment.

The Company's economic objectives mainly comprises maintaining the stable level of cash flow, achived by securing the planned level of revenues from its own transport, by the effective utilization of cost items and by ensuring sufficient medium and long-term liquidity of the Company.

By transporting with ČD Cargo, we save together 2 m kg CO_2 daily

11 Share Capital

The Amount of the Issued Share Capital

As at the balance sheet date of 31 December 2019, the share capital of the Company amounted to CZK 8,494,000 thousand, fully paid.

During the accounting period 2019, ČD Cargo, a.s. did not acquire its own shares or any other own shares.

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 2019 and the results of the supervisory activities

During 2019, 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 4 March 2020

Václav Nebeský
Chairman of the Supervisory Board

Report of the Audit Committee

Report of the Audit Committee of ČD Cargo, a.s to the Annual report of ČD Cargo, a.s for the year 2019

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 2019 to 30 September 2019 and 1 January 2019 to 31 December 2019.

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 Relations for the year 2019, and of preparing the Annual Report of ČD Cargo, a.s. for the year 2019.

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 Relations 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 Relations, the Audit Committee recommended that the Company's bodies discuss the separate financial statements along with the Auditor's Report and the Report on Relations along with the Auditor's Report for the year 2019 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 2019 to 31 December 2019, 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 2019.

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 8 April 2020

Oldřich Vojíř
Chairman of the Audit Committee

12

Report of the Audit Committee of ČD Cargo, a.s., on the Report on Relations for the year 2019

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 Relations for the year 2019, 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 Report on Relations for the year 2019.

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 Report on Relations for the year 2019, 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 Report on Relations 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 Report on Relations for the year 2019.

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 2019 to 31 December 2019, 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 2019 to 31 December 2019, 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 2019 to 31 December 2019.

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 2019 to 31 December 2019, 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 2019 to 31 December 2019 and the Auditor's Opinion be discussed by the bodies of ČD Cargo, a.s., and approved by the sole shareholder acting in the capacity of the General Meeting.

Based on the information disclosed above, the Audit Committee of ČD Cargo, a.s., states that it fulfilled the obligations arising from legal regulations, principally from Act 93/2009 Coll., on Auditors of 26 March 2009, as amended, the Articles of Association of ČD Cargo, a.s., as amended, and that it took into consideration all information it has received related to the separate financial statements of ČD Cargo, a.s., under IFRS, for the year from 1 January 2019 to 31 December 2019, 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 2019 to 31 December 2019, 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 2019 to 31 December 2019, 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 2019 to 31 December 2019.

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 2019 to 31 December 2019, 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 2019 to 31 December 2019 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 2019 to 31 December 2019, 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 2019, of their consolidated financial performance and their consolidated cash flows for the year ended 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the European Union ("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 2019, of its financial performance and its cash flows for the year ended 31 December 2019 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 of 31 December 2019;
- the consolidated statement of profit or loss for the year ended 31 December 2019;
- the consolidated statement of comprehensive income for the year ended 31 December 2019;
- the consolidated statement of changes in equity for the year ended 31 December 2019;
- the consolidated cash flow statement for the year ended 31 December 2019; 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 of 31 December 2019;
- the statement of profit or loss for the year ended 31 December 2019;
- the statement of comprehensive income for the year ended 31 December 2019;
- the statement of changes in equity for the year ended 31 December 2019;
- the cash flow statement for the year ended 31 December 2019; 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 (together "Audit regulations"). These standards consist of International Standards on Auditing (ISAs) as 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 the 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 (together "Ethic regulations"), and we fulfilled our other ethical responsibilities in accordance with the Ethic regulations.

Our Audit Approach

Overview

The materiality level was determined by combining of total revenue and profit before tax at 1% of total revenue in 2019 and 5% of average profit before tax for 2017–2019, with the ratio of the level materiality set as follows: total revenue (80%) and average profit before tax for 2017 - 2019 (20%), which represents:
for the Group - CZK 117 million
for the Company - CZK 110 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 described procedures, represent 99% of the Group’s profit before tax and 99% of the Group’s revenue.

Correct reporting of lease contracts in the first application of IFRS 16, Leases (Group and Company).

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 117 million (CZK 113 million for the previous period)
Overall materiality for the Company standing alone	CZK 110 million (CZK 108 million for the previous period)
How we determined it	The level of materiality for both the Group and the Company was determined on the basis of combining total revenue and average profit before tax.
Rationale for the materiality benchmark applied	We considered profit before tax as the primary method of determining materiality, but due to its year-on-year fluctuation, we decided to combine this indicator with total revenue as a more stable year-on-year indicator. Based on the above indicators, the materiality level was determined by combining total revenue and profit before tax, at 1% of total revenue in 2019 and 5% of average profit before tax for 2017–2019. To reflect the weight of these indicators, the materiality ratio was set as follows: total revenue for 2019 (80%) and average profit before tax for 2017–2019 (20%).

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
Correct reporting of lease contracts in the first application of IFRS 16, Leases (Group and Company). In 2019, the Company and the Group implemented IFRS 16 - Leases. For the purpose of its first application, the Company and the Group chose a modified retrospective method that does not require the adjustment of comparable data. As of 31 December 2019, the right of use amounted to CZK 2,553 million for the Group and CZK 2,350 million for the Company. The adoption of the new standard has a significant impact on the financial statements. The related accounting policies are disclosed in Notes 2.4 and 3 where the impact of the implementation of IFRS 16 on the separate and consolidated financial statements is presented. For further information on the implementation of IFRS 16, see Notes 10.1 and 19.3 of the consolidated financial statements and Notes 10.3 and 19.3 of the separate financial statements.	In connection with the application of IFRS 16, we performed the following procedures: • We reviewed the appropriateness of the opening balances as of 1 January 2019 to ensure that the proposed accounting treatment was in accordance with the requirements of IFRS 16. • We reviewed the initial recognition of right-of-use assets and lease liabilities and management's calculations to determine the impact when adopting the standard. • We considered the completeness of the lease contracts included in the assets representing rights of use. • We tested the accuracy of the input data on a sample basis, including discount rates and the assessment of the extension option of the contracts used to calculate the value of the lease liabilities. Our procedures also included consideration of the exemptions and practical expedients applied under IFRS 16. • We tested, on a sample basis, the mathematical accuracy of the calculation of leased liabilities we obtained. We reviewed the disclosures in the financial statements relating to leases to determine whether they comply with the disclosure requirements under IFRS 16. The assessment relates to Note 2.4 regarding accounting policies, Note 3 regarding the impact of application of IFRS 16 and Note 19.3 presenting the Company and the Group as a lessee.

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 Annual Report, but it doesn´t include both of the financial statements and our auditor's report thereon. The other information consists of other financial information and other non-financial information. The Board of Directors of the Company 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 assessed whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, in our opinion:

- 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 the Act on Accounting.

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 of the Company for the Financial Statements
The Board of Directors of the Company 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 of the Company is responsible for overseeing the financial reporting process.

The Audit Committee of the Company 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 Audit regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and the Company's internal controls.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement 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 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, 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 in accordance with Article 11 of the EU Regulation.

Appointment of auditor and period of engagement

We were appointed as the auditors of the Group and the Company for year 2019 by the General Meeting of Shareholders of the Company on 25 June 2019. Our uninterrupted engagement as auditors of the Group and the Company has lasted for 4 years.

Provided non-audit Services

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

PwC Network did not provide prohibited services referred to in the Article 5 of the EU Regulation.

14 April 2020

PricewaterhouseCoopers Audit, s.r.o.

represented by

Václav Prýmek

Ing. Milan Zelený
Statutory Auditor, Licence No. 2319

14 Separate Financial Statement (IFRS)[1]

Separate Financial Statements for the Year 2019

Prepared in accordance with IFRS as adopted by the EU

Cargo

Separate Financial Statements for the Year Ended 31 December 2019

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 14 April 2020

Ing. Robert Heděnec
In charge of the section of Finance

Statutory body of the reporting entity:

Ivan Bednárik, MBA
Chairman of the Board of Directors

Ing. Radek Dvořák
Member of the Board of Directors

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2019

(CZK million)		31 Dec 2019	31 Dec 2018	1 Jan 2018
Property, plant and equipment	5	18,272	15,525	14,197
Intangible assets	6	588	490	441
Right-of-use assets	19	2,350	-	-
Investments in subsidiaries, associates and joint ventures	7	538	545	442
Other financial assets	10	110	1	298
Other assets	11	-	-	1
Total non-current assets		**21,858**	**16,561**	**15,379**
Inventories	8	244	193	188
Trade receivables	9	1,465	1,618	1,578
Other financial assets	10	194	475	89
Other assets	11	259	188	107
Cash and cash equivalents	12	337	595	465
Total current assets		**2,499**	**3,069**	**2,427**
TOTAL ASSETS		**24,357**	**19,630**	**17,806**
Share capital	13	8,494	8,494	8,494
Capital funds	13	435	349	423
Retained earnings/(Accumulated losses)		734	290	(436)
Total equity		**9,663**	**9,133**	**8,481**
Loans, borrowings and bonds	15	7,297	4,274	3,624
Deferred tax liability	29	1,701	1,642	1,519
Provisions	16	101	451	489
Other financial liabilities	17	1	57	132
Other liabilities	18	197	109	387
Total non-current liabilities		**9,297**	**6,533**	**6,151**
Trade payables	14	2,203	2,204	1,735
Loans, borrowings and bonds	15	2,229	534	516
Income tax payable		64	4	2
Provisions	16	110	205	226
Other financial liabilities	17	192	175	264
Other liabilities and contractual obligations	18	599	842	431
Total current liabilities		**5,397**	**3,964**	**3,174**
TOTAL LIABILITES		**24,357**	**19,630**	**17,806**

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

14

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019

(CZK million)		Year ended 31 Dec 2019	Year ended 31 Dec 2018
Revenue	21	12,088	12,282
Other operating income	22	558	478
Services, leases, material and energy consumption	23	(5,394)	(5,906)
Employee benefit costs	24	(4,364)	(4,235)
Depreciation and amortization	25	(1,721)	(1,228)
Other operating expenses	26	(306)	(334)
Profit on operating activities		**861**	**1,057**
Financial expenses	27	(291)	(196)
Financial income	28	94	74
Profit before tax	**29**	**664**	**935**
Income tax expense	29	(134)	(173)
Profit for the period		**530**	**762**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(CZK million)	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Profit for the period	**530**	**762**
Actuarial gains/losses on liabilities related to employee benefits	4	(12)
Other comprehensive income for the year (items that are not subsequently reclassified to profit or loss)	**4**	**(12)**
Cash flow hedging	54	(122)
Relating deferred income tax	(10)	24
Other comprehensive income for the year (items that may be reclassified to profit or loss)	**44**	**(98)**
Total comprehensive income for the year	**578**	**652**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

(CZK million)	Share capital	Share Premium**	Reserve Fund**	Cash flow hedge fund**	Actuarial gains/losses**	Accumulated (losses) earnings	Total equity
Balance as of 1 January 2018	**8,494**	**197**	**156**	**74**	**(4)**	**(436)**	**8,481**
Profit for the period	-	-	-	-	-	762	762
Other comprehensive income for the period	-	-	-	(98)	(12)	-	(110)
Total comprehensive income for the period	**-**	**-**	**-**	**(98)**	**(12)**	**762**	**652**
Allocation to the reserve fund	-	-	36	-	-	(36)	-
Total transactions with owners for the period	-	-	36	-	-	(36)	-
Balance as of 31 December 2018	**8,494**	**197**	**192**	**(24)**	**(16)**	**290**	**9,133**
Impact of IFRS 16* implementation	**-**	**-**	**-**	**-**	**-**	**(48)**	**(48)**
Balance as of 1 January 2019	**8,494**	**197**	**192**	**(24)**	**(16)**	**242**	**9,085**
Profit for the period	-	-	-	-	-	530	530
Other comprehensive income for the period	-	-	-	44	4	-	48
Total comprehensive income for the period	**-**	**-**	**-**	**44**	**4**	**530**	**578**
Allocation to the reserve fund	-	-	38	-	-	(38)	-
Total transactions with owners for the period	-	-	38	-	-	(38)	-
Balance as of 31 December 2019	**8,494**	**197**	**230**	**20**	**(12)**	**734**	**9,663**

* application of the new IFRS, see Note 3.1
** in the Statement of financial position (balance sheet) as of 31 December 2019 are the items included as part of „Capital Funds", see chapter 13.2.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

(CZK million)		Year ended 31 Dec 2019	Year ended 31 Dec 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax		664	935
Dividend and profit distribution income	22	(160)	(157)
Financial expenses		187	124
Profit from sale and disposal of non-current assets		(51)	(169)
Depreciation and amortisation of non-current assets	25	1,721	1,228
Changes in impairment of non-current assets		(31)	83
Changes in allowances for doubtful accounts		(1)	9
Change in provisions		(33)	(82)
Foreign exchange rate gains		2	(1)
Change in provisions for investments in subsidiaries, associates and joint ventures		7	(2)
Other		15	10
Cash flows from operating activities before changes in working capital		**2,320**	**1,978**
Change in trade receivables		80	(149)
Change in inventories		(64)	(10)
Change in other assets		(3)	(255)
Change in trade payables		83	297
Change in other payables		(79)	38
Total changes in working capital		**17**	**(79)**
Cash flows from operating activities		**2,337**	**1,899**
Interest paid		(177)	(112)
Returned income tax overpayment		(14)	(23)
Dividends received		249	5
Net cash flows from operating activities		**2,395**	**1,769**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(3,854)	(2,340)
Income from property, plant and equipment sold		83	249
Payments for intangible assets		(165)	(118)
Interest received		3	-
Received subsidies for acquisition of assets		-	18
Payments for acquisition of subsidiaries and associates and joint ventures		-	(69)
Net cash flows from investing activities		**(3,933)**	**(2,260)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issued bonds		1,770	998
Drawing of loans and borrowings		777	171
Repayments of loans and borrowings		(561)	(516)
Lease payments under IFRS 16		(706)	-
Purchase of non-controlling interest		-	(32)
Net cash flows from financing activities		**1,280**	**621**
Net increase/decrease in cash and cash equivalents		**(258)**	**130**
Cash and cash equivalents at the beginning of the period	12	595	465
Cash and cash equivalents at the end of the period	**12**	**337**	**595**

1. General Information

1.1. ESTABLISHMENT OF THE COMPANY

ČD Cargo, a.s. (hereafter referred to as „Company“) was established following its registration in the Commercial Register held by the 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 at Jankovcova 1569/2c, Prague 7, Holešovice.

As ofof 31 December 2019, the Company’s registered share capital was CZK 8,494 million and it was fully paid.

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

The financial statements were prepared as ofof 31 December 2019. The reporting period is the calendar year from 1 January 2019 to 31 December 2019.

1.2. PRINCIPAL ACTIVITIES

The principal activities of ČD Cargo, a.s. are railway transportation of goodsand services services related in this area. The aim of the Company is to consistently improve its position as a leader in the industry, while acting as the driving force of the freight transportation market both in the Czech Republic and the Central Europe region.

The principal business activity – railway transport of goods – is structured into three principal units:
- operation of freight transport (transport of complete trains, individual wagon consignments),
- lease of railway wagons,
- additional transport services offered to customers.

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

Based on the division above it is appropriate to structure principal activities by commodities, i.e. by the nature of transported goods with respect to capacity requirements, vehicle requirements, demands for operating technologies or special care of consignments as follows:
- 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,
- Logistics solutions for transportation of consignments using intermodal transportation units, predominantly containers,
- Automotive, and
- Transportation of other non-classified commodities.

Based on the volume of transported goods, ČD Cargo, a.s. is one of the top ten most significant railway companies in Europe and the European Union.

1.3. 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 from 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. is a part of České dráhy Group, which is led by the parent company České dráhy, a.s.

For the reporting period 2019, České dráhy consolidation group consists of the following companies. During 2019, ČD Logistics, a.s. was renamed ČD Cargo Logistics, a.s., and the registered office of CD Cargo Germany GmbH was changed.

Name of the entity	Ownership of ČD, a. s. 2019 (%)	Ownership of ČD, a. s. 2018 (%)	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	70.96	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	Prvního pluku 621/8a, Karlín, 186 00 Prague 8	27378225
ČD travel, s.r.o.	51.72	51.72	Control	28.října 372/5, Staré město,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, Žabovřesky, 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	Niddastrasse 98-102, 60329 Frankfurt on Main, Germany*	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 Cargo Logistics, a.s.**	100.00	100.00	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, 120 00 Prague 2, Vinohrady	27560589
BOHEMIAKOMBI, spol. s r.o.*	30.00	30.00	Significant	Opletalova 921/6, 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

* Ownership interest is exercised through ČD Cargo, a.s.
** Change in 2019

1.5. KEY MANAGEMENT
Term 'key management' mainly relates to the members of the Board of Directors and Supervisory Board of the Company. Information about individual boards has been listed in in Note 1.8.

1.6. RELATIONSHIP WITH SPRÁVA ŽELEZNIC AND ČEZ GROUP
The sole shareholder of the Company, České dráhy, a.s., is fully owned by the state. The Parent Company and the entire Group took the exemption from reporting related party information, as specified in paragraphs 25-27 of IAS 24. In respect of other State-controlled companies, groups and organisations only transactions with Správa železnic, s.o., and ČEZ Group have been quantified in these financial statements due to their significant impact on the Company's activities. The most significant transactions carried out with these entities include the use of infrastructure, purchase of electricity and revenues from freight transport. Detailed information about the relationships is disclosed in Notes 30.6 and 30.7.

1.7. ORGANISATIONAL STRUCTURE
The organisational structure is composed of departments directly reporting to the Chairman of the Board of Directors or directors of particular divisions:
- Commercial Director department,
- Operation Director department,
- Finance Director department.

In addition, the organisational structure includes Operating Units and Repair Centres for railway wagons, Accounting of Carriage Revenues in Olomouc and the Operation Control unit 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 of the Company is České dráhy, a.s., which exercices its powers as the only shareholder at the General Meeting, the supreme body of the Company. The statutory body of the Company comprises the three-member Board of Directors; the supervisory body is the seven-member Supervisory Board. The 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 2019 was following:

Board of Directors

Chairman	Ivan Bednárik
Member	Zdeněk Škvařil
Member	Bohumil Rampula

On 10 September 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to re-appoint Ivan Bednárik, Bohumil Rampula and Zdeněk Škvařil as members of the Board of Directors of ČD Cargo, a.s., as of 2 November, 2019.

On 4 November 2019, the Board of Directors of ČD Cargo, a.s. at its meeting appointed Ivan Bednárik as the Chairman of the Board of Directors of ČD Cargo, a.s..

Supervisory Body

Chairman	Václav Nebeský
Member	Lukáš Týfa
Member	Radek Nekola
Member	Marta Urbancová
Member	Roman Onderka
Member	Pavel Kysilka

On 4 January 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to recall Jan Kasal from the Supervisory Board of ČD Cargo, a.s.

On 4 January 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., exercising the powers of the General Meeting decided to appoint Lukáš Týfa, as a member of the Supervisory Body of ČD Cargo, a.s. with effect from 4 January 2019.

On 11 March 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to recall Jiří Švachula from the position of member of the Supervisory Board of ČD Cargo, a.s. with effect from 11 March 2019.

On 30 April 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to appoint Michal Vereš, as a member of the Supervisory Body of ČD Cargo, a.s. with effect from 30 April 2019.

With effect from 24 July, 2019, Miroslav Kupec resigned from the Supervisory Board of ČD Cargo, a.s.

On 25 October 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to recall Michal Vereš from the position of member of the Supervisory Board of ČD Cargo, a.s. with effect from 25 October 2019.

On 25 October 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to appoint Pavel Kysilka as a member of the Supervisory Body of ČD Cargo, a.s. with effect from 26 October 2019.

On 25 October 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to appoint Václav Nebeský to the Supervisory Body of ČD Cargo, a.s. with effect from 26 October 2019.

On 30 October 2019, Supervisory Board of ČD Cargo, a.s., at its meeting, appointed Václav Nebeský as the Chairman of the Supervisory Board of ČD Cargo, a.s.

Audit Committee

Chairman	Oldřich Vojíř
Member	Miroslav Zámečník
Member	Libor Joukl

On 3 December 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to reappoint Oldřich Vojíř, Libor Joukl and Miroslav Zámečník to the position of members of the Audit Committee of ČD Cargo, as of 17 December, 2019.

2. 2. Significant Accounting Policies

2.1. STATEMENT OF COMPLIANCE
The financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter IFRS) as adopted by the European Union. The Separate Financial Statements are 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.

The accounting policies applied in the reporting period are consistent with those used in prior periods.

The preparation of financial statements in accordance with IFRS as adopted by the EU requires the use of certain critical accounting estimates. This also requires management to exercise judgment in the application of accounting policies. Areas with a high degree of judgment or complexity, or areas where assumptions and estimates are material to these financial statements are disclosed in Note 4.

2.3. REVENUE RECOGNITION

2.3.1. Revenue from contracts with customers
All contracts with customers are initially analysed in order to identify obligations towards the customer. Subsequently, the transaction price is determined, which, in case of more separately identifiable transactions is allocated according to their relative standalone selling prices. 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 an entity expects to be entitled in exchange for services. Revenue is recognized net of value added tax. 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 standalone 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 fewer fees and penalties. If the price per service rendered by the Company 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 contractual liability is recognised. The variable consideration exists in the form of fees and penalties connected with the inappropriate fulfilment of the contractual obligation by the Company to the customer i.e. transit time distortion, 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 significant reversal risk.

2.3.2. Other revenue

Dividend and interest income
Revenue from dividends is recognized when a legal entitlement to receive a payment occurs and when such payment is probable.

Interest income is recognized when it is probable that the economic benefits will flow into the Company and the amount can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding at the applicable effective interest rate, i.e. 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 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.

2.4. LEASE
The Company has applied IFRS 16 retrospectively with the cumulative effect at the date of initial application and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately.

Assets held under finance leases are depreciated over their estimated useful lives as well as own assets. If there is insufficient assurance that a lessee will acquire ownership of an asset at the end of the lease term, that asset is depreciated over the lease term if less than its estimated useful life.

2.4.1. The Company as a lessee

Principles effective from 1 January 2019
At the commencement of the lease, the Company determines whether it is lease contract or contains a lease. The Company recognizes a right-of-use asset and a corresponding lease liability in respect of all lease agreements in which the Company is a lessee, except short-term leases (with a lease term of 12 months or less and containing no purchase options) and low-value asset lease (such as laptops and personal computers). For these leases, the Company recognizes lease payments as operating expenses on a straight-line basis over the term of the lease, unless there is any other systematic basis which better reflects the allocation of lessee's benefits from the leased assets.

At the commencement date, the lease liability is initially measured at the present value of the lease payments that are not yet paid. The lease payments shall be discounted using the internal lease interest rate or, if that rate cannot be readily determined, incremental borrowing rate shall be used.

Lease payments included in the measurement of a lease liability comprise of the following:
- fixed payments less any lease incentives receivable,
- variable lease payments that arebased on an index or a rate, initially measured using the index or rate as of the commencement date,
- amounts expected to be paid by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Leases liabilities are presented within loans and borrowings in the statement of financial position.

Subsequently, a lease liability is measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and reducing the carrying amount to reflect the lease payments made.

The lease liability must be remeasured (and the related right-of-use asset must be adjusted accordingly), if:

- there is a change in the lease term or if there is a material event or change in circumstances that led to a change of the assessment of an option to purchase the underlying asset. In such a case, the lease liability is remeasured by discounting the revised lease payments using the revised discount rate.
- there is a change in lease payments resulting from changes in an index or a rate, or change in the amounts expected to be payable under a residual value guarantee. In this case, the lease liability is remeasured by discounting the revised lease payments using the unchanged discount rate.
- the lease contract is modified and the modification is not accounted for as a separate lease. In this case, the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using the revised discount rate as of on the effective date of the modification.

Right-of-use assets include the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date after deduction of any lease incentives received and any initial direct costs. Subsequently, they are measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities.

Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the underlying asset. If the lease transfers ownership of the underlying asset to the lessee at the end of the lease, or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation begins at the commencement of the lease (at the date the asset is available for use by the company).

Right-of-use assets are presented as a separate line in the statement of financial position.

The Company uses IAS 36 to determine whether the right-of-use assets are impaired and account for any identified impairment losses as described in "Property, plant and equipment" policy.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liability and the right-of-use assets. Related payments are recognized as an expense in the period in which the event or condition that gave rise to those payments occurred and are included in the line Other operating expenses in the statement of profit or loss.

As a practical expedient, IFRS 16 allows a lessee not to separate non-lease components from lease components and instead to account for each leasing component and any associated non-lease components as a single lease component. The Company did not use this practical expedient. For contracts that contain a lease component and one or more other lease or non-lease components, the Company allocates the contract consideration to each lease and non-lease component on the basis of the relative stand-alone price of given component.

Principles effective prior to 1 January 2019

Till 31 December 2018, lease was classified as finance lease, whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases were classified as operating leases.

Assets held under finance leases were initially recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor was included in the statement of financial position as a finance lease liability.

Lease payments were apportioned between finance expenses and reduction of the outstanding lease obligations so as to achieve a constant interest rate on the remaining balance of the liability. Finance expenses were recognized directly to profit or loss. Contingent rentals were recognized as expenses in the periods in which they are incurred.

Operating lease payments were 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 were consumed. Contingent rentals arising under operating lease were recognized as an expense in the period in which they are incurred.

2.4.2. The Company as lessor

Leases under which the Company is a lessor are classified as finance or operating leases. Leases that transfer substantially all the risks and rewards of ownership of an asset were classified as finance leases. All other leases are classified as operating leases.

In an operating lease, revenue is recognized on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and concluding an operating lease are included in the carrying amount of the leased asset and are accounted for on a straight-line basis over the term of the lease.

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

In general, the accounting policies applied by the lessor in the comparative period did not differ from those used in accordance with IFRS 16.

2.4.3. 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 provides the lessee with cash and the leased asset as guarantee. For this reason, the excess proceeds from the sale and the carrying amount is not considered as income. The Company recognizes the collected funds as a financial liability (debt), which, together with interest is amortized by lease payments.

Under IFRS 16, the Company does not reassess the sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset met the criteria of IFRS 15 to be accounted for as a sale.

If a sale and leaseback transaction was recognized as a sale and finance lease under IAS 17 before 1 January 2019, the Company, as a seller-lessee, recognizes the leaseback in the same way as it accounted for any other finance lease that existed at the date of initial application and continues to amortize any gain from sale over the lease term.

If a sale and leaseback transaction was recognized as a sale and finance lease under IAS 17 before 1 January 2019, the Company, as a seller-lessee, recognizes the leaseback in the same way as it accounted for any other finance lease that existed at the date of initial application, and adjusts the asset's right of use to which the leaseback relates, for any deferred gains or losses that relate to non-market conditions recognized in the statement of financial position immediately before the date of initial application.

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). The functional currency of the Company is CZK.

Transactions denominated in foreign currencies are translated at the rate prevailing on the transaction date, which is derived from the exchange rate published by the Czech National Bank. Monetary items denominated in foreign currencies are recalculated to Czech crowns at the Czech National Bank exchange rate on that date of issue of the individual financial statements. Non-monetary items that are measured at historical cost and were acquired in a foreign currency transaction are reported using the exchange rate at date of acquisition.

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 other comprehensive income 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, i.e. assets that necessarily take a substantial period of time to be ready for their intended use or sale, are added to the cost of those assets, until 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 those 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 are received as 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 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 recognized in the statement of financial position are their present value. Additions to these liabilities and provisions are recognized as an expense when the employees perform the services that entitle them to the contributions.

Provision for long-term employee benefits is recognised in the present value of future cash outflows that will be needed for 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 terms of the corresponding other long-term benefits. The value of this provision is determined annually based on independent qualified actuarial calculations. Gains or losses arising from changes in actuarial assumptions for retirement benefits are included in other comprehensive income, changes in provisions for other benefits are recognised in profit or loss.

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

2.9.1. Current income tax
Current income tax is calculated from taxable profit for the year. The taxable profit differs from the profit as reported in the statements of profit or loss as it does not include items of income or expense that are taxable or deductible in other years or items that will not be taxable or deductible at any time. 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 based 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 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 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 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 (i.e. other comprehensive income or directly in equity). In such 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 accumulated depreciation applicable to items of plant and equipment. Land is not depreciated. Items of property, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs. Similarly to other items of property, plant and equipment, depreciation of these assets commences when they are ready for their intended use.

Depreciation is recognized in order to expense the cost of assets (other than freehold land and assets under construction) less their residual values over their useful lives, applying the straight- line method (with the exception of some components which are depreciated using the mileage method).

The Company has replaced the original components repairs of R3, R2 and R1 types of railway traction vehicles are considered as components as well as D3, D2 and D1 type motor traction vehicles. These components replaced original components (main and first substantial repairs). In 2019, a locomotive battery component was newly introduced for traction vehicles. Other components include also radio stations. As for freight and passenger cars, the Company records inspection repairs and wheelsets as components. In 2019, wagon body and technical inspection components were newly introduced.

Since 2018 the Company has replaced the original components (main and first substantial repair), where the new components are considered to be R3, R2 and R1 type repairs for traction vehicles that are related to extending vehicle serviceability and extending technical parameters, equipment and usability of HDVs. The type R3 repair activities correspond in part to the previous repair under the 'main' scope, the type R2 repair activities correspond in part to the previous repair under the 'first substantial repair' scope and operations performed as part of normal maintenance activities. The type R1 repair activities correspond, to a lesser extent, to a previous repair under the scope of 'first substantial repair' and some activities carried out in the framework of normal maintenance activities. In addition, other types of repairs D3, D2 and D1 have been introduced in motor traction vehicles related to the restoration of serviceability and extension of technical parameters, equipment and usability of the HDV diesel combustion engine. The D3 repair represents the highest level of diesel engine repair and the D1 repair represents the lowest repair range. In 2019, a locomotive battery component was newly introduced for traction vehicles. Other components also include radio stations. For freight and passenger cars, the Company records as revision repair components, wheelsets, and in 2019, new wagon body and technical inspection components were introduced.

The Company determined a depreciation plan for components of railway vehicles which is based on a repair plan for R3, R2 and R1 traction vehicles and inspection repairs and replacement of wagon wheelsets for freight wagons. As for railway traction vehicles and freight wagons, the mileage depreciation is based on the actual mileage per month (i.e. actual kilometres covered). 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 ratio of the purchase price of the relevant component to maximum mileage determined for the R3, R2 and R1 repairs of railway traction vehicles and inspection repair and wheelsets of freight wagons. After reaching the maximum mileage, it is necessary to undertake a new major (R3) or substantial (R2) repair of a traction vehicle or a new inspection repair or replacement of wheelsets. For components D3, D2 and D1, a depreciation plan was determined on the basis of operating hours. Radio stations are depreciated applying the straight-line method over their useful life.

Within the R3 repair type of railway traction vehicle there are activities that are parts of and relate to R2 repair type (first substantial repair), therefore activities falling within R2 repair are separated from R3 major repair. The same applies to R1 repair which is separated from R2 and R3 repairs.

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

Freight wagons and railway 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 for freight wagons and railway traction vehicles is based on the scrap amount that could be received at disposal. The estimated useful lives, residual values and depreciation method are reviewed at each year-end and the effect of any changes in estimates is accounted for on a prospective basis.

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 proceeds from sale 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 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 each year-end, and the effect of any changes in estimates is accounted for on a prospective basis.

An intangible asset is derecognized upon disposal, or when no future economic benefits are expected to arise from its use or disposal. Gains or losses arising from derecognition of an intangible asset is measured as the difference between the net proceeds from disposal and the carrying amount of the asset and are recognized in profit or loss in the period when such derecognition took place.

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 of their diminution in value. If any such indication exists, the recoverable amount is determined in order to assess the amount of impairment. When it is not possible to determine the recoverable amount of an individual asset, The Company determines the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are also allocated to individual cash-generating units if a reasonable and consistent basis of allocation can be determined. Otherwise, corporate assets are allocated to the smallest groups of cash-generating units for which it is possible to determine a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use, are tested for impairment at least once a year or when any indication of potential impairment occurs.

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

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

If the impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimated recoverable amount while ensuring that the increased carrying amount does not exceed the carrying amount that would have been determined in previous years if no impairment had occurred in relation to the asset (or cash-generating unit). Reversal of impairment loss is recognized immediately in profit or loss.

2.13. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES
A subsidiary is an entity that is controlled by the Company; the Company has the power to govern its financial and operating policies so as to benefit from its activities. The Company controls an investee when it is exposed to, or has the right to, variable returns due to its involvement in the investee and is able to influence those returns through its control over it, and if it has control over the investee. (i.e. holds existing rights based on which it is able to govern the activities that significantly impact the revenues of this entity).

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. 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 the separate financial statements subsidiaries, associates and join-ventures are stated at cost, unless held for sale.

Investments in subsidiaries are tested for impairment at least on an annual basis by comparing the fair value and the carrying amount of the equity investment.

2.14. INVENTORIES
Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined using the weighted-average method. The net realisable value represents the estimated selling price of inventories less all estimated cost to sell. 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 and 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 related risks and uncertainties. Where a provision is measured based on the cash flows estimated to settle the present obligation, its carrying amount equals 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, an asset is recognized when it is certain that reimbursement will be received and the amount of the receivable can be measured reliably.

The provision can be only utilised in relation to expenses for which it was originally created. Change in provisions is allocated to specific expenses in profit or loss, the unused portion of provisions is recognized as other operating income.

2.16. FINANCIAL INSTRUMENTS
Financial assets and financial liabilities are recognized when the Company becomes a party to contractual provisions of a financial 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, except 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.

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.

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

2.16.1. Effective Interest Method
The effective interest method is a method for calculating the amortized cost of a debt instrument and allocating interest income/expense over the period. The effective interest rate is the interest rate that exactly discounts the estimated amount of future cash receipts/ expenditures (including any fees paid or received that are an integral part of the effective interest rate, transaction costs and other bonuses or discounts) over the expected life of the debt instrument to the net book value at initial recognition.

Income and expenses are recognized using the effective interest rate of debt instruments, except for financial assets and liabilities classified as of fair value through profit or loss.

2.16.2. Financial assets are measured at fair value through other comprehensive income
Financial assets which are measured at fair value in other comprehensive income are capital investments that are not held for trading. The Company designates equity investments that are not traded on an active market as measured at fair value through other comprehensive income. If the Company obtains the right to receive a dividend from such equity investments, the dividend income is recognized in profit and loss account.

2.16.3. Financial assets at amortized costs
Loans and receivables (including bank balances) are financial assets held under a business model which intends 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, fewer impairment losses. These assets arise when the Company provides cash, goods or services directly to the borrower without planning to trade with the receivable.

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

2.16.4. Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for expected credit loss at each time the asset is recorded in the accounts.

Full model (3 stage impairment model): At initial recognition, 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 Tier 2 for which an impairment loss is recognized at the level of the expected lifetime loss. In case of counterparty's default, such financial asset is transferred to Tier 3. At this level, interest income from a financial asset is recognised from the carrying amount of the asset less impairment into account applying 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 trade receivables and short-term finance lease receivables.

The simplified model is applied to short-term trade receivables that do not have a significant financing component. Based on impairment matrix that includes historical inputs and expected future inputs, the Company calculates provisions for each receivable portfolio.

In case of individually assessed receivables, the Company considers the following factors that affect the ability of the debtor to meet their obligations:

- Future outlook;
- Knowledge of customer,
- Payment discipline.

The Company considers the potential impairment of cash and cash equivalents to be insignificant due to the high credit quality of banks which the Company cooperates with, supported by external investment ratings.

Based on historical experience, the Company uses the following criteria to determine credit default:

- If information obtained from external sources indicates that the debtor is unlikely to pay their creditor in full (bankruptcy, insolvency proceedings)
- If the financial asset is more than 180 days past due, unless the Company has sufficient supporting information indicating that the delay is an appropriate default criterion.

2.16.5. Derecognition of Financial Assets

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

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

Upon derecognition of a financial asset in its entirety, the difference between the assets' carrying amount and the consideration received or 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.

2.16.6. Financial Liabilities at Fair Value through profit and loss (FVTPL)

Financial liabilities are classified as FVTPL when the financial liability is held for trading or it is designated as FVTPL.

The Company designates derivatives within this category which are recognized under other financial liabilities.

2.16.7. Other Financial Liabilities at amortized cost

Financial liabilities that are not held for trading or designated as financial liabilities at FVTPL are subsequently measured at amortized cost using the effective interest method.

2.16.8. Derecognition of Financial Liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.16.9. Derivative Financial Instruments

The Company enters into financial derivative contracts in order to manage currency, interest rate and commodity risks.

Derivatives are measured at 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 such case, the timing of the recognition in profit or loss depends on the nature of the hedging relationship.

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

2.16.10. Hedge Accounting

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

At the inception of the hedging relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with risk management objectives and strategy for undertaking various hedge transactions. Since the inception, the Company documents and monitors on an ongoing basis, 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. The Company monitors the hedging ratio, sources of inefficiency and the effect of credit risk. Hedge accounting is consistent with the Group's risk management strategy. Under IFRS 9, the Company separates the time value of commodity options and basis spread from intercurrency interest rate swaps as collateral costs.

2.16.11. Cash Flow Hedges

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in the cash flow hedge fund. Under IFRS 9, the Company separates the costs of hedge accounting, when the conditions for recognising these costs in the other comprehensive income are met. The gain or loss relating to the ineffective portion is recognized directly in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the period in which the hedged item is recognized in profit or loss, within the same line item as the recognized hedged item. However, if the hedging of the expected transaction subsequently results in recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income accumulated in equity are transferred from equity and are included in cost of the non-financial asset or non-financial liability.

The Company prospectively ceases hedge accounting only when the hedging relationship (or a portion of it) no longer meet the hedging criteria (after taking into account any rebalancing of the hedging relationship). This includes cases where the hedging instrument expires, is sold, terminated or settled. Any gain or loss that is recognized in other comprehensive income and accumulated in the cash flow hedge fund remains in equity and is reclassified to profit or loss when the forecast transaction occurs. If the expected transaction is no longer expected to occur, the gains or losses accumulated in the cash flow hedge fund are reclassified immediately to profit or loss.

2.16.12. Financial derivatives held for trading

All derivative transactions that the Company concludes are intended for hedging purposes, however, some of them do not classify as hedging instruments.

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

The change in 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 APPLICABLE FOR PERIODS ENDING 31 DECEMBER 2019

During the year ended 31 December 2019 the following standards, amendments and interpretations came into force:

Amendments, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 16 – Leases	1 January 2019
IFRS 9 – Amendment IFRS 9 – Prepayment Features with Negative Compensation	1 January 2019
IAS 19 – Amendment IAS 19 – Plan Amendment, Curtailment or Settlement	1 January 2019
IAS 28 – Amendment IAS 28 – Long-term interests in associates and joint ventures	1 January 2019
Yearly improvement of IFRS – cycle 2015 – 2017	1 January 2019
IFRIC 23 – Uncertainty over Income Tax Treatment	1 January 2019

Except for IFRS 16, the adoption of the other abovementioned standards, amendments and interpretations did not have a material impact on the Company during the period.

The Company has decided to implement IFRS 16 Leases at its effective date of 1 January 2019, applying the modified retrospective approach without restatement of the comparative data, and using some of the simplifications allowed by the Standard. At the transition, the right-of-use assets for leased property are measured as if the new rules were always in force. All other rights-of-use are measured at the value of lease obligations at the date of adoption of the standard (adjusted for prepayment or accrued expenses).

When initially applying IFRS 16, the Company decided to apply the following expedients:
- application of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- reliance on a prior assessment of whether leases are disadvantageous as an alternative to the impairment test - as of 1 January 2019 there were no disadvantageous contracts,
- accounting for operating leases, if the lease term ends within 12 months from the date of initial application, i.e. on 1 January 2019, as a short-term lease.

The Company also decided not to reassess whether an arrangement is, or contains a lease at the date of initial application. Instead, for contracts entered into before the date of transition, the Company relied on its assessment under IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease.

The incremental borrowing rate applied by the Company to lease liabilities as of 1 January 2019 is 3 %.

Reconciliation of operating lease liabilities to total lease liabilities recognized as of 1 January 2019:

(CZK million)	31 Dec 2018 / 1 Jan 2019
Total future minimum lease payments for non-cancellable operating leases as of 31 December 2018	612
Expected future minimum lease payments from cancellable operating leases	1,979
Discounted using the incremental interest rate as of 1 January 2019	2,386
Financial lease liabilities as of 31 December 2018	33
- Less short-term leases not recorded as liabilities	(8)
- Less low-value assets lease not recorded as liabilities	(13)
Total lease liabilities reported as of 1 January 2019	**2,399**
Of which:	
- Short - term lease liabilities	563
- Long - term lease liabilities	1,836

The change in accounting policies affected the following items in the statement of financial position as of 1 January 2019:

(CZK million)	Note	Impact of IFRS 16
Impairment of property, plant and equipment	5	(99)
Recognition of right-of-use assets	19	2,003
Increase / (decrease) in deferred tax assets	29.3	10
Decrease in trade receivables		-
Decrease of credit and loans		-
Reclassification of the provision for a loss contract for impairment of asset's right of use	16	(409)
Increase in lease liabilities	15.2	2,365
Decrease in equity - retained earnings net of deferred tax	13	(48)

3.2. STANDARDS AND INTERPRETATIONS APPLIED 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 APPLIED BY THE COMPANY

As of the date of the financial statements, the following standards and interpretations were published but were not yet effective or used by the Company before its effective date.

Amendments, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 3 - IFRS 3 Amendments – Definition of a Business	1 January 2020*)
IFRS 17 - Insurance Contracts	1 January 2021*)
IFRS 10, IAS 28 – Amendments to IFRS 10 and IAS 28 – Sales or contributions of assets between an investor and its associate/joint venture	Date will be determined*)
IAS 1, IAS 8 - Amendment to IAS 1 and IAS 8 - Definition of Material	1 January 2020
IFRS 9, IFRS 7, IAS 39 - Amendment to IFRS 9, IFRS 7 and IAS 39 Interest Rate Benchmark Reform	1 January 2020

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

Management of the Company assumes that the adoption of these standards, amendments and interpretations will not have a significant impact on the Company in subsequent periods

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not evidently 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 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 are given in the following notes.

4.1. USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

In 2019, the Company assessed the useful life of assets and based on this analysis performed by internal experts, the useful life of selected assets was extended. In the case of traction vehicles, the lifetime of selected series was extended by an average of 5 to 7 years, for trucks, the lifetime of selected series was extended by 2 to 7 years and for other assets it was 2 to 5 years. The impact of this change in the estimated useful life of assets is a decrease in depreciation and amortization in 2019 of CZK 91 million. In the coming years this effect will gradually decrease.

Similarly, the Company reassessed the useful life of certain intangible assets, primarily software, as part of the periodic update of the depreciation plan. The revision of the depreciation plan meant an extension of the useful life of 2-4 years, which means an annual depreciation of approximately CZK 30 million. In subsequent years, this impact on profit or loss will gradually decrease.

4.2. PROVISIONS FOR LITIGATION

The Company is involved in a number of litigation and out-of-court commercial disputes. Provided that the criteria for provisioning are met, the Company creates provisions for these litigations based on the best available information and estimates. However, the actual outcome of the disputes may differ from these estimates. For information on litigation see Note 16.

4.3. 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 depending on situation development and availability of information (see Note 5).

4.4. LEASING - DISCOUNT RATE AND LEASE TERM

The Company measures the initial lease obligation at the present value of the lease payments to be discounted using the implicit interest rate. Since the Company is unable to determine this rate reliably, it uses its incremental borrowing rate as the discount rate. In determining this, the degree of lease collateral and the length of the lease contracts were taken into account.

In addition, the Company uses an estimate to determine the lease term for contracts concluded for an indefinite period. This estimate considered the period and circumstances of the potential termination of individual contracts. The Company has determined the estimated lease term for contracts for indefinite period at 5 years for contracts for the lease of non-residential premises and 3 years for the lease of railway vehicles for the following reasons:

- the Company operates under a medium-term plan for a period of 5 years,
- based on past experience, there is sufficient assurance that these leases will not be terminated by either the Company or the lessor.

In addition, each significant contract is also assessed individually in relation to contract provisions, the economic situation on the market to which the asset belongs, as well as past experience with the lessor, and the lease term is adjusted accordingly.

4.5. CHANGE IN ACCOUNTING POLICY

As part of the regular review of the depreciation plan for tangible fixed assets, the Company reviewed the component depreciation policy for freight wagons.

As part of the review, the Company implemented in accordance with IAS 16 a new component: technical inspection of freight wagons. The technical inspection costs were historically charged as the repair and maintenance expense to the profit and loss statement if performed separately. However, a significant part of the technical control costs was already recorded as part of the revision repair component for freight wagons in previous accounting periods.

In accordance with IAS 8, the Company retrospectively recognized the impact of a change in the accounting policy in the financial statements as at 1 January 2018.

As of 1 January 2018, the value of assets (vehicles) increased by CZK 98 million and the deferred tax liability increased by CZK 18 million. As a result, retained earnings increased by CZK 80 million.

The impact on profit or loss of the 2018 accounting period was zero. Profit or loss was negatively influenced by increased depreciation of means of transport in the amount of CZK 33 million and, on the contrary, positively influenced by reduction of Services, leases, material and energy consumption of the same amount of CZK 33 million, which was the volume of separate technical inspections performed in 2018. The value of assets (vehicles) has been increased/decreased by the respective amount.

5. Property, Plant and Equipment

Cost (CZK million)	**Balance as of 1 Jan 2018**	**Additions**	**Disposals**	**Transfers**	**Balance as of 31 Dec 18**	**Impact of IFRS 16**	**Balance as of 1 Jan 2019**	**Additions**	**Disposals**	**Transfers**	**Balance as of 31 Dec 2019**
Land	116	1	-	-	117		117	-	-	-	117
Construction	1,599	19	-	3	1,621		1,621	42	(1)	41	1,703
Individual movable assets	37,549	2,090	(2,018)	138	37,759	(140)	37,619	3,564	(3,017)	139	38,305
- Machinery, equipment, and furniture and fixtures	*474*	*23*	*(1)*	*2*	*498*		*498*	*55*	*(30)*	*(38)*	*485*
*- Vehicles**	*36,929*	*2,067*	*(2,017)*	*136*	*37,115*		*37,115*	*3,509*	*(2,986)*	*177*	*37 815*
*- Vehicles acquired under finance leases ***	*140*	*-*	*-*	*-*	*140*	*(140)*	*-*	*-*	*-*	*-*	*-*
- Other	*6*	*-*	*-*	*-*	*6*		*6*	*-*	*(1)*	*-*	*5*
Asset under construction	217	292	(7)	(141)	361		361	145	-	(142)	364
Prepayments	30	183	-	-	213		213	152	(30)	-	335
Total	**39,511**	**2,585**	**(2,025)**	**-**	**(40,071)**	**(140)**	**39,931**	**3,903**	**(3,048)**	**38**	**40,824**

Accumulated amortisation, depreciation and impairments (CZK million)	**Balance as of Jan 2018**	**Additions**	**Disposals**	**Transfers**	**Impair-ment**	**Balance as of 31 Dec 2018**	**Impact of IFRS 16**	**Balance as of 1 Jan 2019**	**Additions**	**Disposals**	**Transfers**	**Impair-ment**	**Balance as of 31 Dec 2019**
Construction	879	39	-	-	-	918		918	29	(1)	-	-	946
Individual movable assets	24,430	1,103	(1,994)	-	83	23,622	(41)	23,581	1,109	(3,017)	(42)	(31)	21,600
- Machinery, equipment, and furniture and fixtures	*327*	*25*	*(1)*	*1*	*-*	*352*		*352*	*11*	*(30)*	*(17)*	*-*	*316*
*- Vehicles**	*24,062*	*1,073*	*(1,993)*	*(1)*	*83*	*23,224*		*23,224*	*1,098*	*(2,986)*	*(25)*	*(31)*	*21,280*
*- Vehicles acquired under finance leases ***	*36*	*5*	*-*	*-*	*-*	*41*	*(41)*	*-*	*-*	*-*	*-*	*-*	*0*
- Other	*5*	*-*	*-*	*-*	*-*	*5*		*5*	*-*	*(1)*	*-*	*-*	*4*
Asset under construction	5	-	-	-	1	6		6	-	-	-	-	6
Total	**25,314**	**1,142**	**(1,994)**	**-**	**84**	**24,546**	**(41)**	**24,505**	**1,138**	**(3,018)**	**(42)**	**(31)**	**22,552**

Net book value (CZK million)	**Balance as of 31 Dec 2019**	**Balance as of 1 Jan 2019**	**Impact of IFRS 16**	**Balance as of 31 Dec 2018**	**Balance as of Jan 2018**
Land	117	117		117	116
Constructions	757	703		703	720
Individual movable assets	16,705	14,038	(99)	14,137	13,119
- Machinery, equipment, and furniture and fixtures	169	146		146	147
*- Vehicles**	16,535	13,891	(99)	13,891	12,867
*- Vehicles acquired under finance leases***	-	-		99	104
- Other	1	1		1	1
Assets under construction	358	355		355	212
Prepayments	335	213		213	30
Total	**18,272**	**15,426**	**(99)**	**15,525**	**14,197**

* Vehicles purchased using sale and are presented in the financial statements under the „Vehicles". Their net book value amounted to CZK 3,185 million as of 31 December 2018, and CZK 2,740 million as of 31 December 2019. Liabilities arising from these financial leasebacks are part of Note 15.2 "Liabilities leasing". 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.

** Vehicles acquired under finance leases were recognised in-line "Vehicles under finance leases" until 31 December, 2018 under IAS 17. As part of the implementation of IFRS 16 as of 1 January 2019, they have been reclassified to Right-of-use assets (see Note 19).

Properties are represented mainly by buildings and land. Land and buildings do not include railway routes, which are owned by the Správy železnic, s.o.

Vehicles in the Group mainly comprise rail vehicles (railway traction vehicles, freight wagons) used for railway freight transport. As at 31 December 2019, the provision is created for these items in the amount of the difference between the carrying amount and the recoverable amount of CZK 247 million, while as at 31 December 2018 the amount equals CZK 278 million.

In 2019, the biggest increases of movable tangible assets relate to the revision repairs (components) of freight wagons in the amount of CZK 938 million, repairs of R and D type (components) of the railway traction vehicles in the amount of CZK 619 million.

In addition, during the accounting period the following were acquired:

- 195 units of new freight wagons Sgg(m)rrs - innowagon (Innofreight technology) worth CZK 555 million;
- 145 new Eanos freight wagons worth CZK 256 million;
- 79 new Zacns freight wagons worth CZK 152 million;
- 3 Vectron 383 railway traction vehicles worth CZK 277 million;
- 4 railway traction vehicles of the 744 series and one upgraded 753 series worth CZK 271 million;
- wheelsets (components) for freight wagons worth CZK 174 million.

As part of the periodic revision of the depreciation plan for tangible fixed assets, the Company reassessed the component depreciation method for trucks.

As part of the review, the Company implemented in accordance with IAS 16 a new component: technical inspection of freight wagons. The technical inspection costs were historically charged as the repair and maintenance expense to the profit and loss statement if performed separately. However, a significant part of the technical control costs was already recorded as part of the revision repair component for freight wagons in previous accounting periods.

In accordance with IAS 8, the Company has simulated and accounted for retrospectively the impact of a change in method in the financial statements as at 1 January 2018 and 31 December 2018, respectively. The impact of these changes on previous reporting periods is described in Note 4.5.

The impact on profit or loss before tax for the year 2019 was estimated at CZK 10 million. Profit or loss was negatively influenced by increased depreciation of means of transport of CZK 45 million and, on the contrary, positively influenced by reduction of repair costs of CZK 55 million, which was the volume of separate technical inspections performed in 2019. Respectively there was an increase in the value of assets (vehicles).

Technical inspections, that were performed during the year 2019 as part of another component (revision repairs) or were part of the purchase price of new freight wagons, were separated and the increased/decreased useful life was determined. The operation was not a change in accounting policy, but only a change in accounting estimate, in accordance with IAS 8. As a result of this change, the profit or loss was about CZK 10 million lower due to increased depreciation compared to the technical control inspection when it was a part of the purchase price of freight wagons or it was depreciated as part of the component - revision repair.

The Company leases some of its assets that it does not currently use for its activities to external entities. The most significant leased assets are means of transport, especially freight wagons and, in part, traction vehicles. The value of these leased assets is shown in the table below. No other significant assets are leased.

(CZK million)	Balance as of 31 Dec 2019	Balance as of 31 Dec 2018
Cost	2,188	1,914
Depreciation	1,366	1,252
Net book value	**822**	**662**

The item "Restricted cash" within "Other financial assets" represents a subsidy provided to the Parent Company in the total amount of CZK 292 million in 2016 within a subsidy project for equipping traction units with an on-board part of the European Train Control System (ETCS).

During 2018, ČD Cargo, a.s. received another part ofthe CZK 68 million subsidy, having, already paid part of the subsidy for the acquisition of the first prototypes of railway traction vehicles. The remaining funds are expected to be used to supply prototypes for selected locomotive series in 2020 and 2021. For this reason, the remaining part of the received subsidy of CZK 157 million was reported as short-term and CZK 48 million as long-term.

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:

	Počet let
Buildings	20 – 50
Railway traction vehicles (without components)	20 – 35
Freight wagons (without components)	30
Machinery and equipment	8 – 20

5.1. ASSETS PLEDGED AS COLLATERAL

The Company's property as of 31 December, 2019 and 31 December 2018 was not subject to a lien. The Company's liabilities from leaseback transactions and financial leasing are secured by the lessor right to the leased assets.

6. Intangible Assets

Cost (CZK million)	Balance as of 1 Jan 2018	Additions	Disposals	Transfers	Balance as of 31 Dec 2018	Additions	Disposals	Transfers	Balance as of 31 Dec 2019
Software	769	108	-	52	929	98	(15)	29	1,041
Royalties	101	5	-	16	122	-	-	5	127
Assets under construction	79	28	(5)	(68)	34	66	-	(34)	66
Total	**949**	**141**	**(5)**	**-**	**1,085**	**295**	**(15)**	**2**	**1,234**

Accumulated amortisation (CZK million)	Balance as of 1 Jan 2018	Additions	Disposals	Balance as of 31 Dec 2018	Additions	Disposals	Balance as of 31 Dec 2019
Software	419	82	-	501	62	(15)	548
Royalties	89	5	-	94	4	-	98
Total	**508**	**87**	**-**	**595**	**66**	**(15)**	**646**

Net book value (CZK million)	Balance as of 31 Dec 2019	Balance as of 31 Dec 2018	Balance at 1 Jan 2018
Software	493	428	350
Royalties	29	28	12
Assets under construction	66	34	79
Total	**588**	**490**	**441**

Amortisation costs are reported in the line depreciation and amortisation in the statement of profit or loss. The Assets under construction item consists of items that are developed in cooperation with supplier companies and are not internally developed software.

As of 31 December 2019, valuables (licenses) include a total net book value of CZK 29 million. The most significant items are CZK 10 million SAP licenses, Altworx licenses CZK 7 million, Microsoft EA, Exchange and Sharepoint licenses CZK 7 million, and Virusfree licenses CZK 3 million. In 2018, licenses totalling CZK 5 million were activated.

In 2019, modifications to the SAP IS amounting to CZK 29 million, development of operational information systems worth CZK 42 million, implementation of IFRS standards amounting to CZK 21 million, development of business systems amounting to CZK 20 million continued. The remaining part is allocated to other economic or operational tasks.

The length of amortisation of intangible assets:

	Počet let
Software	3 – 10
Royalties	6 – 10

6.1. SOFTWARE

Net book value (CZK million)	Balance at 31 Dec 2019	Balance at 31 Dec 2018	Balance at 1 Jan 2018
Operational and business tasks fall under the project PROBIS	315	262	218
SAP	83	43	41
IT Security Program	21	24	25
Other	74	99	66
Total	**493**	**428**	**350**

Software predominantly includes the SAP system and the operational business information system – PROBIS. Software additionally includes the information system supporting freight transport, 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 2019 consist mainly of modifications and upgrades of existing systems: SAP projects in the amount of CZK 45 million, Dispatching information system under the project of the calculation of complete trains in the amount of CZK 13 million, Altworx software capacity of the company (operating personnel, traction vehicles and trucks) in the amount of CZK 13 million, Transport management system in the amount of CZK 11 million.

7. Investments in Subsidiaries and Associates

Category (CZK million)	Investment* as of 31 December 2019	Investment* as of 31 December 2018
Subsidiaries	499	499
Joint ventures and associates	39	46
Total	**538**	**545**

* share value represents the net value of the investment consisting of the acquisition price less any loss allowance

7.1. INFORMATION ON SUBSIDIARIES

Name of the entity (CZK million)	Registered office	Investment* as of 31 December 2019	Investment* as of 31 December 2018
CD Cargo Germany GmbH	Niddastrasse 98-102, 60329 Frankfurt nad Mohanem, SRN	1	1
CD Cargo Poland Sp. z o.o.	Grzybowska nr 4, lok. 3, 00-131Warsaw, Poland	260	260
CD Cargo Austria GmbH	Rotenturmstraße 22/24, 1010 Wienna, Austria	-	-
CD Cargo Slovakia, s.r.o.	Seberíniho 1, 821 03 Bratislava, Slovakia	138	138
Terminal Brno, a.s.	K Terminálu 614/11, 61900 Brno	49	49
ČD-DUSS Terminál, a.s.	Lukavecká 1189, 41002 Lovosice	2	2
ČD Cargo Logistics, a.s.**	Opletalova 1284/37, 11000 Prague 1	49	49
Auto Terminal Nymburk, s.r.o.	Jankovcova 1569/2c, 170 00 Prague 7	-	-
Total		**499**	**499**

* The value of the share represents the net value of the investment composed of the purchase price minus any provision value
** In 2018, a 22% stake in ČD Cargo Logistics, as was purchased; ČD Cargo, a.s. is thus 100% owner of this company

Name of the entity	Principal activities	Ownership interests as of 31 Dec 2019	Ownership interests as of 31 Dec 2018
CD Cargo Germany GmbH	Mediation of freight transportation services on behalf of and for ČD Cargo, a.s. and freight 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 freight 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 freight forwarding.	100%*	100%*
CD Cargo Slovakia, s.r.o.	Mediation of freight transportation services on behalf of and for ČD Cargo, a.s. and freight 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 Cargo Logistics, a.s.	Freight forwarding.	100%	100%
Auto Terminal Nymburk, s.r.o.	Freight forwarding and technical transport activities.	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 2019	Investment* as of 31 Dec 2018
BOHEMIAKOMBI, spol. s r.o.	Opletalova 6, 11000 Praha 1	-	-
Ostravská dopravní společnost, a.s.	U Tiskárny 616/9, 70200 Ostrava - Přívoz	11	18
RAILLEX a.s.	Trnkovo nám. 3, 15200 Prague 5	1	1
Ostravská dopravní společnost – Cargo, a.s.	U Tiskárny 616/9, 70200 Ostrava - Přívoz	27	27
Total		**39**	**46**

* 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 interests as of 31 Dec 2019	Ownership interests as of 31 Dec 2018
BOHEMIAKOMBI, spol. s r.o.	Mediation of transportation services except for the transportation by own vehicles.	30%	30%
Ostravská dopravní společnost, a.s.	Railway transportation and lease of traction vehicles and railway wagons.	50%	50%
RAILLEX a.s.	Cargo handling and technical services in transportation, freight forwarding.	50%	50%
Ostravská dopravní společnost – Cargo, a.s.	Railway transportation and lease of traction vehicles and railway wagons.	20%	20%

7.3. SUMMARY OF FINANCIAL INFORMATION ON JOINT VENTURES AND ASSOCIATES

31 December 2019 (CZK million)	RAILLEX a.s.	BOHEMIAKOMBI, spol. s r.o.	Ostravská dopravní společnost, a.s.	Ostravská dopravní společnost - Cargo, a.s.
Total assets	**48**	**24**	**101**	**199**
Short-term assets	48	23	101	148
Long-term assets	-	1	-	51
Total liabilities	**27**	**15**	**78**	**38**
Short-term liabilities	27	15	78	37
Long-term liabilities	-	-	-	1
Net assets	21	9	23	161
The Company's share of net assets	**10**	**0**	**12**	**32**

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
The Company's share of net assets	**9**	**-**	**23**	**28**

(CZK million)	2019	2018
Total income	1,109	1,383
Profit for the period	47	42
The Company's share of profit	**14**	**12**

8. Inventories

(CZK million)	31 Dec 2019	31 Dec 2018
Spare parts and other components for rail vehicles and trail vehicles	228	103
Spare parts for other machines, devices and equipment	9	56
Fuels, lubricants and other diesel products	3	4
Work clothes, work shoes, protective devices	2	2
Other	8	28
Total cost	**250**	**193**
Write-down of inventories to their net realisable value	(6)	-
Total net book value	**244**	**193**

9. Trade Receivables

Trade receivables consist of the following items:

	Category	Before due date	Past due date (days)					Total overdue	Total
(CZK million)			1 - 30	31 – 90	91- 180	181 -365	365 and more		
31.12.2019	Gross	1,351	105	16	3	22	58	204	1,555
	Allowances	(5)*	(1)	(1)	(3)	(22)	(58)	(85)	(90)
	Net	**1,346**	**104**	**15**	**0**	**0**	**0**	**119**	**1,465**
31.12.2018	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**	**0**	**0**	**132**	**1,618**
1.1.2018	Gross	1,470	117	20	6	6	100	249	1,719
	Allowances	(27)*	-	(4)	(5)	(5)	(100)	(114)	(141)
	Net	**1,443**	**117**	**16**	**1**	**1**	**0**	**135**	**1,578**

* includes the amount of allowance to maturity due to the implementation of IFRS 9.

9.1. MOVEMENT OF ALLOWANCES FOR DOUBTFUL TRADE RECEIVABLES

Movement of allowances for doubtful receivables (CZK million)	2019	2018
Allowances at 1 January	**143**	**141**
Set up of allowances – trade receivables	68	55
Use of allowances – trade receivables	(63)	(40)
Write-offs - trade receivables	(58)	(13)
Allowances at 31 December	**90**	**143**

10. Other Financial Assets

(CZK million)	31 Dec 2019	31 Dec2018
Finance lease receivables	52	-
Hedging derivatives	10	-
Restricted cash (see Note 5)	48	-
Other financial assets	-	1
Other non-current financial assets	**110**	**1**
Finance lease receivables	11	0
Hedging derivatives	14	8
Group cash-pooling	1	2
Receivables for damages and losses	9	7
Receivables for damages and losses - allowances	(4)	(4)
Restricted cash (see Note 5)	157	330
Other financial assets	19	150
Other financial assets - allowances	(13)	(18)
Other current financial assets	194	475
Total Other financial assets	**304**	**476**

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

The item "Other financial assets" in 2018 included, among other things, a receivable from CD Cargo Poland sp. o. o., in the amount of CZK 120 million from unpaid dividends. In 2019 they were fully paid.

There was no reason to create provision for any other financial assets related to IFRS 9 due to the expected credit loss.

10.1. RECEIVABLES FROM THE FINANCE LEASING
Company ČD Cargo, a.s., leased part of the building in the Lovosice logistics centre to Mondi Štětí a.s.

Disclosure required according to the IFRS 16:

Analysis of maturity of receivables from leasing payments:

(CZK million)	31 Dec 2019
1. year	13
2. years	13
3. years	13
4. years	13
5. years	13
More than 5 years	3
Undiscounted lease payments	**68**
Minus: Unrealized financial income	(5)
Present value of lease payments receivable	**63**
Impairment allowance	-
Net investment in leasing	**63**
In the statement of financial position as:	
Other financial assets short - term	11
Other financial assets long - term	52
Total	**63**

The amounts recognized in the income statement:

(CZK million)	31 Dec 2019
Net proceeds from financial investments	1

The Company uses a simplified approach in accordance with IFRS 9 to measure expected credit losses using a provision for expected life-cycle losses on all finance lease receivables.

In order to measure expected credit losses, finance lease receivables are grouped on the basis of shared credit risk characteristics and due days. The expected rates of losses are based on the payment profiles of the leases before the end of the reporting period and the corresponding historical credit losses that occurred in that period.

None of the finance lease receivables is overdue at the end of the reporting period and, taking into account past experience and future prospects of the lessee's operations, the management of the Company believes that no finance lease receivables are impaired.

The Company is not exposed to currency risk as a result of lease arrangements as the lease is denominated in CZK. The risk of residual value of the leased building is not material.

11. Other Assets

(CZK million)	31 Dec 2019	31 Dec 2018
Prepayments	-	-
Non-current financial assets	**-**	**-**
Prepayments	68	29
Tax receivables – VAT	142	116
Prepaid expenses	45	39
Other	4	4
Other current financial assets	**259**	**188**
Total Other financial assets	**259**	**188**

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.

(CZK million)	31 Dec 2019	31 Dec 2018
Cash in hand and cash in transit	2	2
Cash at bank*	335	593
Total**	**337**	**595**

* 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 2019, dividend income from subsidiary CD Cargo Germany GmbH in the amount of CZK 32 million (2018: CZK 32 million) have been recognised as non-cash income and set off against their liabilities. Dividend from CD Cargo Poland sp. z o.o, was granted in the year 2018 in the amount of CZK 120 million, and were fully paid in 2019.

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

(CZK million)	Short-term rating*	Long-term rating*	31 Dec 2019	31 Dec 2018
Citibank	P-1	A1	1	80
Česká spořitelna, a.s.	P-1	A1	1	1
Československá obchodní banka, a.s.	P-1	A1	272	306
ING Bank	P-1	Aa3	3	84
Komerční banka, a.s.	P-1	A1	20	19
Raiffeisenbank	P-2	A3	1	1
UniCredit Bank	P-2	Baa1	5	41
Všeobecná úvěrová banka a.s.	P-1	A2	32	61
Total			**335**	**593**

* Moody's bank rating is effective at the end of 2019

13. Equity

13.1. SHARE CAPITAL

As of 31 December 2019, the Company reports the share capital in the amount of CZK 8,494 million in a form of 100 dematerialised shares. The share capital was fully paid.

13.2. CAPITAL FUNDS

(CZK million)	31 Dec 2019	31 Dec 2018
Share premium	197	197
Statutory reserve fund	230	192
Cash Flow hedging reserve	20	(24)
Actuarial losses	(12)	(16)
Total	**435**	**349**

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)	2019	2018
Balance at the beginning of the year	**(24)**	**74**
Profit (loss) from revaluation	49	(50)
Reclassification to profit or loss	5	(71)
Total change in the cash flow hedging reserve	**54**	**(121)**
Related income tax	(10)	23
Balance at the end of the year	**20**	**(24)**

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

Reclassification from hedge reserve into profit or loss

Currency forwards and swaps – securing future income in foreign currencies (CZK million)	2019	2018
Balance as of 1 January	**(19)**	**65**
Change in the fair value of the hedging derivatives	45	(38)
Reclassification to the income	(7)	(66)
Related corporate income tax – change	(7)	20
Balance as of 31 December	**12**	**(19)**

Interest swaps – securing loans and lease contracts with variable rate (CZK million)	2019	2018
Balance as of 1 January	**(28)**	**(6)**
Change in the fair value of the hedging derivatives	-	(12)
Reclassification to the income	1	(9)
Related corporate income tax – change	-	(1)
Balance as of 31 December	**(27)**	**(28)**

Commodity options – securing prices for the purchases of diesel and traction energy (CZK million)	2019	2018
Balance as of 1 January	**23**	**15**
Change in the fair value of the hedging derivatives	4	-
Reclassification to the income	11	4
Related corporate income tax – change	(3)	4
Balance as of 31 December	**35**	**23**

14. Trade Payables

Year (CZK million)	Category	Before due date	Past due date (days)					Total past due date	Total
			1 - 30	31 – 90	91- 180	181 -365	365 and more		
31. 12. 2019	Short-term	2,069	25	51	8	50	-	134	2,203
31. 12. 2018	Short-term	2,166	36	2	-	-	-	38	2,204

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 2019	31 Dec 2018
Liabilities from leaseback	1,140	964
Liabilities from leasing*	2,187	-
Liabilities from financial leases**	-	34
Loans from České dráhy, a.s.	205	281
Issued bonds	3,765	2,995
Total long-term	**7,297**	**4,274**
Liabilities from leaseback	285	418
Liabilities from leasing*	595	-
Liabilities from financial leases**	-	27
Loans from České dráhy, a.s.	323	74
Issued bonds	1,026	15
Total short-term	**2,229**	**534**
Total	**9,526**	**4,808**

* implementation of IFRS 16
** comparative information under IAS 17, prior to the implementation of IFRS 16

Loans are initially recognised at fair value fewer transaction costs, in the following periods, loans are measured at amortized cost using the effective interest method; all differences between the consideration (fewer transaction costs) and the value of the instalments are recognised 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 traction vehicles (Vectron). As of 31 December, 2019 the remaining balance was split into a long-term part in the amount of CZK 205 million and a short-term part in the amount of CZK 73 million.

On 19 December 2019 ČD Cargo, a.s. drew a loan in the amount of CZK 250 milion based on a mutual credit facility agreement in excess of cash-pooling from the Parent Company České dráhy, a.s. The maturity of the loan is set on 18 March, 2020. The interest rate is 2.30 % p.a. This loan is thus recognised as short-term.

Portions of long-term loans and borrowings, due within one year from the consolidated financial statements date are recognised as short-term loans and borrowings.

The Company 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 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 2019:

Administrator	Unicredit Bank Czech Republic and Slovakia, a.s.
Date of issue	26.11.2015
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	annually retrospectively
Date of interest payment	26.11. each year
Date of the final maturity	26.11.2020

Administrator	Raiffeisenbank, a.s.
Date of issue	17.6.2016
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	17.6. each year
Date of the final maturity	17.6.2021

Administrator	Unicredit Bank Czech Republic and Slovakia, a.s.
Date of issue	29.12.2016
Trading	Bonds admitted to trading on a regulated market of the Prague Stock Exchange
Nominal value of the bond	CZK 500,000,000
Interest rate	CZK 5,000,000
Issue rate	fixed interest income 1.26%
Payment of interest income	100 %
Date of interest payment	annually retrospectively
Date of the final maturity	29.12. each year
Nominal value of the bond	29.12.2023

Administrator	Komerční banka, a.s.
Issue manager	ING, a.s.
Date of issue	20. 7. 2018
Trading	Bonds admitted to trading on a regulated market of the Prague Stock Exchange
Nominal value of the bond	CZK 1,000,000,000
Interest rate	CZK 5,000,000
Issue rate	fixed interest income 2.55%
Payment of interest income	100 %
Date of interest payment	annually retrospectively
Date of the final maturity	20.7. each year
Nominal value of the bond	20.7.2025

Administrator	Komerční banka, a.s.
Issue manager	ING, a.s.
Date of issue	17.7.2019
Trading	CZK 1,000,000,000
Nominal value of the bond	CZK 5,000,000
Interest rate	fixed interest income 2.17%
Issue rate	100 %
Payment of interest income	annually retrospectively
Date of interest payment	17.7. each year
Date of the final maturity	17.7.2026

Administrator	Komerční banka, a.s.
Date of issue	18. 11. 2019
Total nominal value	CZK 770,000,000
Nominal value of the bond	CZK 5,000,000
Interest rate	fixed interest income 2.09%
Issue rate	100 %
Payment of interest income	annually retrospectively
Date of interest payment	18.11. each year
Date of the final maturity	18.11.2026

15.2. FINANCE LEASE 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 December 2019*	31 December 2018**	31 December 2019*	31 December 2018**
Less than 1 year	1,003	502	880	445
From 1 to 5 years	2,753	944	2,499	857
5 years and more	882	144	828	141
Total	**4,638**	**1,590**	**4,207**	**1,443**
Less future financial costs	(431)	(147)		
Present value of min. leasing's repayments	**4,207**	**1,443**	**4,207**	**1,443**
In the financial statement position				
– short-term loans			*880*	*445*
– long-term loans			*3,327*	*998*
Total			**4,207**	**1,443**
In the financial statement position				
– financial lease liabilities			*2,782*	*61*
– leaseback liabilities			*1,425*	*1,382*
Total			**4,207**	**1,443**

* Data at 31.12.2019 are adapted in the context of implementing IFRS 16
** Comparable data as of 31.12.2018 are adjusted in accordance with IAS 17, prior to the implementation of IFRS 16

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

Financial lease liabilities and leaseback liabilities are presented in financial Instruments in Note 31.2.

Fair value of the finance lease liabilities is disclosed in the Note 31.10.1.

16. Provisions

(CZK million)	Balance as of 31 Dec 2018	IFRS 16 adjustments	Balance as of 1 Jan 2019	Creation	Use	Cancellation	Balance as of 31 Dec 2019
Provision for litigation	53	-	53	-	-	(30)	23
Provisions for employee benefits	155	-	155	54	(54)	-	155
- of which long-term part	*101*	-	*101*	-	-	-	*101*
Provision for loss-making transactions	409	(409)*	-	-	-	-	-
- of which long-term part	*350*	*(350)**	-	-	-	-	-
Other provisions	39	-	39	44	(42)	(8)	33
Total provisions	**656**	**(409)**	**247**	**98**	**96**	**(38)**	**211**
– Long-term	*451*		*101*				*101*
– Short-term	*205*		*146*				*110*

* The provision for loss-making transactions was reclassified to equity as an allowance for rights of use under IFRS 16

After careful consideration of all existing legal analyzes and the outcome of existing litigation, and after assessing all potential risks, the history of litigation and in accordance with appropriate prudence, management has decided to update the provision to cover potential litigation expenses to 23 million As at 31 December 2019 (as at 31 December 2018, this amounted to CZK 53 million).

The provision for employee benefits includes the employees´ entitlement to a financial contribution on life jubilees, financial contribution upon retirement and reimbursement of medical expenses, including salary refunds in wellness and recovery stays. As of 31 December 2019, the provision was calculated in the amount of CZK 155 million. Compared to 2018, there were no changes in the reserve balance. In calculating the provision, the Company used an actuarial model which is based on up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation in the number of employees, anticipated increase in salaries, anticipated inflation level, likelihood of death or disablement according to the data of the Czech Statistical Office. Cash flows are discounted to the present value using the discount rate derived from the yield level of government bonds.

During 2014, the Parent Company made a provision for loss-making contracts. 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. The total amount of the provision was CZK 409 million as of 31 December 2018. Since this loss transaction relates to a lease of storage space, as a result of the implementation of IFRS 16, the agreement was reclassified to a Right-of-use. The estimated loss is recognised as impairment of this right of use, in accordance with IFRS 16, IAS 16 and IAS 36. See Note 19.

Other provisions as of 31 December 2019 include mainly the Parent Company's provisions for damages.

17. Other Financial Liabilities

(CZK million)	31 Dec 2019	31 Dec 2018
Hedging derivatives	-	25
Liability arising from supplier loans	1	5
Other	-	27
Other long-term financial liabilities	**1**	**57**
Hedging derivatives	-	13
Derivatives held for trading	-	-
Liability arising from supplier loans	3	40
Other	189	122
Other short-term financial liabilities	**192**	**175**
Total other financial liabilities	**193**	**232**

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

Three lease contracts on the sale and lease of 1,141 vehicles were concluded between the Company ČD Cargo, a.s., and company Financial Found, a.s.. According to the contractual arrangements ČD Cargo, a.s. withdrew from the contract and immediately paid the remaining leasing instalments in the amount of CZK 146 million. Since Financial Found, a.s., disagreed with the withdrawal, it returned the amount to back to ČD Cargo, a.s., account. In order to avoid the senseless forwarding of funds, ČD Cargo, a.s., informed Financial Found, a.s. that it had the funds ready and asked it to confirm that the company would accept them. Up to the current date, Financial Found, a.s. has not responded. In parallel, Financial Found, a.s., filed an action in the District Court for Prague 7 to determine the ownership of the 1,141 vehicles, and yet it has not been solved. Financial Found, a.s., also unsuccessfully tried to rewrite the vehicles at the Rail Authority to their ownership. This means that ČD Cargo, a.s., is registered as the owner and holder of these vehicles. In accordance with the described information, the Company's management has decided to record the aforementioned vehicles in the Company's assets and to account for all related accounting transactions (segregation of components, accounting for depreciation, etc.). In 2019 there was created the liability arising from this and it is the most significant part of the item "Other".

The items "Other" includes liabilities concerning the judicial conciliation in the dispute over the price of traction energy collected from Správa železnic, s.o. and relating to the settlement of the damage due to Správa železnic, s.o. traffic closures pursuant to a court judgment. More detailed overview of the relationship with Správa železnic, s.o. is presented in Note 30.6.

18. Other Liabilities and Contract Liabilities

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

(CZK million)	31 Dec 2019	31 Dec 2018
Subsidy received	48	-
Other liabilities	149	109
Other long-term liabilities	**197**	**109**
Payables to employees	260	292
Liabilities for social security and health insurance	126	144
Tax liabilities - tax withheld employees	38	44
Subsidy received	157	330
Other short-term liabilities	**581**	**810**
Contract liabilities	-	1
Refunds liabilities	18	31
Other short-term liabilities and contract liabilities	**599**	**842**
Total other liabilities and contract liabilities	**796**	**951**

In 2016, the Company received the subsidy in the amount of CZK 292 million within the subsidy project to equip traction vehicles with the on-board part of the European Train Control System (ETCS). During 2018, ČD Cargo, a.s. had received another portion of the subsidy of CZK 68 million, and in 2018 and 2019 had already paid out part of the subsidy for the acquisition of the first prototype railway traction vehicle. The remaining funds are expected to be used to supply prototypes for selected locomotive series in 2020 and 2021, respectively. For this reason, the remaining part of the received subsidy of CZK 157 million was reported as short-term and CZK 48 million as long-term. See in Note 5).

Other long-term liabilities also include liabilities to employees of the parent company arising from applicable collective agreement.

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

The Company has no overdue liabilities to tax authorities, social security authorities and health insurance companies.

19. Operating Lease Contracts

IAS 17 disclosure requirements:

19.1. THE COMPANY AS A LESSEE

In 2018, the Company's expenses arising from the lease of railway wagons on the basis of individual contracts amounted to CZK 390 million.

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

In 2018, the Company's expenses arising from lease of property amounted to CZK 97 million. From which the Company as a lessee recognized the amount of CZK 84 million in 2018, arising from the lease of constructions and land in the Lovosice Logistics Centre.

As of 31 December 2018, the Company has concluded a vehicle lease and real estate lease agreement of CZK 3,157 million, of which CZK 2,591 million relates to unpaid supplies. As of 31 December 2018, the remaining CZK 566 million had already been paid. A substantial part of commitments of expenditure of CZK 1,967 million represents the lease of railway rolling stock, superstructures and lease of non-residential premises.

Contractual obligations relating to lease (CZK million)	Min. lease instalments as of 31 December 2018
Less than 1 years	564
1-5 years	1,868
over 5 years	159
Total contractual obligations	**2,591**

19.2. THE COMPANY AS A LESSOR

Operating leases are leases of locomotives, freight wagons and tanks held by the Company with various lease periods.

In 2019, revenues recognised by the Group from short-term operating leases of movable assets amounted to CZK 354 million (in 2018: CZK 339 million).

The Company as a lessor did not concluded any non-cancellable operating leases.

Disclosure requirements under IFRS 16:

19.3. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company leases land, buildings (administrative and railway stations), equipment (innofreight technology) and vehicles (freight wagons, tanks and passenger cars). Lease contracts are usually concluded for a definite period (from 3 to 10 years). A minority of contracts are concluded for an indefinite period.

Until 31 December 2018, the leases of property, plant and equipment were classified as finance lease or operating lease. From 1 January 2019, operating leases are recognised as right-of-use assets and a corresponding liability from the date on which the leased asset is available for use for the Company.

Cost (CZK million)	Balance as of 1 January 2019	Additions	Change of lease period	Disposals	Transfers*	Balance as of 31 December 2019
Buildings	398	35	36	(114)	-	355
- out of which logistics centre Lovosice	149	-	-	(62)	-	87
Equipment	465	124	4	-	-	593
- out of which technologies Innofreight	463	123	4	-	-	590
Vehicles	1,181	1,395	242	(790)	(140)	1,888
- out of which freight wagons and locomotives	1,146	1,378	242	(769)	(140)	1,857
Total	**2,044**	**1,554**	**282**	**(904)**	**(140)**	**2,836**

Accumulated depreciation and impairment (CZK million)	Balance as of 1 January 2019	Additions	Disposals	Transfers*	Balance as of 31 December 2019
Buildings	-	72	(4)	-	68
- out of which logistics centre Lovosice	-	20	-	-	20
Equipment	-	75	-	-	75
- out of which technologies Innofreight	-	75	-	-	75
Vehicles	41	422	(75)	(45)	343
- out of which freight wagons and locomotives	41	415	(72)	(45)	339
Total	**41**	**569**	**(79)**	**(45)**	**486**

Net book value (CZK million)	Balance as of 31 December 2019	Balance as of 1 January 2019
Buildings	287	398
- out of which logistics centre Lovosice	67	149
Equipment	518	465
- out of which technologies Innofreight	515	463
Vehicles	1,545	1,140
- out of which freight wagons and locomotives	1,518	1,105
Total	**2,350**	**2,003**

* Under the item "Vehicles" the lease contract was terminated and railway wagons were purchased by the Company. For this reason, reclassification from " Right-of-use assets" to "Vehicles" was made in the table in Note

The item right-of-use assets under IFRS 16 also includes the lease of storage space in the Lovosice Logistics centre. As this contract generates a loss for the Company of approximately CZK 59 million per year, the Company has created for this contract lease a Provision for loss-making transactions (see Note 16). As a result of the adoption of IFRS 16, this lease was reclassified as a right of use. As of 1 January 2019, the value of this right of use was calculated at CZK 558 million and impaired by CZK 409 million. As at 1 January 2019, the amount of CZK 149 million was reported in the above table"Acquisition price". As at 31 December 2019, the asset is recognized in the carrying amount of CZK 67 million.

During the 2019 accounting period, a contract was concluded to lease part of the logistics centre in Lovosice. As at 31 December 2019, the Parent Company recognized receivables from this contract in the amount of CZK 63 million from finance leases, see Note 10.1. At the same time, part of the asset was derecognised from the right-of-use the corresponding portion of the leased warehouse space of CZK 58 million. The difference between the value of the finance lease receivable and the impairment charge was recognized as revenue for the current period in the amount of CZK 5 million.

The item"Buildings" outside the logistics centre in Lovosice includes leases of non-residential premises within the railway stations where our operating employees are responsible for the operation of the Group's rail transport.

The amount of impairment of the aforementioned right of use assets is determined by a reasonable estimate of the estimated net future contractual liability. The amount represents the difference between discounted net expected income and discounted expected expenditure.

The Company recognised the lease liability as follows:

(CZK milion)	Balance as of 31 Dec 2019	Balance as of 1 Jan 2019
Short-term lease liabilities	595	563
Long-term lease liabilities	2,187	1,836
Total lease liabilities	**2,782**	**2,399**

The amounts recognised in the income statement:

(CZK milion)	Balance as of 31 Dec 2019
Depreciation of right-of-use assets	(569)
Interest expense on lease liabilities	(71)
Short-term lease expenses	(73)
Low-value assets lease expenses	(14)
Variable lease payments (not included in the measurement of the lease liability) expenses	(20)
Proceeds from the sublease of assets from the right of use	1

Short-term and low-value assets expenses that are not included in the short-term lease payables, are included in the income statement in Services, material and energy consumption.

Total monetary expenses related to leasing amounted to CZK 884 million in 2019 (of which lease payments amounted to CZK 706 million, interest expenses amounted to CZK 81 million, short-term lease payments amounted to CZK 73 million, lease payments on low value assets of CZK 14 million and expenses related to variable lease payments in the amount of CZK 20 million).

19.4. CONTRACTUAL OBLIGATIONS

As of the balance sheet date, the Company concluded contracts for the purchase of property, plant and equipment and investment property in the amount of CZK 8,664 million, of which CZK 6,227 million relates to unpaid supplies, out of which CZK 3,316 million represents investments to be paid in 2020 and CZK 2,911 million to be paid in subsequent years. As of 31 December 2019, the remaining amount of CZK 2,437 million was paid. A significant part of the commitments of expenditure in the amount of CZK 6,154 million relates to investments in railway vehicles.

19.5. CONTINGENT ASSETS

ČD Cargo, a.s. records contingent assets resulting from a CZK 103 million penalty for company Ostravské opravny a strojírny, s.r.o. Penalty refers to delayed deliveries of repaired freight wagons that have not been completed according to contractual terms. As the business partner dispute this penalty, ČD Cargo, a.s. in accordance with IFRS 15, records these assets as contingent assets and are not recognized in the financial statements as of 31 December 2019.

20. Received and Issued Bank Guarantees

20.1. BANK GUARANTEES ISSUED

Bank guarantees issued in Komerční banka, a.s., from the contractual limit of CZK 50 million as of 31 December 2019.

List of active bank guarantees issued by ČD Cargo, a.s. as of 31 December 2019

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	227,267.177	EUR	20.9.2020	Bank guarantee to fulfil all liabilities and obligations under the rental agreement with West Invest Waterfront Towers Ltd. - Lighthouse.
HYPARKOS, s.r.o., Škrétova 490/12, 120 00 Prague 2	Warranty for rent	16,517,056	CZK	30.6.2020	Bank guarantee in the event that ČD Cargo, a.s. does not comply with the obligations under rental agreement of buildings and land in the Logistics Centre in Lovosice.
Celní úřad pro Jihočeský kraj, Kasárenská 6, 370 21 České Budějovice	Customs guarantee	500,000	CZK	Unlimited	Guarantor's undertaking - comprehensive guarantee; issued to the South Bohemian Region Customs Office to secure the customs debt and other charges
Celní úřad pro Jihočeský kraj, Kasárenská 6, 370 21 České Budějovice	Customs guarantee	3,500,000	CZK	Unlimited	Warranty deed for the purpose of securing duties by a comprehensive principal by the customs agent, acting on the basis of direct representation; issued to the South Bohemian Region Customs Office

20.2. BANK GUARANTEES RECEIVED

List of active bank guarantees received by ČD Cargo, a.s. as of 31 December 2019

In behalf of	Type of guarantee	Amount	Currency	Termination date	Reason for bank guarantee
Siemens, s.r.o., Prague 13, Siemensova 1, postal code 155 00	Unicredit Bank Czech Republic and Slovakia, a.s.	1,191,000	EUR	31.07.2020	Ensuring the delivery of interoperable locomotives for the needs of ČD Cargo, a.s., and operability under warranty.
Siemens, s.r.o., Prague 13, Siemensova 1, postal code 155 00	Unicredit Bank Czech Republik and Slovakia, a.s.	1,438,000	EUR	30.04.2021	Ensuring the delivery of interoperable locomotives for the needs of ČD Cargo, a.s., and operability under warranty.
Siemens, s.r.o., Prague 13, Siemensova 1, postal code 155 00	Unicredit Bank Czech Republik and Slovakia, a.s.	719,000	EUR	31.12.2021	Ensuring the delivery of interoperable locomotives for the needs of ČD Cargo, a.s. for the installation of ETCS 3.6.0. version
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 the delivery of 500 new railway freigh wagons of EANOS line.
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	51,348,000	CZK	15.06.2020	Ensuring the delivery of new diesel locomotives 753.6 series for securing railway operations in ČD Cargo, a.s.
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	42,727,500	CZK	24.04.2020	Ensuring the delivery of new diesel locomotives for securing railway operations in ČD Cargo, a.s.
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	2,848,500	CZK	26.09.2020	Ensuring the delivery of new diesel locomotives of the 744.110 series for ecuring railway operations in ČD Cargo, a.s.
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	2,848,500	CZK	30.09.2020	Ensuring the delivery of new diesel locomotives of the 744.111 series for securing railway operations in ČD Cargo, a.s.
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	2,848,500	CZK	30.09.2020	Ensuring the delivery of new diesel locomotives of the 744.112 series for securing railway operations in ČD Cargo, a.s
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	17,670,000	CZK	26.01.2020	Ensuring the obligation during modernisation of the selected locomotive (prototype) from the public contract "Implementation of the modernization of 50 locomotives 742 series".
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	5,890,000	CZK	27.12.2020	Ensuring proper performance pursuant to Article 12.2. (prototype) from the public contract "Performing modernization of 50 locomotives 742 series".
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	592,500	EUR	20.11.2020	Ensuring the obligation during the Switch-off of phase of selected locomotive (prototype) from the public contract "Modernization of 50 Locomotives 742 series".
ČD - Telematika a.s., Pernerova 2819/2a, 130 00 Prague 3 and **AŽD Praha s.r.o.,** Žirovnická 3146/2, 106 00 Prague 10	Komerční banka, a.s.	4,867,314	EUR	17.03.2022	Ensuring the realization of the public contract "Delivery and installation of the mobile part of ETCS in selected traction vehicles of ČD Cargo, a.s. 163 and 363 series" and Switch-off and Switch-on phases in the Czech and Slovak Republics.
SMK, s.r.o., Dukelskych hrdinov 10/143; 960 01 Zvolen, Slovakia	Raiffeisenbank a.s.	8,000,000	CZK	31.12.2019	Ensuring the obligation related to the transfer for consideration of part of the fleet of railway freight wagons Eas series.
SMK, s.r.o., Dukelskych hrdinov 10/143; 960 01 Zvolen, Slovakia	Raiffeisenbank a.s.	8,000,000	CZK	31.07.2020	Ensuring the obligation related to the transfer for consideration of part of the fleet of railway freight wagons faccs, falls, eas series
TATRAVAGÓNKA, a.s., Štefánikova 887/53; 05801 Poprad, Slovakia	COMMERZBANK Aktiengesellschaft, pobočka Praha	148,200	EUR	31.10.2020	Ensuring the supply of 20 new tank wagons of Zacns type, according to exercised option from 11.9.2019.
Trojek, a.s., V jámě 1371/8, 110 00 Prague 1	Česká spořitelna, a.s.	13,600,000	CZK	31.07.2020	Ensuring the disposal of 1,000 units of unused and non-serviceable wagons - third wave.
Metrostav, a.s., Koželužská 2450/4, 180 00 Prague 8	Raiffeisenbank a.s.	2,966,678	CZK	14.06.2024	Ensuring the construction of a new steel hall for cleaning railway vehicles in the Repair centres of the railway wagons (SOKV Ustí nad Labem).

21. Revenue

(CZK million)	2019	2018
Revenue from freight transportation:	**10,942**	**11,170**
Revenue from freight transportation - local	3,677	3,897
Revenue from freight transportation - foreign	7,265	7,273
– Revenue from freight transportation - Germany	2,294	2,427
– Revenue from freight transportation - Slovakia	976	1,317
– Revenue from freight transportation – Poland	974	1,201
– Revenue from freight transportation – Austria	865	725
– Revenue from freight transportation – Italy	210	202
– Revenue from freight transportation – Slovenia	-	195
– Revenue from freight transportation – Hungary	-	210
– Revenue from freight transportation – Romania	220	170
– Revenue from freight transportation – Kazakhstan	-	151
– Revenue from freight transportation – Ukraine	365	-
– Revenue from freight transportation – Russia	230	-
– Revenue from freight transportation – other countries	1,131	675
Other revenue from freight transportation:		
– Other revenue from freight transportation- local	369	352
– Other revenue from freight transportation- foreign	175	180
Other freight revenue recognised over the period of time	**544**	**532**
Other revenue related to transportation	210	196
Total revenue from customer contracts	**11,696**	**11,898**
Revenue from lease	392	384
Total revenue	**12,088**	**12,282**

Revenue from leases includes revenues from short-term and occasional leases of freight wagons and railway traction vehicles, see Note 19.2.

Other revenue from freight transportation include mainly revenues from services performed at railway stations, supplementary services and the 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.
- ČD Logistics, a.s.
- Rail Cargo Logistics – Czech Republic, s.r.o.
- WOOD & PAPER a.s.

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

Railway transportation companies (national carriers)

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

Other companies

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

21.1. CONTRACT LIABILITIES AND REFUNDS

Since 1 January 2019, the Company under IFRS 15 recognises following contract liabilities (see Note 18) and refunds liabilities (see Note 18) relating to revenue from customer contracts:

Refunds liabilities (CZK million)	31 Dec 2019	31 Dec 2018
Refunds liabilities	18	31
Total refunds liabilities	**18**	**31**

21.2. REMAINING PERFORMANCE OBLIGATIONS

Remaining liabilities (CZK million)	31 Dec 2019
Revenue from freight transport	15
Other revenue from freight transport	1
Other revenue from principal activity	1
Other revenue from operating activity	1
Total	**18**

22. Other Operating Income

(CZK million)	2019	2018
Gain from sale of property, plant and equipment	51	100
Gain from disposal of unnecessary assets	52	70
Compensations for deficits and damage	52	53
Contractual penalties and default interest	10	5
Foreign exchange gains - operational	116	80
Changes in impairment allowance for receivables	58	3
Changes in impairment allowance all for tangible fixed assets	30	-
Dividends received	160	157
Other	29	10
Total other operating income	**558**	**478**

23. Services, Rental, Material and Energy Consumption

(CZK million)	2019	2018
Traction costs	**(1,194)**	**(1,258)**
– Traction fuel (diesel)	*(406)*	*(430)*
– Traction electricity	*(788)*	*(828)*
Payment for the use of railway route	**(907)**	**(978)**
Other purchased consumables and services	**(3,293)**	**(3,670)**
– Consumed material	*(272)*	*(302)*
– Consumed other energy	*(91)*	*(83)*
– Consumed fuel	*(9)*	*(9)*
– Repairs and maintenance	*(230)*	*(320)*
– Travel costs	*(45)*	*(41)*
– Telecommunication, data and postal services	*(55)*	*(56)*
– Other rental	*(64)*	*(141)*
– Rental for rail vehicles	*(265)*	*(669)*
– Transportation charges	*(1,667)*	*(1,494)*
– Services associated with the use of buildings	*(45)*	*(40)*
– Operational cleaning of rail vehicles	*(4)*	*(6)*
– Border area services	*(189)*	*(184)*
– Advertising and promotion costs	*(15)*	*(10)*
– Leasing	*-*	*(11)*
– Infrastructure capacity allocation	*(25)*	*(28)*
– IT	*(143)*	*(129)*
– Performances of fire brigade service	*(1)*	*(10)*
– Services in the field of ecology	*(9)*	*(8)*
– Other services	*(164)*	*(195)*
Total services, material and energy consumption	**(5,394)**	**(5,906)**

Traction electricity for the period from 1 January 2019 to 31 December, 2019 includes mainly traction electricity purchased from České dráhy, a.s., in the amount of CZK 788 million (in 2018: CZK 828 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)	2019	2018
Statutory audit of annual financial statements	(1)	(2)
Other services*	(11)	(3)
Total	**(12)**	**(5)**

* warehouse optimisation projects

24. Employee Benefit Costs

(CZK million)	2019	2018
Payroll costs	(3,076)	(2,996)
Severance pay	(28)	-
Pension benefits	(845)	(813)
Other social security and health insurance	(347)	(365)
Emoluments to key management	(19)	(24)
Other employee benefit costs	(49)	(37)
Total employee benefit costs	**(4,364)**	**(4,235)**

Other employee benefit costs mainly includes employee training costs.

Average recalculated total number of employees:

	2019	2018
Employees	6,960	6,958
Key management	12	13
Total average recalculated total number of employees	**6,972**	**6,971**

Key management consists of the Board of Directors, the Supervisory Board and the Audit Committee. More detailed information is disclosed in Note 1.8.

Key management compensation:

(CZK million)	2019	2018
Short-term benefits	(14)	(18)
Pension benefits	(3)	(4)
Other social and health contributions	(2)	(2)
Total key management compensation	**(19)**	**(24)**

25. Depreciation and Amortisation

(CZK million)	2019	2018
Depreciation of property, plant and equipment (Note 5)	(1,086)*	(1,142)
Depreciation of leasing – IFRS 16	(569)**	-
Amortisation of intangible assets (Note 6)	(66)	(86)
Total depreciation and amortisation	**(1,721)**	**(1,228)**

* in Note 5. is, in addition to depreciation and amortization, the net book valueof disposed assets amounting to CZK 52 million is reported in addition to depreciation.
** Depreciation of finance leases was included in depreciation of property and equipmentzení

26. Other Operating Expenses

(CZK million)	2019	2018
Change in provisions for property, plant and equipment	-	(83)
Change in inventory allowances	(6)	-
Costs of contractual penalties and default interest	(14)	(12)
Taxes and fees	(8)	(5)
Foreign exchange losses - operating	(102)	(76)
Premium	(76)	(75)
Recurrent losses	(24)	(31)
Other	(76)	(52)
Total other operating expenses	**(306)**	**(334)**

27. Financial Expenses

(CZK million)	2019	2018
Interest on bank overdraft accounts and loans	(12)	(2)
Interest on finance lease payables and leasebacks	(61)	(80)
Interest on lease obligations - IFRS 16	(70)	-
Interest expense – bonds	(39)	(28)
Other interest expense	(6)	(11)
Unwinding of the discount of provisions	(2)	(3)
Exchange rate losses – financial	(90)	(68)
Bank expenditures	(2)	(2)
Other financial expenses	(8)	(2)
Total financial expenses	**(291)**	**(196)**

28. Financial Income

(CZK million)	2019	2018
Exchange rate gains – financial	93	71
Interest received	1	1
Other financial income	-	2
Total financial income	**94**	**74**

29. Income Tax

29.1. INCOME TAX RECOGNISED IN PROFIT OR LOSS

(CZK million)	2019	2018
Current income tax for the period recognised in the Statement of profit or loss	(75)	(26)
Deferred tax recognised in the Statement of profit or loss	(59)	(147)
Total income tax expense	**(134)**	**(173)**

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

(CZK million)	2019	2018
Profit before tax	664	935
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected income tax expense	(126)	(178)
Adjustments:		
Income on dividends	30	30
Other non-deductible expenses	(39)	(54)
Non-taxable income	8	54
Income tax related to prior periods	(7)	(25)
Income tax recognised in the Statement of profit or loss	**(134)**	**(173)**

29.2. INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

(CZK million)	2019	2018
Revaluation of financial instruments recognised as cash flow hedges	(10)	23
Total income tax recognised in other comprehensive income	**(10)**	**23**

29.3. DEFERRED TAX

(CZK million)	Non-current assets	Provisions	Leases	Receivables	Other	Total
Balance as of 1 January 2018	**1,158**	**(144)**	**517**	**(18)**	**6**	**1,519**
Deferred tax recognized in statement of profit or loss	70	6	68	(2)	5	147
Deferred tax recognized in other comprehensive income	-	-	-	(1)	(23)	(24)
Balance as of 31 December 2018	**1,228**	**(138)**	**585**	**(21)**	**(12)**	**1,642**
Adjustment according to IFRS 16	-	-	(10)	-	-	(10)
Balance as of 1 January 2019	**1,228**	**(138)**	**575**	**(21)**	**(12)**	**1,632**
Deferred tax recognized in statement of profit or loss	(18)	6	51	14	6	59
Deferred tax recognized in other comprehensive income	-	-	-	-	10	10
Balance as of 31 December 2019	**1,210**	**(132)**	**626**	**(7)**	**4**	**1,701**

* For the application of the new IFRS, see Note 3.1.

30. Related Party Transactions

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

31 Dec 2019 (CZK million)	Receivables	Payables
České dráhy a.s.	6	117
Parent company	**6**	**117**
CCD Cargo Germany GmbH	15	42
CD Cargo Austria GmbH	15	1
CD Cargo Poland Sp. z o.o.	15	51
CD Cargo Slovakia, s.r.o.	21	16
ČD Cargo Logistics, a.s.	85	19
ČD-DUSS Terminal, a.s.	1	2
Terminal Brno, a.s.	-	4
Subsidiaries	**152**	**135**
RAILLEX, a.s.	3	-
BOHEMIAKOMBI, spol. s r.o.	1	-
Ostravská dopravní společnost, a.s.	15	-
Ostravská dopravní společnost - Cargo, a.s.	3	11
Joint ventures and associated companies	**22**	**11**
ČD - Telematika a.s.	-	9
ČD - Informační Systémy, a.s.	-	109
DPOV, a.s.	1	20
ČD Relax s.r.o.	-	2
Dopravní vzdělávací institut, a.s.	-	1
Výzkumný Ústav Železniční, a.s.	9	-
Other companies in the České dráhy Group	**10**	**141**
Total	**190**	**404**

31 Dec 2018 (CZK million)	Receivables	Payables
České dráhy, a.s.	5	230
Parent company	**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 Cargo Logistics, a.s.	89	-
ČD-DUSS Terminal, a.s.	1	-
Terminal Brno, a.s.	-	3
Subsidiaries	**161**	**119**
RAILLEX, a.s.	2	1
BOHEMIAKOMBI, spol. s r.o.	-	-
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	**10**	**125**
Total	**199**	**487**

Related party transactions were conducted at 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 FROM RELATED PARTIES TRANSACTIONS

2019 (CZK million)	Sale of tangible FA	Sale of services	Other income	Financial income	Total
České dráhy a.s.	1	21	1	-	23
DPOV, a.s.	-	4	-	-	4
Výzkumný Ústav Železniční, a.s.	-	44	-	-	44
CD Cargo Germany GmbH	-	286	-	1	287
CD Cargo Austria GmbH	-	49	1	-	50
CD Cargo Poland Sp. z o.o.	-	97	1	3	101
CD Cargo Slovakia, s.r.o.	-	206	1	1	208
ČD Cargo Logistics, a.s.	-	537	-	-	537
ČD-DUSS Terminal, a.s.	-	9	-	-	9
Terminal Brno, a.s.	-	1	-	-	1
RAILLEX, a.s.	-	27	-	-	27
BOHEMIAKOMBI, spol. s r.o.	-	13	-	-	13
Ostravská dopravní společnost, a.s.	-	53	-	-	53
Ostravská dopravní společnost - Cargo, a.s	-	24	2	-	26
Total	**1**	**1,371**	**6**	**5**	**1,383**

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 Cargo 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**

30.3. PURCHASE FROM RELATED PARTIES

2019 (CZK million)	Assets	Material and energy	Services	Other expenses	Financial expenses	Total
České dráhy a.s.	50	531	124	7	7	719
ČD - Telematika a.s.	2	2	18	-	-	22
ČD - Informační Systémy, a.s.	71	5	113	-	-	189
DPOV, a.s.	54	15	2	-	-	71
ČD Relax s.r.o.	-	-	18	-	-	18
Dopravní vzdělávací institut, a.s.	-	-	21	-	-	21
JLV, a.s.	-	-	2	-	-	2
CD Cargo Germany GmbH	-	-	132	-	1	133
CD Cargo Austria GmbH	-	-	2	-	-	2
CD Cargo Poland Sp. z o.o.	-	-	450	-	2	452
CD Cargo Slovakia, s.r.o.	-	-	158	-	1	159
ČD Cargo Logistics, a.s.	-	1	139	-	1	141
ČD-DUSS Terminal, a.s.	-	-	6	-	-	6
Terminal Brno, a.s.	-	-	25	-	-	25
RAILLEX, a.s.	-	-	4	-	-	4
Ostravská dopravní společnost - Cargo, a.s.	-	-	55	-	-	55
Total	**177**	**554**	**1,269**	**7**	**12**	**2,019**

Purchases from České dráhy, a.s., in 2019 represented purchased traction energy in the amount of CZK 788 million and motor diesel worth CZK 406 million.

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 Cargo 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 traction energy in the amount of CZK 828 million and motor diesel worth CZK 430 million.

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

30.4.1. Sales

In 2019, no significant sales of assets to related parties were made. The most significant sales in 2018 included the sale of 150 Eas trucks to CD Cargo Slovakia, s.r.o., totaling CZK 69 million.

30.4.2. Purchases

Purchases (CZK million)	Intangible assets	Property, plant and equipment	Intangible assets	Property, plant and equipment
	2019	2019	2018	2018
České dráhy, a.s.	-	50	-	25
ČD - Telematika a.s.	-	2	-	-
ČD - Informační Systémy, a.s.	60	11	53	2
DPOV, a.s.	-	54	-	10
Total	**60**	**117**	**53**	**37**

30.5. LOANS FROM RELATED PARTIES

On October 17, 2016, the Company drew a loan from České dráhy, a.s., in the amount of CZK 540 million to finance the purchase of series 383 locomotives (Vectron). As of 31 December 2018, the loan balance is divided into a long-term portion of CZK 281 million and a short-term portion of CZK 74 million. As of 31 December 2019, the loan balance is divided into a long-term portion of CZK 205 million and a short-term portion of CZK 73 million. The loan is disclosed in Note 15. "Loans, borrowings and bonds".

As of 19 December 2019, ČD Cargo, a.s. drew a loan in the amount CZK 250 million on the basis of Mutual credit facility agreement from the parent company České dráhy, a.s. The maturity of the loan is set at 18 March 2020. The interest rate is 2.30 % p.a. The loan is disclosed in Note 15 "Loans, borrowings and bonds".

30.6. RELATIONS WITH SPRÁVA ŽELEZNIC

The costs incurred in relation to Správa železnic, s.o. predominantly include the fees for the allocation of capacity and use of the railway routes in the years 2019 and 2018. In 2019, the company also purchased electric traction energy from the Railway Administration, s.o. The costs for the years 2019 and 2018 are disclosed in Note 23.

In 2019, the income of the Company includes sales from intrastate wagonload transport in the amount of CZK 16 million in particular. In 2018: CZK 15 million.

Expenses and income of the Company resulting from the transactions conducted with Správy železnic, s.o. in 2019 and 2018 were as follows:

31 Dec 2019 (CZK million)	Expenses	Income
Operation of railway route	1	-
Use of the railway route and allocated route capacity	909	-
Property rental	11	-
Electric traction energy	778	-
Revenue from freight transportation	-	16
Performance of firefighter emergency services	1	-
Telecommunication services	41	-
Contractual fines and default interest	17	-
Compensation of damages	8	12
Extraordinary events investigation	3	-
Repairs and maintenance	1	-
Other	12	4
Total	**1,782**	**32**

31 Dec 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**

As a result of the activities above, the Company records receivables and payables to Správa železnic, s.o.:

Receivables (CZK million)	31 Dec 2019	31 Dec 2018
Revenue from freight transportation	2	3
Estimated payables	11	3
Other	69	5
Total	**82**	**11**

Payables (CZK million)	31 Dec 2019	31 Dec 2018
Use of railway route and allocated capacity of the railway – freight transport	182	212
Property rental – expenses and income	-	-
Electric traction energy	17	-
Court settlement – traction energy	26	89
Settlement Agreement – exclusions	5	18
Court verdict - exclusions	-	-
Radio communication technology	9	12
Other	4	20
Estimated payables	85	33
The fee for the use of transport infrastructure	1	-
Compensation of damaged caused by extraordinary events	4	2
*Uncollected capacity ŽDC**	10	14
Electric traction energy	60	-
*Performance of HZS***	4	10
Heat supply	6	6
Office space rental	-	-
Other estimated payables	4	1
Total	**328**	**384**

* unbundled capacity of the railway infrastructure
** fire rescue service performances

The amount of CZK 5 million is the short-term part of the liability relating to the compensation for damage caused by the exclusions of the Správy železnic, s.o. based on a judicial decision dated 15 January 2014. In 2018, this liability was CZK 18 million.

The amount of CZK 26 million is the short-term part of the liability relating to the settlement of the out-of-court agreement on the dispute over the price of traction energy consumed during the 2009 accounting period. In 2018, this liability was CZK 89 million.

30.7. RELATIONS WITH THE ČEZ GROUP

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

31 Dec 2019 (CZK million)	Expenses	Income
Use of railway route and allocated capacity of the railway	1	-
Revenue from freight transportation	-	256
Heat energy	9	-
Other	1	2
Total	**11**	**258**

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

As a result of the above activities, the Company records receivables from ČEZ Group:

Receivables (CZK million)	31 Dec 2019	31 Dec 2018
Revenue from freight transportation	18	40
Total	**18**	**40**

As a result of the activities above, the Company records payables to ČEZ Group:

Payables (CZK million)	31 Dec 2019	31 Dec 2018
Other	1	-
Estimated payables	1	-
Heat supply	1	-
Total	**2**	**-**

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 optimizing the ratio between external and internal resources. According to bank requirements, the maximum target ratio between foreign and own funds is 70 % (according to the internal targets set at 65 %).

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

(CZK million)		31 Dec 2019	31 Dec 2018
Loans, borrowings and bonds	15	9,526	4,808
Cash and cash equivalents	12	(337)	(595)
Total net debt		**9,189**	**4,213**

(CZK million)		31 Dec 2019	31 Dec 2018
Share capital	13	8,494	8,494
Capital funds	13	435	349
Retained earnings		734	290
Total equity		**9,663**	**9,133**

The Company is not subject to any capital requirements imposed by external entities.

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 Board of Directors and Supervisory Board.

31.2. CATEGORIES OF FINANCIAL INSTRUMENTS

Categories of financial assets under IFRS 9 (CZK million)	Categories of financial assets under IAS 39	Classes of financial assets	Note	31 Dec 2019	31 Dec 2018
Financial assets at amortized cost	Loans and receivables	Cash and cash equivalents	12	337	595
		Trade receivables	9	1,465	1,618
		Other financial assets	10	280	468
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	24	8
Total				**2,106**	**2,689**

Categories of financial assets under IFRS 9 (CZK million)	Categories of financial assets under IAS 39	Classes of financial assets	Note	31 Dec 2019	31 Dec 2018
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
		Other financial liabilities – other derivatives	17	-	-
Financial liabilities at amortised cost	Financial liabilities at amortised cost	Finance lease and leaseback liabilities	15	4,207	1,443
		Issued bonds	15	4,791	3,010
		Loans	15	528	355
		Trade payables	14	2,203	2,204
		Liabilities arising from supplier loans	17	4	45
		Liabilities from settlement agreements	17	31	102
		Other financial liabilities	17	158	48
Total				**11,922**	**7,245**

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

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

Income from individual classes of financial assets is as follows:

Class of financial asset (CZK million)	2019	2018	Presented in profit or loss statement
Interest on cash and cash equivalents	1	1	Financial income
Dividends on available-for-sale financial assets	160	157	Other operating income
Celkem	**161**	**158**	

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.

31.3. FINANCIAL RISK MANAGEMENT OBJECTIVES

The Department of Financial Management and Risks provides services to the Company, monitors and manages the financial risks related to the operations of the Company. Financial risks include market risks (currency, interest rate and commodity risk), credit risk and liquidity risk.

31.4. CURRENCY RISK MANAGEMENT

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

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

31 Dec 2019 (CZK million)	EUR	USD	Other	Total
Financial assets	1,205	3	-	1,208
Financial liabilities	(905)	-	(2)	(907)
Total	**300**	**3**	**(2)**	**301**

31 Dec 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**

31.4.1. 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 values indicates an increase in the profit and other comprehensive income, negative value indicates an decrease in the profit and other comprehensive income:

(CZK million)	2019	2018
Translation of item denominated in foreign currencies at the end of the period	(12)	(31)
Change in the fair value of derivatives at the end of the period	-	(6)
Total impact on the profit for the period	**(12)**	**(37)**
Change in the fair value of derivatives at the end of the period	71	94
Total impact on other comprehensive income	**71**	**94**

If the Czech currency weakened by CZK 1, the values would be the same only with the opposite sign.

31.4.2. Currency forwards and options

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 par forward 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, a.s. 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, then converted into foreign currency earnings (EUR) in company currency (CZK). The maximum hedging volumes are set in the Financial Risk Management Strategy of ČD Cargo, a.s. as follows:

- For 2020, maximum 80 % of the underlying asset (expected balance in EUR);
- For 2021, maximum 65 % of the underlying asset (expected balance in EUR);
- For 2022, 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 the counterparty of currency par forward. 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 on the basis of the 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	Fair value
31 Dec 2019	26.162	EUR	1,884	21
31 Dec 2018	25.969	EUR	2,493	(18)

Open foreign currency forwards and options to buy foreign currency were not closed in 2018. In 2019, three foreign currency forwards were closed.

Expected realisation of hedged items by foreign currency forwards and options:
Expected cash flows of hedged future sales in EUR have the following structure:

31 Dec 2019 (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	102	203	915	610	-	1,830

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

31.5. INTEREST RATE RISK MANAGEMENT

The Company is exposed to the risk of changes in interest rates as it borrows funds with variable interest rates. The Company manages interest rate risk by maintaining an appropriate combination of fixed and variable 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.

31.5.1. 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)	2019	2018
Interest from loans and lease with variable rate for the period	(11)	(19)
Change in the fair value of derivatives at the end of the period	-	-
Total impact on the profit for the period	**(11)**	**(19)**
Change in the fair value of derivatives at the end of the period	-	-
Total impact on other comprehensive income	**-**	**-**

If interest rates were reduced by 200 basis points, the values would be the same with the opposite sign only.

31.5.2. 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.

For the Company, the interest rate risk represent the fluctuation of overdraft interest rates and sources of funding at a floating interest rate. The Company has decided to reduce the risk by hedging interest rates on the part of its floating-rate funding sources.

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, a.s. 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 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, a.s. 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 Dec 2019	Average contracted fixed interest rate	Principal CZK million	Fair value of assets (liabilities) CZK million
Less than 1 year	3.250%	13	-
1 to 5 years	3.250%	-	-
Total			**-**

31 Dec 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)**

This is related to interest payments insurance on leases of series 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. COMMODITY RISK MANAGEMENT

The Company is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically diesel 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 derivatives for diesel purchase,
- The risk arising from the purchase of electricity from the relevant supplier is eliminated by the purchase of the annual consumption at the fixed contractual price.

31.6.1. 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 diesel 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)	2019	2018
Change in the fair value of derivatives at the end of the period	-	-
Total impact on the profit for the period	**-**	**-**
Change in the fair value of derivatives at the end of the period	12	8
Total impact on other comprehensive income	**12**	**8**

In the case of a 10% reduction in the price of diesel, the values would only be the same with the opposite sign.

31.6.2. Commodity derivatives

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

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 Company 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 Company 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, a.s. 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 diesel, i.e. 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 2020, a maximum of 80 % of the underlying asset (expected volume of diesel purchased);
- For 2021, a maximum of 65 % of the underlying asset (expected volume of diesel purchased);
- For 2022, a maximum of 50 % of the underlying asset (expected volume of diesel 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 Company 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 diesel.

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 commodity swap. 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 potential inefficiency may arise due to unsecured components of the total diesel price (i.e. various surcharges, the impact of biodiesel prices, excise duty, etc.) and a significant decline in the counterparty's creditworthiness. 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 diesel 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 Dec 2019	12,912	9,600	4
31 Dec 2018	12,920	7,200	(11)

* mt = metric ton

Expected realisation of hedged items by commodity derivatives:
The following table shows the expected cash flows of the hedged future purchases of diesel:

31 Dec 2019 (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 purchases of diesel	7	14	63	50	-	134

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 purchases of diesel	7	14	61	-	-	82

31.7. CREDIT RISK MANAGEMENT
The Company 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 Company'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 cashflow of the Company. For the analysis of counterparties, the Company 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 Company's performance.

As a source of credit risk associated with the counterparty's default risk in the transaction:
- Corporate customers,
- Financial institutions,

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 advance payments 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 the business, the Company 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 Company. The customer's credit quality is evaluated individually, taking into account its financial position, customer experience, and other factors.

At the same time, the development of the number of receivables, revenues and transport performance of individual companies is monitored using reports. The overview shows the payment discipline of individual customers according to the selected period of time.

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 Company evaluates the expected credit loss rates determined for trade receivables.

Expected credit loss rates are determined under the payment profile and sales for the 5-year prior period until 1 December 2019, respectively 31 December 2019 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 willingness to meet its obligations to the Company. The analyzes were conducted on the basis of conditions and expectations as of December 31, 2019. They do not take into account the possible impacts of the expected economic downturn due to the spread of COVID-19 since February 2020.

Overview of impairment for short-term receivables

31 Dec 2019	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 *	0.4%	1%	6%	100%	100%	100%	6%
Short-term trade receivables - gross residual value	1,351	105	16	3	22	58	1,555
Expected credit loss	**(5)**	**(1)**	**(1)**	**(3)**	**(22)**	**(58)**	**(90)**
Individual expected credit loss	-	-	-	-	-	-	-
Expected credit loss total	**(5)**	**(1)**	**(1)**	**(3)**	**(22)**	**(58)**	**(90)**

* impairment matrix = % of allowance from historical developments + % of considered future development = % of total allowance

1 Jan 2019	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)**

* impairment matrix = % of allowance from historical developments + % of considered future development = % of total allowance

Movement of provision for doubtful debts (CZK million)	2019	2018
Adjustments as of 1 January	**143**	**141**
Creation of adjustments - trade receivables	68	55
Use of adjustments - trade receivables	(63)	(40)
Write-offs - trade receivables	(58)	(13)
Adjustments as of 31 December	**90**	**143**

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 ČD Cargo, a.s. At the same time, ČD Cargo, a.s. 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.

Amount of receivables (CZK million)	2019	2018
Gross receivables – not overdue	1,351	1,514
Allowance – not overdue 0.3%	(5)	(5)

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.

Short-term liabilities exceed short-term assets by approximately CZK 2,900 million, but the Company has contracted funding of up to CZK 3,500 million (bills of exchange and overdrafts), which is why the Company's operations are secured in the foreseeable future.

31.8. LIQUIDITY RISK MANAGEMENT

The liquidity risk in ČD Cargo, a.s. 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 2019, the Company issued bonds in the aggregate volume of CZK 4,770 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 traction vehicles. 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 700 million beyond the cashpooling limit from the Parent Company České dráhy, a.s. During the years 2018 and 2019, the promissory notes programme was not used by the Company.

In addition, on 19 December, 2019, a loan of CZK 250 million was drawn on the basis of the Agreement on Mutual Credit Frames in the form of drawdown beyond cash-pooling from the Parent Company České dráhy, a.s. The maturity of the loan is 18 March 2020. The interest rate is 2.30% p.a.

31.8.1. 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.

31 Dec 2019 (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	1,459	838	98	1	-	2,396
Liabilities from finance and leaseback	28	56	252	914	332	1,582
Lease liabilities*	0	0	661	2,257	73	2,991
Variable interest rate instruments – loan	2	264	59	208	-	533
Fixed interest rate instruments - bonds	-	-	1,093	1,273	2,850	5,216
Total	**1,489**	**1,158**	**2,163**	**4,653**	**3,255**	**12,718**

* Implementation of IFRS 16

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	1,313	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	153	61	259	909	144	1,526
Lease liabilities*	2	5	22	35	-	64
Variable interest rate instruments – loan	3	13	60	286	-	362
Fixed interest rate instruments - bonds	0	7	47	2,149	1,041	3,244
Total	**1,472**	**881**	**657**	**3,436**	**1,185**	**7,631**

* Comparable IAS 17, prior to IFRS 16 implementation

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.

31 Dec 2019 (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	1,478	346	206	-	-	2,030
Hedging derivatives	2	4	8	10	-	24
Total	**1,480**	**350**	**214**	**10**	**-**	**2,054**

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	2,244	432	4	1	-	2,681
Hedging derivatives	2	3	3	-	-	8
Total	**2,246**	**435**	**7**	**1**	**-**	**2,689**

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.

31.8.2. 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 Jan 2018	**73**	**352**	**439**	**1,275**	**4**	**1,997**	**4,140**
Cash flows from financing activities	(73)	-	(272)	-	-	998	653
Credit, loans and bonds drawings			*171*	-	-	*998*	*1,169*
Credit, loans and bonds repayments	*(73)*	-	*(443)*	-	-	-	*(516)*
Non-monetary flows:							
Consequences of changes in exchange rates	(3)	6	-	-	-	-	3
Loans and credits classified as of 1 January 2018 as long-term, which became short-term during 2018	77	(77)	277	(277)	-	-	-
Other non-monetary movements	-	-	1	-	11	-	12
Liabilities from financing activities as of 31 Dec 2018	**74**	**281**	**445**	**998**	**15**	**2,995**	**4,808**
IFRS 16 amendments	-	-	545	1,820	-	-	2,365
Liabilities from financing activities as of 1 Jan 2019	**74**	**281**	**990**	**2,818**	**15**	**2,995**	**7,173**
Cash flows from financing activities	176	-	(1,193)	527	-	1,770	1,280
Credit, loans and bonds drawings	*250*	-		*527*	-	*1,770*	*2,547*
Credit, loans and bonds repayments	*(74)*	-	*(1,193)*	-	-	-	*(1,267)*
Non-monetary flows:							
Consequences of changes in exchange rates	-	(3)	(27)	-	-	-	(30)
Loans and credits classified as of 1 January 2018 as long-term, which became short-term during 2019	73	(73)	846	(846)	1,000	(1,000)	-
Other non-monetary movements	-	-	264*	828*	11	-	1,103
Liabilities from financing activities as of 31 Dec 2019	**323**	**205**	**880**	**3,327**	**1,026**	**3,765**	**9,526**

* Other non-monetary movements in the lease liability columns are due to the recalculation of the value of the lease contract for an indefinite period as at 31 December 2019, the increase in new contracts and the disposal of contracts for the period under IFRS 16

The Company uses the following financing facilities:

(CZK million)	31 Dec 2019	31 Dec 2018
Cash pooling:		
– loan facility at	*300*	*600*
Overdraft loans:		
– loan facility at	*1,500*	*1,200*
Promissory note programme*:		
– loan facility at	*1,500*	*1,500*
Total	**3,300**	**3,300**

* The internal promissory note program is approved for a maximum of CZK 1,500 million, with framework agreements in amount of CZK 2,000 million approved for individual banks

Neither of these credit lines were drawn in either 2019 or 2018.

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

31.9.1. Finance Lease

In February 2018, a new finance lease of two Vectron Siemens traction vehicles (HV 383 series) was realised. The lease term is 120 months and the fixed interest rate is 1.45 % p.a. The lease was made in EUR.

In 2019, a lease contract was concluded with ČSOB Leasing, a.s. for the purpose of financing 4 Siemens Vectron traction vehicles (HV 383 series). The contractual lease term is 120 months and the fixed interest rate is 1.34 % p.a. The lease was made in EUR. In the same year, a leasing contract was concluded with ČSOB Leasing, a.s. to finance 4 Effishunter traction vehicles (HV 744 series). The lease term is 120 months with the fixed interest rate of 1.91 % p.a. The lease was made in CZK.

In connection with the planned investments, it is expected that the Company will be using financing in the form of financial lease in the in subsequent years.

31.9.2. Operating bank loans

In funding its operating needs, the Company ČD Cargo, a.s. has overdraft limits on loans in the maximum amount of CZK 1,500 million provided by four banks. The stratification of the lending to several financing entities sufficiently diversifies related risks.

31.9.3. 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. During 2018 and 2019, the promissory note programme was not used, however the promissory note framework is left as a form of short-term financing provision, directly independent of bank resources.

31.9.4. Loan provided by the Parent Company České dráhy, a.s.

ČD Cargo, a.s. has contractually secured with the Parent Company České dráhy, a.s. the possibility to draw up financial resources of up to CZK 700 million (beyond the limit of group cash pooling). On 19 December 2019, a loan of CZK 250 million was drawn on the basis of the Agreement on Mutual Credit Frames, beyond the limits of the cash pooling agreement. The maturity of the loan is set at 18 March 2020. The interest rate is 2.30 % p.a.

31.9.5. Bond

With a view to securing the mid-term and long-term resources of funding to increase the stability of the Company's cash flows, the relevant bodies of ČD Cargo, a.s. approved the bond programme in the aggregate amount of CZK 6 billion for 10 years, which was updated in 2015 to the current legal status (effective for new issuance). On the basis of this programme, the first, second and third issues were gradually realised in 2011 with the aggregate nominal value of CZK 2 billion. In 2012, a second issue of bonds was realized by the issuance of two tranches of bonds with a total nominal value of CZK 500 million. In 2015, a new, fourth bonds issue was realized with the total nominal value of CZK 1,000 million and maturing bonds of CZK 1,000 million were redeemed. In 2016, the fifth issue of bonds in the amount of CZK 500 million was issued and the sixth issue 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 bond issue 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, on the basis of separate issue conditions and these bonds were admitted to trading on the regulated market of the Prague Stock Exchange. In 2019, another two bond issues were carried out, the eighth and ninth. The eighth issue was realised in the total nominal amount of CZK 1,000 million, followed by the ninth issue in the nominal value of bond of CZK 770 million.

As of 31 December 2019, the Company ČD Cargo, a.s. has currently issued bonds worth CZK 4,770. Funding in the form of bonds increases the liquidity and financial stability of the Company. In accordance with the planned investments, it is expected that the Company ČD Cargo, a.s. will continue to use bond financing.

31.9.6. Supplier loans

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

31.9.7. Investment loans

The Company is considering the use of investment loans, if such form of financing would be effective.

31.9.8. Summary

The above mentioned current and planned structure of funding creates a desired framework that allows the ČD Cargo, a.s. to maintain financial stability with the possibility of flexible use of individual forms according to actual needs and convenience.

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.).

31.10. FAIR VALUE OF FINANCIAL INSTRUMENTS

31.10.1. Reálné hodnoty finančních nástrojů v zůstatkové hodnotě

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

As of 31 December 2019, the fair value of the lease amounted to CZK 3,964 million. The fair value of lease is determined by the recalculation according to the current rate. This up-to-date rate is determined based on interest rate of the most recent lease transactions, which is subsequently discounted on the remaining leases liability. As of 31 December 2018, the fair value of the lease amounted to CZK 1,498 million.

As of 31 December 2019, the fair value of bonds of the company ČD Cargo, a.s. amounted to CZK 4,728 million, as of 31 December 2018 amounted to CZK 2,986 million. The fair value of bonds is recalculated based on the up-to date issue rate published by individual banks.

Financial assets (CZK million)	**Level**	**Fair value as of 31 Dec 2019**	**Book value as of 31 Dec 2019**	**Fair value as of 31 Dec 2018**	**Book value as of 31 Dec 2018**
Financial derivatives used in hedge accounting	Level 2	24	24	8	8
Loans, other financial assets	Level 2	-	-	-	-
Total		**24**	**24**	**8**	**8**

Financial liabilities (CZK million)	**Level**	**Fair value as of 31 Dec 2019**	**Book value as of 31 Dec 2019**	**Fair value as of 31 Dec 2018**	**Book value as of 31 Dec 2018**
Financial derivatives used in hedge accounting	Level 2	-	-	38	38
Trading financial derivatives	Level 2	-	-	-	-
Bonds issued	Level 2	4,728	4,791	2,986	3,010
Liabilities from finance lease and leaseback	Level 2	3,964	4,207	1,498	1,443
Total		**8,692**	**8,998**	**4,522**	**4,491**

Cash and cash equivalents, trade receivables and payables and other financial liabilities that were not presented in the table, were not presented because their fair value is equal to the carrying value, due to their short-term maturity. Furthermore, the table does not include a loan from České dráhy, a.s., due to the fair value is also the same as the book value due to its short-term maturity.

31.10.2. 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 options valuation model is used for derivatives that include an option.

31.10.3. Fair value measurements recognised in the statement of financial position
Financial instruments measured at fair value are grouped into Levels from 1 to 3, based on the degree to which the fair value is observable:
- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly(i.e. derived from prices),
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments measured at fair value recognised by the Company as of 31 December 2019 and 31 December 2018 were included in Level 2.

32. Post Balance Sheet Events

On 12 March 2020, České dráhy, a.s. as the sole shareholder of ČD Cargo, a.s. in the exercise of the powers of the General Meeting, decided to dismiss Mr. Bohumil Rampula from the Board of Directors of ČD Cargo, as effective as of 31 March 2020. Also General Meeting decided on the election of Ing. Radek Dvořák as a member of the Board of Directors of ČD Cargo, a.s. effective as of 1 April 2020.

The existence of the novel coronavirus (Covid-19) was confirmed by the beginning of 2020, which subsequently spread through China and the world; including the Czech Republic. This unprecedented crisis has had wide ranging and negative effects on most, if not all, business activities. The Company considers the coronavirus crisis a subsequent event with respect the the issuance of financial statements dated 31.12.2019. As such, the Company did not make any adjustments to the financial statements for 2019.

Since the situation is unstable and continuously evolving, it is not possible to make a qualified judgment with respect to the effects this crisis will have on the Company. With respect to freight transportation, there was a decrease in transportation services primarily due to the decreased production in the automobile industry as well as loss of business in the shipping sector, specifically to and from China. Further implications of this crisis are dependant on the length and severity of the mitigating actions taken by the Company as well as governmental agencies in the future.

The management of the Company is mitigating the impacts of the crisis by lowering operating expenses and restructuring investments.

Taking the above points into account, the management of the Company has created contingency plans for many different scenarios for the future development of this crisis as well as their effects on the financial statements. However, at this time it is not possible to make concrete predictions on the impact of the crisis on the financial statements. The combination of the entity's large resevoirs of disposable cash as well as future rollbacks of government order mitigation procedures indicate there will be no issue with respect to the entity's liquidity position in the next 12 months.

After taking all of the impacts of the Covid-19 crisis into account, management does not assume there will be any impact on the going concern assertion of the Company.

33. Approval of the Financial Statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 14 April 2020.

15 Consolidated Financial Statements for the Year 2019

Consolidated Financial Statements for the Year 2019

Prepared in accordance with IFRS as adopted by the EU

ČD Cargo

Consolidated Financial Statements for the Year Ended 31 December 2019

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 14 April 2020

Ing. Robert Heděnec
In charge of the section of Finance

Statutory body of the reporting entity:

Ivan Bednárik, MBA
Chairman of the Board of Directors

Ing. Radek Dvořák
Member of the Board of Directors

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2019

(CZK million)		31 Dec 2019	31 Dec 2018	1 Jan 2018
Property, plant and equipment	5	18,882	16,130	14,780
Intangible assets	6	589	492	444
Right-of-use assets	19	2,553	-	-
Investments in joint-ventures and associates	7	55	60	58
Deferred tax assets	30	-	15	20
Other financial assets	10	110	-	422
Other assets	11	1	1	1
Total non-current assets		**22,190**	**16,698**	**15,725**
Inventories	8	243	192	187
Trade receivables	9	1,602	1,756	1,694
Income tax prepayments		5	-	-
Other financial assets	10	194	505	100
Other assets	11	311	216	169
Cash and cash equivalents	12	471	725	690
Total current assets		**2,826**	**3,394**	**2,840**
TOTAL ASSETS		**25,016**	**20,092**	**18,565**
Share capital	13	8,494	8,494	8,494
Capital funds	13	445	360	450
Retained earnings/Accumulated losses		751	240	(384)
Equity attributable to owners of the parent		9,690	9,094	8,560
Non-controlling interest		36	32	46
Total equity		**9,726**	**9,126**	**8,606**
Loans, borrowings and bonds	15	7,674	4,439	3,985
Deferred tax liability	30	1,692	1,642	1,519
Provisions	16	101	451	489
Other financial liabilities	17	1	57	132
Other liabilities	18	204	116	395
Total non-current liabilities		**9,672**	**6,705**	**6,520**
Trade payables	14	2,230	2,209	1,806
Loans, borrowings and bonds	15	2,378	784	657
Income tax payable	30	71	9	19
Provisions	16	125	213	235
Other financial liabilities	17	194	175	266
Other liabilities and contractual obligations	18	620	871	456
Total current liabilities		**5,618**	**4,261**	**3,439**
TOTAL LIABILITIES		**25,016**	**20,092**	**18,565**

15

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019

(CZK million)		Year ended 31 Dec 2019	Year ended 31 Dec 2018
Revenue	22	13,037	13,076
Other operating income	23	421	287
Services, leases, material and energy consumption	24	(5,711)	(6,289)
Employee benefit costs	25	(4,563)	(4,407)
Depreciation and amortization	26	(1,855)	(1,279)
Other operating expenses	27	(341)	(368)
Profit from operating activities		**988**	**1,020**
Financial expenses	28	(315)	(243)
Financial income	29	104	89
Share in the profit of associates and joint-ventures	7	14	12
Profit before tax	**30**	**791**	**878**
Income tax	30	(183)	(215)
Profit for the period		**608**	**663**
Attributable to equity holders of the Parent Company		604	661
Attributable to non-controlling interests		4	2

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(CZK million)	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Profit for the period	608	663
Actuarial gains / losses on liabilities related to employee benefits	4	(12)
Other comprehensive income for the year (items that are not subsequently reclassified to profit or loss)	4	(12)
Foreign currency translation reserve fund	(1)	(1)
Cash flow hedging	54	(121)
Relating deferred income tax	(10)	23
Other comprehensive income for the year (items that may be reclassified to profit or loss)	43	(99)
Total comprehensive income for the year	**655**	**552**
Attributable to equity holders of the Parent Company	651	550
Attributable to non-controlling interests	4	2

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

(CZK million)	Share capital	Share premium**	Reserve fund**	Cash flow hedge fund**	Actuarial gains/ losses**	Other funds**	Accumulated losses	Equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance as of 1 January 2018	**8,494**	**197**	**183**	**74**	**(4)**	**-**	**(384)**	**8,560**	**46**	**8,606**
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	(551)	2	553
Allocation to the reserve fund	-	-	37	-	-	-	(37)	-	-	-
Purchase of NCI***	-	-	-	-	-	(16)	-	(16)	(16)	(32)
Total transactions with owners for the period	-	-	37	-	-	(16)	(37)	(16)	(16)	(32)
Balance as of 31 December 2018	**8,494**	**197**	**220**	**(24)**	**(16)**	**(17)**	**240**	**9,094**	**32**	**9,126**
Impact of IFRS 16* implementation	-	-	-	-	-	-	(55)	(55)	-	(55)
Balance as of 1 January 2019	**8,494**	**197**	**220**	**(24)**	**(16)**	**(17)**	**185**	**9,039**	**32**	**9,071**
Profit for the period	-	-	-	-	-	-	604	604	4	608
Other comprehensive income for the period	-	-	-	44	4	(1)	-	47	-	47
Total comprehensive income for the period	-	-	-	44	4	(1)	604	651	4	655
Allocation to the reserve fund	-	-	38	-	-	-	(38)	-	-	-
Total transactions with owners for the period	-	-	38	-	-	-	(38)	-	-	-
Balance as of 31 December 2019	**8,494**	**197**	**258**	**20**	**(12)**	**(18)**	**751**	**9,690**	**36**	**9,726**

* adoption of new IFRS standards see Note 3.1.
** in the statement of financial position these items are included under 'Capital funds', see Note 13.2.
*** purchase of non-controlling interest in the company ČD Logistics, a.s.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

(CZK million)		Year ended 31 Dec 2019	Year ended 31 Dec 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax		791	878
Revenue from dividends and profit sharing		(18)	-
Financial expenses		209	133
Profit from sale and disposal of non-current assets		(51)	(105)
Depreciation and amortisation of non-current assets	26	1,855	1,279
Changes in impairment of non-current assets		(31)	83
Changes in allowances for doubtful accounts		7	12
Change in provisions		(26)	(83)
Foreign exchange rate gains		2	(1)
Other		21	9
Cash flows from operating activities before changes in working capital		**2,759**	**2,205**
Change in trade receivables		74	(180)
Change in inventories		(64)	(10)
Change in other assets		130	(118)
Change in trade payables		73	85
Change in other payables		(106)	35
Total changes in working capital		**107**	**(188)**
Cash flows from operating activities		**2,866**	**2,017**
Interests paid		(199)	(121)
Income tax paid		(43)	(67)
Dividends received		18	-
Net cash flow operating activities		**2,642**	**1,829**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(3,907)	(2,408)
Income from property, plant and equipment sold		83	181
Payments for intangible assets		(169)	(118)
Received subsidies for acquisition of assets		-	18
Interest received		4	-
Net cash flows from investing activities		**(3,989)**	**(2,327)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issued bonds		1,770	998
Drawing of loans and borrowings		933	237
Repayments of loans and borrowings		(810)	(670)
Lease payments under IFRS 16		(800)	-
Purchase of non-controlling interest		-	(32)
Net cash flows from financing activities		**1,093**	**533**
Net decrease in cash and cash equivalents		**(254)**	**35**
Cash and cash equivalents at the beginning of the period	12	725	690
Cash and cash equivalents at the end of the period	**12**	**471**	**725**

1. General Information

1.1. GENERAL INFORMATION

ČD Cargo, a.s. (hereinafter „Parent company" or "ČDC") was established following its registration in the Commercial Register held by the 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 Parent Company's registered office is at Jankovcova 1569/2c, Prague 7, Holešovice.

As of 31 December 2019, the Parent Company's registered share capital was CZK 8,494 million and it was fully paid.

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 of ČD Cargo Group (hereinafter the "Group"). The consolidated financial statements of the Group were prepared as of 31 December 2019. The reporting period is the calendar year from 1 January 2019 to 31 December 2019.

1.2. PRINCIPAL ACTIVITIES

The principal activity of the Group is railway transportation of goods with a the set of related services. The aim of the Company is to improve its leading position and to be the driving force on the freight transportation market both in the Czech Republic and the Central Europe region.

The principal business activity of the Group, which is the railway transport of goods, is structured into three principal units:

- operation of freight transport (transport of complete trains, individual wagon consignments),
- lease of railway wagons,
- additional transport services offered to customers.

The above units are structured by the type of transportation as follows:

- Local,
- Export,
- Import,
- Transit.

Based on the division 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 consignments as follows:

- 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,
- Logistics solutions for transportation of consignments using intermodal transportation units, predominantly containers,
- Automotive, and
- Transportation of other non-classified commodities.

Based on the volume of transported goods, ČD Cargo, a.s. is one of the top ten most significant railway companies in Europe and the European Union.

1.3. 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 from such parties. In line with this standard, such relationships are described in detail in Note 31.

1.3.1. České dráhy Group

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

For the reporting period 2019 České dráhy consolidation group consists of the following companies. During 2019 ČD Logistics, a.s. was renamed ČD Cargo Logistics, a.s., and the registered office of CD Cargo Germany GmbH was changed.

Name of the entity	Ownership of ČD, a. s. 2019 (%)	Ownership of ČD, a. s. 2018 (%)	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	70.96	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	Prvního pluku 621/8a, Karlín, 186 00 Prague 8	27378225
ČD travel, s.r.o.	51.72	51.72	Control	28.října 372/5, Staré město,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,Žabovřesky, 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	Niddastrasse 98-102, 60329 Frankfurt on Main, Germany*	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	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 Cargo Logistics, a.s.**	100.00	100.00	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, 120 00, Prague 2, Vinohrady	27560589
BOHEMIAKOMBI, spol. s r.o.*	30.00	30.00	Significant	Opletalova 921/6, 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

* Ownership interest is exercised through ČD Cargo, a.s.
** Change in 2019

ČD Cargo Group is defined in Note 1.6. Mutual relations within the Group are eliminated in the consolidated financial statements.

1.3.2. Key management
Term 'key management' mainly relates to the members of the Board of Directors and Supervisory Board of the Parent Company and statutory bodies of individual companies in the Group. Information about individual boards has been listed in in Note 1.5.

1.3.3. Relationship with Správa železnic and ČEZ Group
The sole shareholder of the Parent Company, České dráhy, a.s., is fully owned by the state. The Company ČD Cargo, a.s. and the entire Group ČD Cargo took the exemption from reporting related party information, as specified in paragraphs 25-27 of IAS 24. In respect of other State-controlled companies, groups and organisations only transactions with Správa železnic, s.o., and ČEZ Group have been quantified in these financial statements due to their significant impact on the Company's activities. The most significant transactions carried out with these entities include the use of infrastructure, purchase of electricity and revenues from freight transport. Detailed information about the relationships is disclosed in Notes 31.6 and 31.7.

1.4. ORGANISATIONAL STRUCTURE OF THE PARENT COMPANY ČD CARGO, A.S.
The organisational structure is composed of departments directly reporting to the Chairman of the Board of Directors or directors of particular divisions:
- Commercial Director department,
- Operation Director department,
- Finance Director department.

In addition, the organisational structure includes Operating Units and Repair Centres for railway wagons, Accounting of Carriage Revenues in Olomouc and the Operation Control unit in Česká Třebová.

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

1.5. STATUTORY BODIES OF THE PARENT COMPANY ČD CARGO, A.S.
This section discusses the bodies of the Parent Company of the Group.

The sole owner of the this Company is České dráhy, a.s., which, as the sole shareholder, exercises the powers afforded to the General Meeting, the supreme body of the Company. The statutory body of the Company comprises the three-member Board of Directors; the supervisory body is the seven-member Supervisory Board. The 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 2019 was following:

Board of Directors

Chairman	Ivan Bednárik
Member	Zdeněk Škvařil
Member	Bohumil Rampula

On 10 September 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., exercising the powers of the General Meeting decided to re-appoint Ivan Bednárik, Bohumil Rampula and Zdeněk Škvařil as members of the Board of Directors of ČD Cargo, a.s., as of 2 November 2019.

On 4 November 2019, the Board of Directors of ČD Cargo, a.s. at its meeting appointed Ivan Bednárik as the Chairman of the Board of Directors of ČD Cargo, a.s..

Supervisory Body

Chairman	Václav Nebeský
Member	Lukáš Týfa
Member	Radek Nekola
Member	Marta Urbancová
Member	Roman Onderka
Member	Pavel Kysilka

On 4 January 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to recall Jan Kasal from the Supervisory Board of ČD Cargo, a.s.

On 4 January 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to appoint Lukáš Týfa, as a member of the Supervisory Body of ČD Cargo, a.s. with effect from 4 January 2019.

On 11 March 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to recall Jiří Švachula, from the position of member of the Supervisory Body of ČD Cargo, a.s. with effect from 11 March 2019.

On 30 April 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to appoint Michal Vereš, as a member of the Supervisory Body of ČD Cargo, a.s. with effect from 30 April 2019.

With effect from 24 July 2019, Miroslav Kupec resigned from the Supervisory Board of ČD Cargo, a.s.

On 25 October 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to recall Michal Vereš from the position of member of the Supervisory Body of ČD Cargo, a.s. with effect from 25 October 2019.

On 25 October 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to appoint Pavel Kysilka, as a member of the Supervisory Body of ČD Cargo, a.s. with effect from 26 October 2019.

On 25 October 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to appoint Václav Nebeský, to the Supervisory Body of ČD Cargo, a.s. with effect from 26 October 2019.

On 30 October 2019, Supervisory Board of ČD Cargo, a.s., at its meeting, appointed Václav Nebeský as the Chairman of the Supervisory Board of ČD Cargo, a.s.

Audit Committee

Chairman	Oldřich Vojíř
Member	Miroslav Zámečník
Member	Libor Joukl

On 3 December 2019, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., decided to reappoint Oldřich Vojíř, Libor Joukl and Miroslav Zámečník to the positions of members of the Audit Committee of ČD Cargo, as of 17 December 2019.

1.6. ENTITIES INCLUDED IN THE ČD CARGO CONSOLIDATION GROUP

Name of the company	Main activity	Ownership percentage	Degree of influence
ČD Cargo, a. s.	Mediation of services in freight transportation and shipping		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 Cargo 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 traction railway vehicle and wagons	50	Joint Control
Ostravská dopravní společnost – Cargo, a.s.	Railway transportation and lease of traction railway vehicle and wagons	20	Significant

Mutual relations within the ČD Cargo Group are eliminated in the consolidated financial statements.

2. Significant Accounting Policies

2.1. STATEMENT OF COMPLIANCE

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

2.2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 control relevant activities that significantly affect their revenue and has exposure, or rights, to variable returns and has ability to use its power to affect the amount of the returns.

The accounting policies applicable for the reporting period are consistent with those used in prior periods.

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 loss of control. The total comprehensive income is attributed to the Parent Company's owners and non-controlling interests even if the result represents negative balance of non-controlling interests.

The financial statements of subsidiaries, joint ventures and associates have been adjusted, as appropriate, to align their accounting policies with those applied by other companies within the Group.

All intragroup transactions, balances, revenues and costs were excluded from consolidation.

2.2.2. Business combinations

Acquisitions of business are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of fair values at the acquisition date of assets transferred by the Group, the Group's liabilities arising to the former owners of the acquiree and the shares issued by the Group in exchange for control in the acquiree. Acquisition-related expenses are recognized in the profit or loss when incurred.

Identifiable assets acquired and commitments assumed 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, respectively,
- liabilities or equity instruments related to share-based payments agreements in the acquiree, or agreements on share-based payments of the Group replacing the share-based payment arrangements in the acquiree are measured at the acquisition date in accordance with IFRS 2 Share-based Payment.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the previously held equity interest in the acquiree and the fair value, if any, of the acquirer 's equity interest in the acquiree over the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If after reassessment, the share of the fair value of the identifiable net assets of the acquiree exceeds the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any acquirer's previously held equity interest in the acquiree, the amount of surplus is recognized once in profit or loss as a bargain purchase gain.

Non-controlling interests which represent present 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 at proportionate share of non-controlling interest on the recognized acquiree's identifiable net assets. Valuation basis can be selected individually for each specific acquisition. Other types of non-controlling interests are measured at fair value.

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

Subsequent accounting for changes in the fair value of contingent consideration that cannot be considered as changes within the measurement period depend on the classification of contingent consideration. Contingent consideration classified as equity is not reassessed at the date of the subsequent financial statements and its subsequent payment is charged to equity. Contingent consideration classified as an asset or liability is remeasured at the date of the subsequent financial statements, in accordance with relevant standards IFRS 9 and IAS 37 Provisions, contingent liabilities and contingent assets, with related gain or loss recognized in profit or loss.

If the business combination is achieved in stages, the shares in the acquiree, previously owned by the Group, are revalued to fair value at the acquisition date (i.e. the date the Group acquires control) and any resulting gain or loss is recognized in profit or loss. The amounts resulting from shares in the acquiree before the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, if such a procedure is correct, if the share was sold.

Unless the initial accounting for a business combination is resolved by the end of the reporting period in which the combination took place, the Group recognizes an outstanding item in the provisional value. That provisional amount is adjusted during the measurement 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.

2.3. REVENUE RECOGNITION

2.3.1. Revenue from contracts with customers

All contracts with customers are initially analysed in order to identify obligations towards the customer. Subsequently, the transaction price is determined, which, in case of more separately identifiable transactions is allocated according to the relative separate selling prices. Following this, the revenue from an 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 the 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 tax. 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 standalone performance obligation.

Railway transportation services

The sale of railway transportation services is 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.

The transaction price has both fixed and variable considerations. The fixed part represents the transaction price less fees and penalties. If the amount of service rendered 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 amount of the service provided, the contractual liability is recognised. The variable consideration exists in the form of fees and penalties connected with the inappropriate fulfilment of the contractual obligation by the Group to the customer i.e. transit time distortion, 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 significant reversal risk.

2.3.2. Other revenue

Dividend and interest income

Revenue from dividends is recognized when a legal entitlement to receive a payment occurs and when such payment is probable.

Interest income is recognized when it is probable that the economic benefits will flow into the Group and the amount can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding at the applicable effective interest rate, i.e. 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 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.

2.4. LEASE

The Group has applied IFRS 16 retrospectively with the cumulative effect at the date of initial application and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately.

Assets under finance leases are depreciated over their estimated useful lives in the same way as own assets. If there is insufficient assurance that a lessee will acquire ownership of an asset at the end of the lease term, that asset is depreciated over the lease term if it is less than its estimated useful life.

2.4.1. The Group as a lessee

Principles effective from 1 January 2019

At the commencement of the contract, the Group determines whether it is a lease contract or contains a lease. The Group recognizes a right-of-use asset and a corresponding lease liability in respect of all lease agreements in which the Group is a lessee, except short-term leases (with a lease term of 12 months or less and containing no purchase options) and low-value asset leases (such as laptops and personal computers). For these leases, the Group recognizes lease payments as operating expenses on a straight-line basis over the term of the lease, unless there is any other systematic basis which better reflects the allocation of lessee's benefits from the leased assets.

At the commencement date, the lease liability is initially measured at the present value of the lease payments that are not yet paid. The lease payments shall be discounted using the internal lease interest rate or, if that rate cannot be readily determined, incremental borrowing rate shall be used.

Lease payments included in the measurement of a lease liability comprise the following:

- fixed payments less any lease incentives receivable,
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as of the commencement date,
- amounts expected to be paid by the Group as the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease liabilities are presented within Loans and borrowings in the statement of financial position.

Subsequently, a lease liability is measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and reducing the carrying amount to reflect the lease payments made.

The lease liability must be remeasured (and the related right-of-use asset must be adjusted accordingly), if:

- there is a change in the lease term or if there is a material event or change in circumstances that led to a change the assessment of an option to purchase the underlying asset. In such a case, the lease liability is remeasured by discounting the revised lease payments using the revised discount rate.
- there is a change in lease payments resulting from a changes in an index or a rate, or change in the amounts expected to be a payable under a residual value guarantee. In this case, the lease liability is remeasured by discounting the revised lease payments using the unchanged discount rate.
- the lease contract is modified and the modification is not accounted for as a separate lease. In this case, the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using the revised discount rate as of on the effective date of the modification.

Right-of-use assets include the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date after deduction of any lease incentives received and any initial direct costs. Subsequently, they are measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities.

Right-of-use assets are depreciated over the lease term or the useful life of the underlying asset if lower. If the lessor transfers ownership of the underlying asset to the lessee at the end of the lease, or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation begins at the commencement of the lease (at the date the asset is available for use by the Group).

Right-of-use assets are presented as a separate line in the statement of financial position.

The Group uses IAS 36 to determine whether the right-of-use assets are impaired and account for any identified impairment losses as described in"Property, plant and equipment" policy.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liability and the right-of-use assets. Related payments are recognized as an expense in the period in which the event or condition that gave rise to those payments occurred and are included in the line Other operating expenses in the statement of profit or loss.

As a practical expedient, IFRS 16 allows a lessee not to separate non-lease components from lease components and instead to account for each leasing component and any associated non-lease components as a single lease component. The Group did not use this practical expedient. For contracts that contains a lease component and one or more other lease or non-lease components, the Group allocates the contract consideration to each lease and non-lease component on the basis of the relative stand-alone price of given component.

Principles effective prior to 1 January 2019
Until 31 December 2018, lease was classified as finance lease, whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases were classified as operating leases.

Assets held under finance leases were initially recognized as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor was included in the statement of financial position as a finance lease liability.

Lease payments were apportioned between finance expenses and reduction of the outstanding lease obligations so as to achieve a constant interest rate on the remaining balance of the liability. Finance expenses were recognized directly to profit or loss. Contingent rentals were recognized as expenses in the periods in which they are incurred.

Operating lease payments were 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 were consumed. Contingent rentals arising under operating lease were recognized as an expense in the period in which they are incurred.

2.4.2. Group as lessor
Leases under which the Group is a lessor are classified as finance or operating leases. Leases that transfer substantially all the risks and rewards of ownership of an asset were classified as finance leases. All other leases are classified as operating leases.

In an operating lease, revenue is recognized on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and concluding an operating lease are included in the carrying amount of the leased asset and are accounted for on a straight-line basis over the term of the lease.

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

In general, the accounting policies applied by the Group in the role of the lessor in the comparative period did not differ from those used in accordance with IFRS 16.

2.4.3. 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 provides the lessee with cash and the leased asset as guarantee. For this reason, the excess proceeds from the sale and the carrying amount is not considered as income. The Group recognizes the collected funds as a financial liability (debt), which, together with interest is amortized by lease payments.

Under IFRS 16, the Group does not reassess the sale and leaseback transactions entered into before the date of initial application to determine whether the transfer of the underlying asset met the criteria of IFRS 15 to be accounted for as a sale.

If a sale and leaseback transaction was recognized as a sale and finance lease under IAS 17 before 1 January 2019, the Group, as a seller-lessee, recognizes the leaseback in the same way as it accounted for any other finance lease that existed at the date of initial application and continues to amortize any gain from sale over the lease term.

If a sale and leaseback transaction was recognized as a sale and finance lease under IAS 17 before 1 January 2019, the Group, as a seller-lessee, recognizes the leaseback in the same way as it is accounted for any other finance lease that existed at the date of initial application. And adjusts the asset's right of use to which the leaseback relates, for any deferred gains or losses which relate to non-market conditions recognized in the statement of financial position immediately before the date of initial application.

2.5. FOREIGN CURRENCIES

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. Given the economic substance of transactions and the environment in which the Group operates and presentation currency of the consolidated financial statements is the Czech crown (CZK). The functional currency of the Parent Company is CZK.

Transactions denominated in foreign currencies are translated at the rate prevailing on the transaction date, which is derived from the exchange rate published by the Czech National Bank. Monetary items denominated in foreign currencies are recalculated to Czech Crowns using the exchange rate as stated by the Czech National Bank on the date of issue of the consolidated financial statements. Income and expense items are recalculated according to the above methodology. Non-monetary items that are measured at historical cost and were acquired in a foreign currency transaction are reported using the exchange rate at date of acquisition.

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

For the purposes of presentation in the consolidated financial statements, the assets and liabilities of foreign subsidiaries are translated into CZK using the Czech National Bank exchange rates prevailing as of the balance sheet date. Income and expense items denominated in foreign currencies are translated at the average exchange rates for the period. If the exchange rates fluctuated significantly during the period, the exchange rate prevailing at the date of the transaction shall be used. If any exchange differences arise, they are recognized in the 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, i.e. assets that necessarily take a substantial period of time to be ready for their intended use or sale, are added to the cost of those assets, until 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 Group will comply with the conditions attached to them and that the grants will be received.

Government grants which primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as a reduced cost of those non-current assets in the statement of financial position.

Other government grants are systematically recognized as revenue over the period, which is necessary to match the grants with the costs for which they are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or are received as 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 to the statutory health insurance, social security and pension insurance schemes and other employee benefits costs 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 recognised in the present value of future cash outflows that will be needed for 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 terms of the corresponding other long-term benefits. The amount of this provision is determined annually based on independent qualified actuarial calculations. Gains or losses arising from changes in actuarial assumptions for retirement benefits are included in other comprehensive income, changes in provisions for other benefits are recognised in profit or loss.

2.9. TAXATION

The income tax includes current tax payable and deferred tax.

2.9.1. Current income tax

Current income tax is calculated from taxable profit for the year. The taxable profit differs from the profit as reported in the statements of profit or loss as it does not include items of income or expense that are taxable or deductible in other years or items that will not be taxable or deductible at any time. The Group's current tax payable is calculated using tax rates that have been enacted by the end of the reporting period.

2.9.2. Deferred tax

Deferred tax is recognized based on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation 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 or loss.

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 be applied 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 to recover or settle the carrying amount of its assets and liabilities at the end of the reporting period.

2.9.3. Current Tax 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 (i.e. other comprehensive income or directly in equity). In such 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 accumulated depreciation applicable to items of plant and equipment. Land is not depreciated.

Items of property, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs. Similarly to other items of property, plant and equipment, depreciation of these assets commences when they are ready for their intended use.

Depreciation is recognized in such a way that the entire cost of the asset (excluding land owned by the Group and unfinished investments) less its residual value is allocated over the useful life of the asset using the straight-line method (with the exception of some components which are depreciated using the method based on the actual mileage output).

Since 2018 the Group has replaced the original components (main and first substantial repair), where the new components are considered to be R3, R2 and R1 type repairs for traction vehicles that are related to extending vehicle serviceability and extending technical parameters, equipment and usability of HDVs. The type R3 repair activities correspond in part to the previous repair under the 'main' scope, the type R2 repair activities correspond in part to the previous repair under the 'first substantial repair' scope and operations performed as part of normal maintenance activities. The type R1 repair activities correspond, to a lesser extent, to a previous repair under the scope of 'first substantial repair' and some activities carried out in the framework of normal maintenance activities. In addition, other types of repairs D3, D2 and D1 have been introduced in motor traction vehicles related to the restoration of serviceability and extension of technical parameters, equipment and usability of the HDV diesel combustion engine. The D3 repair represents the highest level of diesel engine repair and the D1 repair represents the lowest repair range. In 2019, a locomotive battery component was newly introduced for traction vehicles. Other components also include radio stations. For freight and passenger cars, the Group records as revision repair components, wheelsets, and in 2019, new wagon body and technical inspection components were introduced.

The Group determined a depreciation plan for components of railway vehicles which is based on a repair plan for R3, R2 and R1 traction vehicles and inspection repairs and replacement of wagon wheelsets for freight wagons. As for railway traction vehicles and freight wagons, the mileage depreciation is based on the actual mileage per month (i.e. actual kilometres covered). 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 ratio of the purchase price of the relevant component to maximum mileage determined for the R3, R2 and R1 repairs of railway traction vehicles and inspection repair and wheelsets of freight wagons. After reaching the maximum mileage, it is necessary to undertake a new major (R3) or substantial (R2) repair of a traction vehicle or a new inspection repair or replacement of wheelsets. For components D3, D2 and D1, a depreciation plan was determined on the basis of operating hours. Radio stations are depreciated applying the straight-line method over their useful life.

Within the R3 repair type of railway traction vehicle there are activities that are parts of and relate to R2 repair type (first substantial repair), therefore activities falling within R2 repair are separated from R3 major repair. The same applies to R1 repair which is separated from R2 and R3 repairs.

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

Freight wagons and railway 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 for freight wagons and railway traction vehicles is based on the scrap amount that could be received at disposal. The estimated useful lives, residual values and depreciation method are reviewed at each year-end and the effect of any changes in estimates is accounted for on a prospective basis.

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 proceeds from sale 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 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 each year-end, and the effect of any changes in estimates is accounted for on a prospective basis.

An intangible asset is derecognized upon disposal, or when no future economic benefits are expected to arise from its use or disposal. Gains or losses arising from derecognition of an intangible asset is measured as the difference between the net proceeds from disposal and the carrying amount of the asset and are recognized in profit or loss in the period when such derecognition took place.

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 of their diminution in value. If any such indication exists, the recoverable amount is determined in order to assess the amount of impairment. When it is not possible to determine the recoverable amount of an individual asset, The Group determines the recoverable amount of the cash-generating unit to which the asset belongs. Group assets are allocated to individual cash-generating unit, if reasonable and consistent basis of allocation can be determined. Otherwise, corporate assets are allocated to the smallest groups of cash-generating units for which it is possible to determine a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use, are tested for impairment at least once a year or when any indication of potential impairment occurs.

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

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

If the impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimated recoverable amount while ensuring that the increased carrying amount does not exceed the carrying amount that would have been determined in previous years if no impairment had occurred in relation to the asset (or cash-generating unit). Reversal of 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 a business 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 decisions of the investee but is not control or joint control over those policies. In this case, the Group usually controls 20-50 % of the voting rights.

Investments in associates and joint ventures are accounted for using the equity method 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 that reduces the carrying amount of the investment to the recoverable amount is recognized 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 realisable value. Costs of inventories are determined using the weighted-average method. The net realisable value represents the estimated selling price of inventories less all estimated cost to sell. 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 and it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount 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 related risks and uncertainties. If a provision is measured based on the cash flows estimated to settle the present obligation, its carrying amount equals the present value of those cash flows.

When it is expected that some or all economic benefits which are necessary for the settlement are to be recovered from a third party, an asset amount is recognized in case, if it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

The provision can be only utilised in relation to expenses for which it was originally created. Change in provisions is allocated to specific expenses in profit or loss, the unused portion of provisions is recognized as other operating income.

2.16. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized when the Group becomes a party to contractual provisions of a financial instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs which are directly attributable to the acquisition or to the 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, except 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.

Financial assets are classified into three categories: financial assets at amortized cost, financial assets at fair value recognised in profit or loss or financial assets at fair value recognised in other comprehensive income. The classification depends on the Group's management of financial assets and the nature of the contractual cash flows of the particular financial asset.

Financial liabilities are classified as financial liabilities at fair value through profit or loss or as financial liabilities measured at amortized cost.

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 interest rate that exactly discounts the estimated amount of future cash receipts/ expenditures over the expected life of the debt instrument or a shorter period, in case it is appropriate for the 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 calculation of the effective interest rate.

Income and expenses are recognized using the effective interest rate of debt instruments, except for financial assets and liabilities classified as of fair value through profit or loss.

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

Financial assets which are measured at fair value in other comprehensive income are capital investments that are not held for trading. The Group designates equity investments that are not traded on an active market as measured at fair value through other comprehensive income. If the Group obtains the right to receive a dividend from such equity investments, the dividend income is recognized in profit and loss account.

2.16.3. Financial assets at amortized costs

Loans and receivables (including bank balances) are financial assets held under a business model which intends to collect contractual cash flows that represent only principal and interest payments on unpaid principal amounts. For this reason, the Group recognises 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.

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

2.16.4. Impairment of financial assets

Financial assets, except those at fair value recognised in profit or loss, are assessed for expected credit loss at the time the asset is recognized in the accounts.

Full model (3 stage impairment model): At initial recognition, 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 it has taken place, such financial asset is transferred to Tier 2 for which an impairment loss is recognized at the level of the expected lifetime loss. In case of counterparty's credit default, such financial asset is transferred to Tier 3. At this level, interest income from a financial asset is recognised based on the carrying amount of the asset after deducting impairment applying 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 trade receivables and short-term finance lease receivables.

The simplified model is applied to short-term trade receivables that do not have a significant finance component. Based on impairment matrix that includes historical inputs and expected future inputs, the Group calculates provisions for each receivable portfolio.

In case of individually assessed receivables, the Group considers the following factors that affect the ability of the debtor to meet their obligations:
- Future outlook;
- Payment discipline.
- Knowledge of customer (e.g. advance payments)

The Group considers the potential impairment of cash and cash equivalents to be insignificant due to the high credit quality of banks which the Group cooperates with, supported by external investment ratings.

Based on historical evidence, the Group uses the following criteria to determine credit default:
- If information obtained from external sources indicates that the debtor is unlikely to pay their creditor in full (bankruptcy, insolvency proceedings)
- If the financial asset is more than 180 days past due, unless the Group has sufficient supporting information indicating that the delay is an appropriate default criterion.

2.16.5. Derecognition of financial assets

The Group initiates a derecognition of 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 all the substantial risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may possibly have to pay. If the Group retains all the substantial risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises the collateralised borrowing.

Upon derecognition of a financial asset in its entirety, the difference between the assets' carrying amount and the consideration received or 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.

2.16.6. Financial liabilities at fair value through profit and loss (FVTPL)

Financial liabilities are classified as FVTPL when the financial liability is held for trading or it is designated as FVTPL.

Group designates derivatives within this category which are recognized under other financial liabilities.

2.16.7. Other Financial Liabilities at amortised costs

Financial liabilities that are not held for trading or designated as financial liabilities at FVTPL are subsequently measured at amortized cost using the effective interest method.

2.16.8. Derecognition of Financial Liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.16.9. Derivative Financial Instruments

The Group enters into financial derivative contracts in order to manage currency, interest rate and commodity risks.

Derivatives are initially measured at fair value at the time the contract is concluded and subsequently measured at 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 such case, the timing of the recognition in profit or loss depends on the nature of the hedging relationship.

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

2.16.10. Hedge accounting

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

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with risk management objectives and strategy for undertaking various hedge transactions. Since the emergence of collateral, 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. The Group monitors the hedging ratio, sources of inefficiency and the effect of credit risk. Hedge accounting is consistent with the Group's risk management strategy. Under IFRS 9, the Group separates the time value of commodity options and basis spread from intercurrency interest rate swaps as collateral costs.

2.16.11. Cash flow hedges

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in the cash flow hedge fund. Under IFRS 9, the Group does separate the costs of hedge accounting, when the conditions for recognising these costs in the other comprehensive income are met. The gain or loss relating to the ineffective portion is recognized directly in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the period in which the hedged item is recognized in profit or loss, within the same line item as the recognized hedged item. However, if the hedging of the expected transaction subsequently results in recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income accumulated in equity are transferred from equity and are included in cost of the non-financial asset or non-financial liability.

The Group prospectively ceases hedge accounting only when the hedging relationship (or a portion of it) no longer meets the hedging criteria (after taking into account any rebalancing of the hedging relationship). This includes cases where the hedging instrument expires, is sold, terminated or settled. Any gain or loss, which has been recognized in other comprehensive income and accumulated in the cash flow hedge fund, remains in equity and is reclassified to profit or loss, if the forecasted transaction occurs. If the expected transaction is no longer expected to occur, the gains or losses accumulated in the cash flow hedge fund are immediately reclassified to profit or loss.

2.16.12. Financial derivatives held for trading
All derivative transactions that the Group concludes are intended for hedging purposes, however, some of them are not classified as hedging instruments.

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

The change in fair value of derivatives held for trading is recognized as an income or expense 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 2019

During the year ended 31 December 2019 the following standards, amendments and interpretations came into force:

Amendments, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 16 – Leases	1 January 2019
IFRS 9 – Amendment IFRS 9 – Prepayment Features with Negative Compensation	1 January 2019
IAS 19 – Amendment IAS 19 – Plan Amendment, Curtailment or Settlement	1 January 2019
IAS 28 – Amendment IAS 28 – Long-term interests in associates and joint ventures	1 January 2019
Yearly improvement of IFRS – cycle 2015 – 2017	1 January 2019
IFRIC 23 – Uncertainty over Income Tax Treatment	1 January 2019

Except for IFRS 16, the adoption of the abovementioned standards, amendments and interpretations did not have a material impact on the Group during the period.

The Group has decided to implement IFRS 16 Leases at its effective date of 1 January 2019, applying the modified retrospective approach without restatement of the comparative data, and using some of the simplifications allowed by the standard. At the transition, the right-of-use assets for leased property are measured as if the new rules were always in force. All other rights-of-use assets are measured at the value of lease liabilities at the date of adoption of the standard (adjusted for prepayment or accrued expenses).

When initially applying IFRS 16, the Group decided to apply the following expedients:
- application of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- reliance on a prior assessment of whether leases are disadvantageous as an alternative to the impairment test - as of 1 January 2019 there were no disadvantageous contracts,
- accounting for operating leases as a short-term lease, if the lease term ends within 12 months from the date of initial application, i.e. on 1 January 2019.

The Group also decided not to reassess whether an arrangement is of lease character or contains a lease at the date of initial application. Instead, for contracts entered into before the date of transition, the Group relied on its assessment under IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease.

The incremental borrowing rate applied by the Group to lease liabilities as of 1 January 2019 is within 3 % - 3.83 %.

Reconciliation of operating lease liabilities to total lease liabilities recognized as of 1 January 2019:

(CZK million)	31 Dec 2018 / 1 Jan 2019
Total future minimum lease payments for non-cancellable operating leases as of 31 December 2018	612
Expected future minimum lease payments from cancellable operating leases	2,405
Discounted using the incremental interest rate as of 1 January 2019	2,801
- Financial lease liabilities as of 31 December 2018	35
- Less short-term leases not recorded as liabilities	(8)
- Less low-value assets lease plural not recorded as liabilities	(13)
Total lease liabilities reported as of 1 January 2019	**2,815**
Of which:	
- Short - term lease liabilities	643
- Long - term lease liabilities	2,172

The change in accounting policies affected the following items in the statement of financial position as of 1 January 2019:

(CZK million)	Note	Impact of IFRS 16 application
Impairment of property, plant and equipment	5	(101)
Recognition of right-of-use assets	19	2,413
Increase / (decrease) in deferred tax assets	30.3	10
Decrease in trade receivables		-
Decrease of credit and loans		-
Reclassification of the provision for a loss contract for impairment of asset's right of use	16	(409)
Increase in lease liabilities	15.2	2,780
Decrease in equity - retained earnings net of deferred tax	13	(55)

3.2. STANDARDS AND INTERPRETATIONS APPLIED 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 BUT NOT YET APPLIED BY THE GROUP

As of the date of the financial statements, the following standards and interpretations were published but were not yet effective or used by the Group before its effective date.

Amendments, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 3 - IFRS 3Amendments – Definition of a Business	1 January 2020*
IFRS 17 - Insurance Contracts	1 January 2021*
IFRS 10, IAS 28 – Amendments to IFRS 10 and IAS 28 – Sales or contributions of assets between an investor and its associate/joint venture	Date will be determined*
IAS 1, IAS 8 - Amendment to IAS 1 and IAS 8 - Definition of Material	1 January 2020
IFRS 9, IFRS 7, IAS 39 - Amendment to IFRS 9, IFRS 7 and IAS 39 Interest Rate Benchmark Reform	1 January 2020

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

Management of the Parent Company assumes that the adoption of these standards, amendments and interpretations will not have a significant impact on the Group in subsequent periods.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not evidently 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 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 are given in the following notes.

4.1. USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

In 2019, the Group assessed the useful life of assets and based on this analysis performed by internal experts, the useful life of selected assets was extended. In the case of traction vehicles, the lifetime of selected series was extended by an average of 5 to 7 years, for trucks, the lifetime of selected series was extended by 2 to 7 years and for other assets it was 2 to 5 years. The impact of this change in the estimated useful life of assets is a decrease in depreciation charge in 2019 by CZK 91 million. In the coming years, this effect will gradually decrease.

Similarly, the Group reassessed the useful life of certain intangible assets, in particular software, as part of the periodic update of the depreciation plan. Reassessment of the depreciation plan meant an extension of the useful life of 2-4 years, which means an annual saving on depreciation and a reduction of approximately CZK 30 million. In subsequent years, this impact on profit or loss of economic result will gradually decrease.

4.2. PROVISIONS FOR LITIGATION

The Company is involved in a number of litigation and out-of-court commercial disputes. Provided that the criteria for provisioning are met, the Company creates provisions for these litigations based on the best available information and estimates. However, the actual outcome of the disputes may differ from these estimates. For information on litigation see Note 16.

4.3. 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 depending on situation development and availability of information (see Note 5).

4.4. LEASING - DISCOUNT RATE AND LEASE TERM

The Company measures the initial lease obligation at the present value of the lease payments to be discounted using the implicit interest rate. Since in a number of leases the Group does not possess the information to reliably determine the implicit interest rate it is using its incremental borrowing rate as the discount rate. In determining this, the degree of lease collateral and the length of the lease contracts were taken into account.

In addition, the Company uses an estimate to determine the lease term for contracts concluded for indefinite period. This estimate considered the period and circumstances of the potential termination of individual contracts. The Company has determined the estimated lease term for contracts for indefinite period at 5 years for contracts for the lease of non-residential premises and 3 years for the lease of railway vehicles for the following reasons:

- the Company operates under a medium-term plan for a period of 5 years,
- based on past experience, there is sufficient assurance that these leases will not be terminated by either the Company or the lessor.

In addition, each significant contract is also assessed individually in relation to contract provisions, the economic situation on the market to which the asset belongs, as well as past experience with the lessor, and the lease term is adjusted accordingly.

4.5. CHANGE IN ACCOUNTING POLICY

As part of the regular review of the depreciation plan for tangible fixed assets, the Parent Company reviewed the component depreciation policy for freight wagons.

As part of the review, the Group implemented in accordance with IAS 16 a new component: technical inspection of freight wagons. The technical inspection costs were historically charged as the repair and maintenance expense to the profit and loss statement if performed separately. However, a significant part of the technical control costs was already recorded as part of the revision repair component for freight wagons in previous accounting periods.

In accordance with IAS 8, the Parent Company retrospectively recognized the impact of a change in the accounting policy in the financial statements as at 1 January 2018.

As of 1 January 2018, the value of assets (vehicles) increased by CZK 98 million and the deferred tax liability increased by CZK 18 million. As a result, retained earnings increased by CZK 80 million.

The impact on profit or loss of the 2018 accounting period was zero. Profit or loss was negatively influenced by increased depreciation of means of transport in the amount of CZK 33 million and, on the contrary, positively influenced by reduction of Services, leases, material and energy consumption of the same amount of CZK 33 million, which was the volume of separate technical inspections performed in 2018. The value of assets (vehicles) has been increased/decreased by the respective amount.

5. Property, Plant and Equipment

Cost (CZK million)	Balance as of Jan 2018	Additions	Disposals	Transfers	Exchange differences	Balance as of 31 Dec 18	Impact of IFRS 16	Balance as of 1 Jan 2019	Additions	Disposals	Transfers	Exchange differences	Balance as of 31 Dec 2019
Land	152	1	-	-	-	153		153	1	-	-	-	154
Construction	1,653	21	-	3	-	1,677		1,677	43	(1)	41	-	1,760
Individual movable assets	39,159	2,238	(1,964)	74	(14)	39,493	(143)	39,350	3,607	(3,027)	139	53	40,122
- Machinery, equipment, and furniture and fixtures	*479*	*29*	*(1)*	*2*	*-*	*509*		*509*	*56*	*(30)*	*(38)*	*-*	*497*
*- Vehicles**	*38,525*	*2,208*	*(1,963)*	*76*	*(14)*	*38,832*		*38,832*	*3,550*	*(2,996)*	*177*	*53*	*39,616*
*- Vehicles acquired under finance leases ***	*146*	*1*	*-*	*(4)*	*-*	*143*	*(143)*	*-*	*-*	*-*	*-*	*-*	*-*
- Other	*9*	*-*	*-*	*-*	*-*	*9*		*9*	*1*	*(1)*	*-*	*-*	*9*
Asset under construction	222	444	(162)	(140)	-	364		364	195	(42)	(143)	-	374
Prepayments	30	184	-	-	-	214		214	152	(31)	-	-	335
Total	**41,216**	**2,888**	**(2,126)**	**(63)**	**(14)**	**41,901**	**(143)**	**41,758**	**3,998**	**(3,101)**	**37**	**53**	**42,745**

(Accumulated amortisation, depreciation and impairments (CZK million)	Balance as of Jan 2018	Additions	Disposals	Transfers	Impair-ment	Balance as of 31 Dec 2018	Impact of IFRS 16	Balance as of 1 Jan 2019	Additions	Disposals	Transfers	Impair-ment	Balance as of 31 Dec 2019
Construction	897	42	-	-	-	939		939	33	(1)	-	-	971
Individual movable assets	25,534	1,148	(1,938)	-	82	24,826	(42)	24,784	1,202	(3,027)	(43)	(30)	22,886
- Machinery, equipment, and furniture and fixtures	*331*	*26*	*(1)*	*1*	*-*	*357*		*357*	*12*	*(30)*	*(17)*	*-*	*322*
*- Vehicles**	*25,157*	*1,115*	*(1,937)*	*2*	*82*	*24,419*		*24,419*	*1,189*	*(2,996)*	*(26)*	*(30)*	*22,556*
*- Vehicles acquired under finance leases ***	*39*	*6*	*-*	*(3)*	*-*	*42*	*(42)*	*-*	*-*	*-*	*-*	*-*	*-*
- Other	*7*	*1*	*-*	*-*	*-*	*8*		*8*	*1*	*(1)*	*-*	*-*	*8*
Asset under construction	5	-	-	-	1	6		6	-	-	-	-	6
Total	**26,436**	**1,190**	**(1,938)**	**-**	**83**	**25,771**	**(42)**	**25,729**	**1,235**	**(3,028)**	**(43)**	**(30)**	**23,863**

Net book value (CZK million)	Balance as of 31 Dec 2019	Balance as of 1 Jan 2019	Impact of IFRS 16	Balance as of 31 Dec 2018	Balance as of Jan 2018
Land	154	153	-	153	152
Constructions	789	738	-	738	756
Individual movable assets	17,236	14,566	(101)	14,667	13,625
- Machinery, equipment, and furniture and fixtures	175	152	-	152	148
*- Vehicles**	17,060	14,413	-	14,413	13,368
*- Vehicles acquired under finance leases***	-	-	*(101)*	101	107
- Other	1	1	-	1	2
Assets under construction	368	358	-	358	217
Prepayments	335	214	-	214	30
Total	**18,882**	**16,029**	**(101)**	**16,130**	**14,780**

* Vehicles purchased using sale and leaseback are presented in the financial statements under the line „Vehicles". Their net book value amounted to CZK 3,185 million as of 31 December 2018, and CZK 2,836 million as of 31 December 2019. Liabilities arising from these financial leasebacks are part of Note 15.2 Financial lease and leaseback liabilities. 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.

** Vehicles acquired under finance lease were recognized in line with "Vehicles acquired under finance lease" until 31 December 2018 under IAS 17. As part of the implementation of IFRS 16 as of 1 January 2019, they have been reclassified to Right-of-use assets (see Note 19).

Properties include mainly buildings and land. Land and buildings do not include railway routes, which are owned by the company Správy železnic s.o.

Vehicles in the Group mainly comprise rail vehicles (railway traction vehicles, freight wagons) used for railway freight transport. As at 31 December 2019, the provision is created for these items in the amount of the difference between the carrying amount and the recoverable amount of CZK 247 million, while as at 31 December 2018 the amount equals CZK 278 million.

In 2019, the biggest increases of movable tangible assets relate to the revision repairs (components) of freight wagons in the amount of CZK 938 million, repairs of R and D type (components) of the railway traction vehicles in the amount of CZK 619 million.

In addition, during the accounting period the following were acquired:
- 195 units of new freight wagons Sgg(m)rrs - innowagon (Innofreight technology) worth CZK 555 million;
- 145 new Eanos freight wagons worth CZK 256 million;
- 79 new Zacns freight wagons worth CZK 152 million;
- 3 Vectron 383 railway traction vehicles worth CZK 277 million;
- 4 railway traction vehicles of the 744 series and one upgraded 753 series worth CZK 271 million;
- wheelsets (components) for freight wagons worth CZK 174 million.

As part of the periodic revision of the depreciation plan for tangible fixed assets, the Group reassessed the component depreciation method for trucks.

As part of the review, the Group implemented in accordance with IAS 16 a new component: technical inspection of freight wagons. The technical inspection costs were historically charged as the repair and maintenance expense to the profit and loss statement if performed separately. However, a significant part of the technical control costs was already recorded as part of the revision repair component for freight wagons in previous accounting periods.

In accordance with IAS 8, the Group has simulated and accounted for retrospectively the impact of a change in method in the financial statements as at 1 January 2018 and 31 December 2018, respectively. The impact of these changes on previous reporting periods is described in Note 4.5.

The impact on profit or loss before tax for the year 2019 was estimated at CZK 10 million. Profit or loss was negatively influenced by increased depreciation of means of transport of CZK 45 million and, on the contrary, positively influenced by reduction of repair costs of CZK 55 million, which was the volume of separate technical inspections performed in 2019. Respectively there was an increase in the value of assets (vehicles).

Technical inspections, that were performed during the year 2019 as part of another component (revision repairs) or were part of the purchase price of new freight wagons, were separated and the increased/decreased useful life was determined. The operation was not a change in accounting policy, but only a change in accounting estimate, in accordance with IAS 8. As a result of this change, the profit or loss was about CZK 10 million lower due to increased depreciation compared to the technical control inspection when it was a part of the purchase price of freight wagons or it was depreciated as part of the component - revision repair.

The Company leases some of its assets that it does not currently use for its activities to external entities. The most significant leased assets are means of transport, especially freight wagons and several traction vehicles. The value of these leased assets is shown in the table below. No other significant assets are leased.

(CZK million)	Balance as of 31 Dec 2019	Balance as of 31 Dec 2018
Cost	3,212	2,631
Depreciation	1,732	1,497
Net book value	**1,480**	**1,134**

The item “Restricted cash” within “Other financial assets” represents a subsidy provided to the Parent Company in the total amount of CZK 292 million in 2016, within the subsidy project to equip traction vehicles with the on-board part of the European Train Control System (ETCS).

During the 2018, ČD Cargo, a.s. received another part of the subsidy of CZK 68 million, and in 2018 and 2019 has already paid out part of the subsidy for the acquisition of the first prototype of railway traction vehicles. The remaining funds are expected to be used to supply prototypes for selected locomotive series in 2020, or in 2021. Therefore, the remaining part of the received subsidy of CZK 157 million was reported as short-term and CZK 48 million as long-term.

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 actually covered kilometres. For other items the following useful lives were used:

	Number of years
Buildings	20 – 50
Railway traction vehicles (without components)	20 – 25
Freight wagons (without components)	30
Machinery and equipment	8 – 20

5.1. ASSETS PLEDGED AS COLLATERAL

As of 31 December 2019, no Group's assets were subject to a lien. As of 31 December 2018, in the case of CD Cargo Poland Sp. z.o.o. 3 locomotives were subject to lien in the value of CZK 31 million, which were repaid and released from lien in 2019.

The Group's leaseback and finance lease liabilities are guaranteed by the lessor's right to the leased assets.

6. Intangible Assets

Purchase price (CZK million)	Balance as of 1 Jan 2018	Additions	Disposals	Transfers	Balance as of 31 Dec 2018	Additions	Disposals	Transfers	Balance as of 31 Dec 2019
Software	778	108	-	52	938	99	(15)	28	1,050
Royalties	100	6	-	16	122	-	-	5	127
Assets under construction	79	28	(6)	(68)	33	-	-	(33)	66
Total	**957**	**142**	**(6)**	**-**	**1,093**	**165**	**(15)**	**-**	**1,243**

Accumulated amortisation (CZK million)	Balance as of 1 Jan 2018	Additions	Disposals	Balance as of 31 Dec 2018	Additions	Disposals	Balance as of 31 Dec 2019
Software	424	83	-	507	64	(15)	556
Royalties	89	5	-	94	4	-	98
Total	**513**	**88**	**-**	**601**	**68**	**(15)**	**654**

Net book value (CZK million)	Balance as of 31 Dec 2019	Balance as of 31 Dec 2018	Balance as of 1 Jan 2018
Software	494	431	354
Royalties	29	28	11
Assets under construction	66	33	79
Total	**589**	**492**	**444**

Amortisation costs are reported in the line Depreciation and amortisation in the statement of profit and loss. The Assets under construction item consists of items that are developed in cooperation with supplier companies and are not internally developed software.

As of 31 December 2019, valuables (licenses) include a total net book value of CZK 29 million. The most significant items are CZK 10 million SAP licenses, Altworx licenses CZK 7 million, Microsoft EA, Exchange and Sharepoint licenses CZK 7 million, and Virusfree licenses CZK 3 million. In 2019, licenses totalling CZK 5 million were activated.

In 2019, modifications to the IS SAP in the amount of CZK 29 million, development of operational information systems worth CZK 42 million, implementation of IFRS standards in the amount of CZK 21 million, development of business systems in the amount of CZK 20 million continued. The remaining part is allocated to other economic or operational tasks.

The length of amortisation of intangible assets:

	Number of years
Software	3 – 10
Royalties	6 – 10

6.1. SOFTWARE

Residual value (CZK million)	Balance as of 31 Dec 2019	Balance as of 31 Dec 2018	Balance as of 1 Jan 2018
Operational and business tasks fall under the project PROBIS	315	262	219
SAP	83	43	41
IT Security Program	21	24	25
Other	75	102	69
Total	**494**	**431**	**354**

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

Additions to the software item in 2019 consist mainly of modifications and upgrades of existing systems: SAP projects in the amount of CZK 45 million, Dispatching information system under the project of the calculation of complete trains in the amount of CZK 13 million, Altworx software capacity of the Parent company (operating personnel, traction vehicles and trucks) in the amount of CZK 13 million, Transport management system in the amount of CZK 11 million.

7. Investments in Subsidiaries 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 2019	Ownership interest as of 31 Dec 2018
BOHEMIAKOMBI, spol. s r.o.	Mediation of transportation services except for the transportation by own vehicles.	30%	30%
Ostravská dopravní společnost, a.s.	Railway transportation and lease of locomotives and railway vehicles.	50%	50%
RAILLEX a.s.	Cargo handling and technical services in transportation.	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 2019 (CZK million)	RAILLEX a.s.	BOHEMIAKOMBI, spol. s r.o.	Ostravská dopravní společnost, a.s.	Ostravská dopravní společnost - Cargo, a.s.
Total assets	**48**	**24**	**101**	**199**
Current assets	48	23	101	148
Non-current assets	-	1	-	51
Total liabilities	**27**	**15**	**78**	**38**
Current liabilities	27	15	78	37
Non-current liabilities	-	-	-	1
Net assets	21	9	23	161
Share of net assets	**11**	**-**	**12**	**32**

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**

(CZK million)	2019	2018
Total income	1,109	1,383
Profit for the period	47	42
The Company's share of the profit for the period	**14**	**12**

8. Inventories

(CZK million)	31 Dec 2019	31 Dec 2018
Spare parts and other components for rail vehicles and locomotives	228	103
Other machinery, tools and equipment and their spare parts	9	56
Fuels, lubricants and other diesel products	3	4
Work clothes, work shoes, protective devices	2	2
Other	7	27
Total costs	**249**	**192**
Write-down of inventories to their net realizable value	(6)	-
Total net book value	**243**	**192**

9. Trade Receivables

Trade receivables consist of the items as follows:

	Category	Before due date	Past due date (days)					Total overdue	Total
(CZK million)			1 - 30	31 – 90	91- 180	181 -365	365 and more		
31. 12. 2019	Gross	1,441	142	30	5	23	61	261	1,702
	Allowances	5*	(2)	(6)	(4)	(23)	(60)	(95)	(100)
	Net	**1,436**	**140**	**24**	**1**	**0**	**1**	**166**	**1,602**
31. 12. 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**
1.1.2018	Gross	1,556	129	30	13	8	103	283	1,839
	Allowances	(27)*	-	(4)	(5)	(7)	(102)	(118)	(145)
	Net	**1,529**	**129**	**26**	**8**	**1**	**1**	**165**	**1,694**

* includes the amount of provisions to maturity due to the implementation of IFRS 9.

9.1. MOVEMENT OF ALLOWANCES FOR DOUBTFUL RECEIVABLES

Movement of allowances for doubtful receivables (CZK million)	2019	2018
Allowances at 1 January	**148**	**145**
Set up of allowances – trade receivables	77	58
Use of allowances – trade receivables	(67)	(42)
Write-offs - trade receivables	(58)	(13)
Allowances at 31 December	**100**	**148**

10. Other Financial Assets

(CZK million)	31 Dec 2019	31 Dec 2018
Finance lease receivables	52	-
Hedging derivatives	10	-
Restricted funds (see Note 5)	48	-
Other non-current financial assets	**110**	**-**
Finance lease receivables	11	-
Hedging derivatives	14	8
Group cash pooling	1	2
Receivables from damages and losses	9	7
Receivables from damages and losses - allowances	(4)	(4)
Restricted cash (see Note 5)	157	330
Other financial assets	19	180
Other financial assets - allowances	(13)	(18)
Other current financial assets	**194**	**505**
Total Other financial assets	**304**	**505**

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

Other financial assets consist of refundable prepayments after the financial leaseback by the subsidiary of CD Cargo Poland Sp. z o.o., (the deposit was paid in instalments). As of 31 December 2018, the balance of these deposits was CZK 153 million on short-term other financial assets. In 2019 the leaseback of 46 locomotives was terminated.

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

10.1. RECEIVABLES FROM THE FINANCE LEASING

Company ČD Cargo, a.s., leased part of the building in the Lovosice logistics centre to Mondi Štětí a.s.

Disclosure required according to the IFRS 16:

Analysis of maturity of receivables from leasing payments:

(CZK million)	31 Dec 2019
1. year	13
2. years	13
3. years	13
4. years	13
5. years	13
More than 5 years	3
Undiscounted lease payments	**68**
Minus: Unrealized financial income	(5)
Present value of lease payments receivable	**63**
Impairment allowance	-
Net investment in leasing	**63**
In the statement of financial position as:	
Other financial assets short - term	11
Other financial assets long - term	52
Total	**63**

The amounts recognized in the income statement:

(CZK million)	31 Dec 2019
Net proceeds from financial investments	1

The Group uses a simplified approach in accordance with IFRS 9 to measure expected credit losses using a provision for expected life-cycle losses on all finance lease receivables.

In order to measure expected credit losses, finance lease receivables are grouped on the basis of shared credit risk characteristics and due days. The expected rates of losses are based on the payment profiles of the leases before the end of the reporting period and the corresponding historical credit losses that occurred in that period.

None of the finance lease receivables is overdue at the end of the reporting period and, taking into account past experience and future prospects of the lessee's operations, the management of the Group believes that no finance lease receivables are impaired.

The Group is not exposed to currency risk as a result of lease arrangements as the lease is denominated in CZK. The risk of residual value of the leased building is not material.

11. Other Assets

(CZK million)	31 Dec 2019	31 Dec 2018
Prepayments	1	1
Non-current financial assets	**1**	**1**
Prepayments	69	30
Tax receivables – VAT	167	133
Tax receivables (except corporate tax)	2	-
Prepaid expenses	67	48
Other	6	5
Other current financial assets	**311**	**216**
Total Other financial assets	**312**	**217**

The line“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 amortised 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 2019	31 Dec 2018
Cash on hand and cash in transit	3	2
Cash at bank*	468	723
Total**	**471**	**725**

* 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 2019	Bank balances as of 31 Dec 2018
Komerční banka	P-1	A1	28	22
ČSOB	P-1	A1	328	387
Citibank	P-1	A1	1	80
ING bank	P-1	Aa3	4	85
Česká spořitelna	P-1	A1	1	1
UniCredit Bank	P-2	A3	5	41
Raiffeisenbank,a.s.	P-2	Baa1	1	1
Všeobecná úvěrová banka a.s.	P-1	A2	32	61
Allior*	B	BB	-	-
Millenium bank	P-2	Baa2	4	2
Deutsche Bank	P-2	A3	22	-
Frankfurter Sparkasse*	A+	F1+	5	27
Bank Austria	P-2	Baa1	15	12
Slovenská sporiteľňa*	P-1	A2	5	0
Tatra banka	P-2	A3	17	3
Fio banka			-	1
Total			**468**	**723**

* Moody's bank rating is effective at the end of 2019

13. Equity

13.1. SHARE CAPITAL

As of 31 December 2019, 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 2019	31 Dec 2018
Share premium	197	197
Statutory reserve fund	258	220
Cash flow hedging reserve	20	(24)
Actuarial losses	(12)	(16)
Foreign currency translation fund	(1)	(1)
Other funds	(17)	(16)
Total	**445**	**360**

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

Reclassification from hedge reserve into profit or loss

(CZK million)	2019	2018
Balance at the beginning of the year	**(24)**	**74**
Profit (loss) from revaluation	49	(50)
Reclassifications to profit or loss upon settlement	5	(71)
Total change in the cash flow hedging reserve	**54**	**(121)**
Relating income tax	(10)	23
Balance at the end of the year	**20**	**(24)**

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)	2019	2018
1 January	**(18)**	**66**
Change in the fair value of the hedging derivatives	45	(38)
Reclassification to the income	(7)	(66)
Related corporate income tax – change	(7)	20
31 December	**13**	**(18)**

Interest swaps – securing loans and lease contracts with variable rate (CZK million)	2019	2018
1 January	**(29)**	**(6)**
Change in the fair value of the hedging derivatives	-	(13)
Reclassification to the income	1	(9)
Related corporate income tax – change	-	(1)
31 December	**(28)**	**(29)**

Commodity options – securing prices for the purchases of diesel and traction energy (CZK million)	2019	2018
1 January	**23**	**15**
Change in the fair value of the hedging derivatives	4	-
Reclassification to the income	11	4
Related corporate income tax – change	(3)	4
31 December	**35**	**23**

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	365 and more		
31. 12. 2019	Short-term	2,071	47	53	9	50	-	159	**2,230**
31. 12. 2018	Short-term	2,162	35	3	-	9	-	47	**2,209**

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

15. Loans, Borrowings and Bond

(CZK million)	31 Dec 2019	31 Dec 2018
Liabilities from leaseback	1,243	1,102
Liabilities from financial leases**	-	36
Liabilities from leasing*	2,349	-
Issued bonds	3,765	2,995
Loans from České dráhy, a.s.	205	281
Other received long-term loans and borrowings	112	25
Total long-term	**7,674**	**4,439**
Liabilities from leaseback	324	650
Liabilities from financial leases**	-	28
Liabilities from leasing*	637	-
Overdraft accounts	61	11
Issued bonds	1,026	15
Borrowing from České dráhy, a.s.	323	74
Other received short-term loans and borrowings	7	6
Total short-term	**2,378**	**784**
Total	**10,052**	**5,223**

* implementation of IFRS 16
** comparative information under IAS 17, prior to the implementation of IFRS 16

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

As of 17 October 2016, the Company ČD Cargo, a.s. 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 traction vehicles (Vectron). As of 31 December 2019 the remaining borrowing balance was split into long-term part in amount of CZK 205 million and short-term part in amount of CZK 73 million.

On 19 December 2019 ČD Cargo, a.s. drew a loan in the amount of CZK 250 million based on mutual credit facility agreement in excess of cash-pooling from the Parent Company České dráhy, a.s. The maturity of the loan is set on 18 March 2020. The interest rate is 2.30 % p.a. This loan is thus recognized as short-term.

ČD Cargo Poland Sp z o.o. has an overdraft facility of CZK 156 million. As at 31 December 2019, its loan balance is divided into a short-term part of CZK 61 million and a long-term part of CZK 95 million, which is reported under "Other long-term loans and borrowings".

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 10 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 2019:

Administrator	Unicredit Bank Czech Republic and Slovakia, a.s.
Date of issue	26.11.2015
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	annually retrospectively
Date of interest payment	26.11. each year
Date of the final maturity	26.11.2020

Administrator	Raiffeisenbank, a.s.
Date of issue	17.6.2016
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	17.6. each year
Date of the final maturity	17.6.2021

15

Administrator	Unicredit Bank Czech Republic and Slovakia, a.s.
Date of issue	29.12.2016
Trading	Bonds admitted to trading on a regulated market of the Prague Stock Exchange
Nominal value of the bond	CZK 500,000,000
Interest rate	CZK 5,000,000
Issue rate	fixed interest income 1.26%
Payment of interest income	100 %
Date of interest payment	annually retrospectively
Date of the final maturity	29.12. each year
Nominal value of the bond	29.12.2023

Administrator	Komerční banka, a.s.
Issue manager	ING, a.s.
Date of issue	20.7.2018
Trading	Bonds admitted to trading on a regulated market of the Prague Stock Exchange
Nominal value of the bond	CZK 1,000,000,000
Interest rate	CZK 5,000,000
Issue rate	fixed interest income 2.55%
Payment of interest income	100 %
Date of interest payment	annually retrospectively
Date of the final maturity	20.7. each year
Nominal value of the bond	20.7.2025

Administrator	Komerční banka, a.s.
Issue manager	ING, a.s.
Date of issue	17.7.2019
Trading	CZK 1,000,000,000
Nominal value of the bond	CZK 5,000,000
Interest rate	fixed interest income 2.17%
Issue rate	100 %
Payment of interest income	annually retrospectively
Date of interest payment	17.7. each year
Date of the final maturity	17.7.2026

Administrator	Komerční banka, a.s.
Date of issue	18.11.2019
Total nominal value	CZK 770,000,000
Nominal value of the bond	CZK 5,000,000
Interest rate	fixed interest income 2.09%
Issue rate	100 %
Payment of interest income	annually retrospectively
Date of interest payment	18.11. each year
Date of the final maturity	18.11.2026

15.2. FINANCIAL LEASE LIABILITIES

The Group concluded several leaseback 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 Dec 2019*	31 Dec 2018**	31 Dec 2019*	31 Dec 2018**
Less than 1 year	1,091	744	961	678
From 1 to 5 years	3,033	1,077	2,764	983
5 years and more	883	159	828	155
Total	**5,007**	**1,980**	**4,553**	**1,816**
Less future financial costs	(454)	(164)		
Present value of min. leasing's repayments	**4,553**	**1,816**	**4,553**	**1,816**
In the financial statement position as:				
– short-term loans			961	678
– long-term loans			3,592	1,138
Total			**4,553**	**1,816**
In the financial statement position as:				
– payables from lease liabilities			2,988	64
– payables from leaseback liabilities			1,565	1,752
Total			**4,553**	**1,816**

* data as of 31.12.2019 are adapted in the context of implementing IFRS 16
** comparable data as of 31.12.2018 are adjusted in accordance with IAS 17, prior to the implementation of IFRS 16

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.

Finance lease and leaseback liabilities are presented within Financial Instruments in Note 33.2.

Fair value of the lease contracts is disclosed in the Note 33.10.1.

16. Provisions

(CZK million)	Balance as of 31 Dec 2018	IFRS 16 adjustments	Balance as of 1 Jan 2019	Creation	Use	Cancellation	Balance as of 31 Dec 2019
Provision for litigation	53	-	53	-	-	(30)	23
Provisions for employee benefits	163	-	163	66	(61)	-	168
- of which long-term part	*101*	-	*101*	-	-	-	*101*
Provision for loss-making transactions	409	(409)*	-	-	-	-	-
- of which long-term part	*350*	*(350)**	-	-	-	-	-
Other provisions	39	-	39	46	(42)	(8)	35
Total provisions	**664**	**(409)**	**255**	**112**	**(103)**	**(38)**	**226**
- Long-term	*451*		*101*				*101*
- Short-term	*213*		*154*				*125*

* The provision for loss-making transactions was reclassified to equity as an allowance for rights of use under IFRS 16

The management of the Group, 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 after taking into account an appropriate degree of caution decided to increase the provision to cover potential litigation costs by CZK 23 million at 31 December 2019 While the amount at 31 December 2018 was CZK 53 million.

The provision for employee benefits includes the employees´ entitlement to a financial contribution on life jubilees, financial contribution upon retirement and reimbursement of medical expenses, including salary refunds in wellness and recovery stays. As of 31 December 2019, the provision was calculated in the amount of CZK 168 million. In comparison with 2018, the balance of provisions increased mainly due to the increased average cost of health 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 there was made a provision for loss-making contracts. 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. The total amount of the provision was CZK 409 million as of 31 December 2018. Since this loss transaction relates to a lease of storage space, as a result of the implementation of IFRS 16, the agreement was reclassified to a Right-of-use. The estimated loss is recognized as impairment of this right of use, in accordance with IFRS 16, resp. IAS 16 and IAS 36. See Note 5.

As at 31 December 2019, other provisions primarily include provisions for damages.

17. Other Financial Liabilities

(CZK million)	31 Dec 2019	31 Dec 2018
Hedging derivatives	-	25
Liability arising from supplier loans	1	5
Other	-	27
Other long-term financial liabilities	**1**	**57**
Hedging derivatives	-	13
Derivatives held for trading	-	-
Liability arising from supplier loans	3	40
Other	191	122
Other short-term financial liabilities	**194**	**175**
Total other financial liabilities	**195**	**232**

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

Three lease contracts on the sale and lease of 1,141 vehicles were concluded between the Parent Company ČD Cargo, a.s., and company Financial Found, a.s.. According to the contractual arrangements ČD Cargo, a.s. withdrew from the contract and immediately paid the remaining leasing instalments in the amount of CZK 146 million. Since Financial Found, a.s., disagreed with the withdrawal, it returned the amount to back to ČD Cargo, a.s., account. In order to avoid the senseless forwarding of funds, ČD Cargo, a.s., informed Financial Found, a.s. that it had the funds ready and asked it to confirm that the company would accept them. Up to the current date, Financial Found, a.s. has not responded. In parallel, Financial Found, a.s., filed an action in the District Court for Prague 7 to determine the ownership of the 1,141 vehicles, and yet it has not been solved. Financial Found, a.s., also unsuccessfully tried to rewrite the vehicles at the Rail Authority to their ownership. This means that ČD Cargo, a.s., is registered as the owner and holder of these vehicles. In accordance with the described information, the Company's management has decided to record the aforementioned vehicles in the Company's assets and to account for all related accounting transactions (segregation of components, accounting for depreciation, etc.). In 2019 there was created the liability arising from this and it is the most significant part of the item "Other".

The following items "Other" include liabilities of the Parent Company concerning the judicial conciliation in the dispute over the price of traction energy collected from Správa železnic, s.o., and relating to the settlement of the damage due to Správa železnic, s.o., traffic closure pursuant to a court judgment. More detailed overview of the relationship with Správa železnic, s.o., 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 2019	31 Dec 2018
Subsidy received	48	-
Other liabilities	156	116
Other long-term liabilities	**204**	**116**
Payables to employees	268	303
Liabilities for social security and health insurance	129	147
Tax liabilities - tax withheld employees	42	47
Tax liabilities – VAT	(1)	4
Subsidy received	157	330
Other	7	8
Other short-term liabilities	**602**	**839**
Contract liabilities	-	1
Refunds liabilities	18	31
Other short-term liabilities and contract liabilities	**620**	**871**
Total other liabilities and contract liabilities	**824**	**987**

In 2016, the Parent Company received the subsidy in the amount of CZK 292 million within the subsidy project to equip traction vehicles with the on-board part of the European Train Control System (ETCS). During 2018, ČD Cargo, a.s. had received another portion of the subsidy of CZK 68 million, and in 2018 and 2019 had already paid out part of the subsidy for the acquisition of the first prototype railway traction vehicle. The remaining funds are expected to be used to supply prototypes for selected locomotive series in 2020 and 2021, respectively. For this reason, the remaining part of the received subsidy of CZK 157 million was reported as short-term and CZK 48 million as long-term (further details in Note 5).

Other long-term liabilities also 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 has no overdue liabilities to tax authorities, social security authorities and health insurance companies.

19. Operating Lease Contracts

IAS 17 disclosure requirements:

19.1. THE GROUP AS A LESSEE

In 2018, the Group's expenses arising from the lease of railway wagons on the basis of individual contracts amounted to CZK 461 million.

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

In 2018, the Group's expenses arising from lease of property amounted to CZK 99 million. From which the Group as a lessee recognized the amount of CZK 84 million in 2018, arising from the lease of constructions and land in the Lovosice Logistics Centre.

As of 31 December 2018, the Group has concluded a vehicle lease and real estate lease agreement of CZK 3,632 million, of which CZK 3,001 million relates to unpaid supplies. As of 31 December 2018, the remaining CZK 631 million had already been paid. A substantial part of commitments of expenditure of CZK 2,377 million represents the lease of railway rolling stock, superstructures and lease of non-residential premises.

Contractual obligations relating to lease (CZK million)	Min. lease instalments as of 31 Dec 2018
Less than 1 years	630
1-5 years	2,212
over 5 years	159
Total contractual obligations	**3,001**

19.2. THE GROUP AS A LESSOR

Operating leases applies to lease of locomotives, railway wagons and tanks held by the Group with various lease periods.

In 2019, revenues recognized by the Group from short-term operating leases of movable assets amounted to CZK 498 million (in 2018: CZK 458 million).

The Group as a lessor did not conclude any non-cancellable operating leases.

Disclosure requirements under IFRS 16:

19.3. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group leases land, buildings (administrative and in locations near railway stations), equipment (innofreight technology) and vehicles (freight wagons, locomotives, tanks and passenger cars). Lease contracts are usually concluded for a definite period (from 3 to 10 years). A minority of contracts are concluded for an indefinite period.

Until 31 December 2018, the lease of property, plant and equipment were classified as finance leases or operating leases. From the 1 January 2019, leases are recognized as right-of-use assets and a corresponding liability from the date on which the leased asset is available for use for the Group.

Cost (CZK million)	**Balance as of 1 January 2019**	**Additions**	**Change of lease period**	**Disposals**	**Transfers***	**Balance as of 31 December 2019**
Buildings	414	35	36	(114)	-	371
- out of which logistics centre Lovosice	*149*	*-*	*-*	*(62)*	*-*	*87*
Equipment	465	123	4	-	-	592
- out of which technologies Innofreight	*463*	*123*	*4*	*-*	*-*	*590*
Vehicles	1,577	1,455	242	(1,122)	(140)	2,012
- out of which freight wagons and locomotives	*1,538*	*1,435*	*242*	*(1,099)*	*(140)*	*1,976*
Total	**2,456**	**1,613**	**282**	**(1,236)**	**(140)**	**2,975**

Accumulated depreciation and impairment (CZK million)	**Balance as of 1 January 2019**	**Depreciation**	**Disposals**	**Transfers***	**Balance as of 31 December 2019**
Buildings	-	76	(4)	-	72
- out of which logistics centre Lovosice	*-*	*20*	*-*	*-*	*20*
Equipment	-	75	-	-	75
- out of which technologies Innofreight	*-*	*75*	*-*	*-*	*75*
Vehicles	43	503	(226)	(45)	275
- out of which freight wagons and locomotives	*41*	*495*	*(221)*	*(45)*	*270*
Total	**43**	**654**	**(230)**	**(45)**	**422**

Net book value (CZK million)	**Balance as of 31 December 2019**	**Balance as of 1 January 2019**
Buildings	299	414
- out of which logistics centre Lovosice	*67*	*149*
Equipment	517	465
- out of which technologies Innofreight	*515*	*463*
Vehicles	1,737	1,534
- out of which freight wagons and locomotives	*1,706*	*1,497*
Total	**2,553**	**2,413**

* Under the item "Vehicles" the lease contract was terminated and railway wagons were purchased by the Company. For this reason, reclassification from " Right-of-use assets" to "Vehicles" was made in the table in Note 5.

The item right-of-use assets under IFRS 16 also includes the lease of storage space in the Lovosice Logistics centre. As this contract generates a loss for the Parent Company of approximately CZK 59 million per year, the Company has created for this contract lease a Provision for loss-making transactions (see Note 16). As a result of the adoption of IFRS 16, this lease was reclassified as a right of use. As of 1 January 2019, the value of this right of use was calculated at CZK 558 million and impaired by CZK 409 million. As at 1 January 2019, the amount of CZK 149 million was reported in the above table "Cost". As at 31 December 2019, the asset is recognized in the carrying amount of CZK 67 million.

During the 2019 accounting period, a contract was concluded to lease part of the logistics centre in Lovosice. As at 31 December 2019, the Parent Company recognized receivables from this contract in the amount of CZK 63 million from finance leases, see Note 10.1. At the same time, part of the asset was derecognised from the right-of-use the corresponding portion of the leased warehouse space of CZK 58 million. The difference between the value of the finance lease receivable and the impairment charge was recognized as revenue for the current period in the amount of CZK 5 million.

The item "Buildings" outside the logistics centre in Lovosice includes leases of non-residential premises within the railway stations where our operating employees are responsible for the operation of the Group's rail transport.

The amount of impairment of the aforementioned right of use is determined by a reasonable estimate of the estimated net future contractual liability. The amount represents the difference between discounted net expected income and discounted expected expenditure.

The Group recognized the lease liability as follows:

(CZK milion)	Balance as of 31 Dec 2019	Balance as of 1 Jan 2019
Short - term lease liabilities	637	643
Long - term lease liabilities	2,349	2,172
Total lease liabilities	**2,986**	**2,815**

The amounts recognized in the income statement:

(CZK milion)	Balance as of 31 Dec 2019
Depreciation of right-of-use assets	(654)
Interest expense on lease liabilities	(84)
Short-term lease expenses	(73)
Low-value assets lease expenses	(14)
Variable lease payments (not included in the measurement of the lease liability) expenses	(20)
Proceeds from the sublease of assets from the right of use	3

Short-term and low-value assets expenses that are not included in the above short-term lease payables, are included in the income statement in Services, material and energy consumption.

Total monetary expenses related to leasing amounted to CZK 991 million in 2019 (of which lease payments amounted to CZK 800 million, interest expenses amounted to CZK 84 million, short-term lease payments amounted to CZK 73 million, lease payments on low value assets of CZK 14 million and expenses related to variable lease payments in the amount of CZK 20 million).

19.4. CONTRACTUAL OBLIGATIONS

As of the balance sheet date, the Group concluded contracts for the purchase of property, plant and equipment and investment property in the amount of CZK 8,664 million, of which CZK 6,227 million relates to unpaid supplies, out of which CZK 3,316 million represents investments to be paid in 2020 and CZK 2,911 million to be paid in subsequent years. As of 31 December 2019, the remaining amount of CZK 2,437 million was paid. A significant part of the commitments of expenditure in the amount of CZK 6,154 million relates to investments in railway vehicles.

19.5. CONTINGENT ASSETS

ČD Cargo, a.s. records contingent assets resulting from a CZK 103 million penalty for trading partners. Penalty refers to delayed deliveries of repaired freight wagons that have not been completed according to contractual terms. As the business partners dispute this penalty, ČD Cargo, a.s. in accordance with IFRS 15, records these assets as contingent assets and are not recognized in the financial statements as of 31 December 2019.

20. Received and Issued Bank Guarantees

20.1. BANK GUARANTEES ISSUED

Bank guarantees issued by ČD Cargo, a.s. in Komerční banka, a.s., from the contractual limit of CZK 50 million as of 31 December 2019.

List of active bank guarantees issued by ČD Cargo, a.s. as of 31 December 2019

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	227,267.177	EUR	20.9.2020	Bank guarantee to fulfil all liabilities and obligations under the rental agreement with West Invest Waterfront Towers Ltd. - Lighthouse.
HYPARKOS, s.r.o., Škrétova 490/12, 120 00 Prague 2	Warranty for rent	16,517,056	CZK	30.6.2020	Bank guarantee in the event that ČD Cargo, a.s. does not comply with the obligations under rental agreement of buildings and land in the Logistics Centre in Lovosice.
Celní úřad pro Jihočeský kraj, Kasárenská 6, 370 21 České Budějovice	Customs guarantee	500,000	CZK	Unlimited	Guarantor's undertaking - comprehensive guarantee; issued to the South Bohemian Region Customs Office to secure the customs debt and other charges
Celní úřad pro Jihočeský kraj, Kasárenská 6, 370 21 České Budějovice	Customs guarantee	3,500,000	CZK	Unlimited	Warranty deed for the purpose of securing duties by a comprehensive principal by the customs agent, acting on the basis of direct representation; issued to the South Bohemian Region Customs Office

20.2. Bank guarantees received

List of active bank guarantees received by ČD Cargo, a.s. as of 31 December 2019

In behalf of	Type of guarantee	Amount	Currency	Termination date	Reason for bank guarantee
Siemens, s.r.o., Prague 13, Siemensova 1, postal code 155 00	Unicredit Bank Czech Republic and Slovakia, a.s.	1,191,000	EUR	31.07.2020	Ensuring the delivery of interoperable locomotives for the needs of ČD Cargo, a.s., and operability under warranty.
Siemens, s.r.o., Prague 13, Siemensova 1, postal code 155 00	Unicredit Bank Czech Republik and Slovakia, a.s.	1,438,000	EUR	30.04.2021	Ensuring the delivery of interoperable locomotives for the needs of ČD Cargo, a.s., and operability under warranty.
Siemens, s.r.o., Prague 13, Siemensova 1, postal code 155 00	Unicredit Bank Czech Republik and Slovakia, a.s.	719,000	EUR	31.12.2021	Ensuring the delivery of interoperable locomotives for the needs of ČD Cargo, a.s. for the installation of ETCS 3.6.0. version
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 the delivery of 500 new railway freigh wagons of EANOS line.
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	51,348,000	CZK	15.06.2020	Ensuring the delivery of new diesel locomotives 753.6 series for securing railway operations in ČD Cargo, a.s.
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	42,727,500	CZK	24.04.2020	Ensuring the delivery of new diesel locomotives for securing railway operations in ČD Cargo, a.s.
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	2,848,500	CZK	26.09.2020	Ensuring the delivery of new diesel locomotives of the 744.110 series for ecuring railway operations in ČD Cargo, a.s.
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	2,848,500	CZK	30.09.2020	Ensuring the delivery of new diesel locomotives of the 744.111 series for securing railway operations in ČD Cargo, a.s.
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	2,848,500	CZK	30.09.2020	Ensuring the delivery of new diesel locomotives of the 744.112 series for securing railway operations in ČD Cargo, a.s
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	17,670,000	CZK	26.01.2020	Ensuring the obligation during modernisation of the selected locomotive (prototype) from the public contract "Implementation of the modernization of 50 locomotives 742 series".
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	5,890,000	CZK	27.12.2020	Ensuring proper performance pursuant to Article 12.2. (prototype) from the public contract "Performing modernization of 50 locomotives 742 series".
CZ Loko, a.s.; Semanínská 580; 560 02 Česká Třebová	Československá obchodní banka, a.s.	592,500	EUR	20.11.2020	Ensuring the obligation during the Switch-off of phase of selected locomotive (prototype) from the public contract "Modernization of 50 Locomotives 742 series".
ČD - Telematika a.s., Pernerova 2819/2a, 130 00 Prague 3 and **AŽD Praha s.r.o.,** Žirovnická 3146/2, 106 00 Prague 10	Komerční banka, a.s.	4,867,314	EUR	17.03.2022	Ensuring the realization of the public contract "Delivery and installation of the mobile part of ETCS in selected traction vehicles of ČD Cargo, a.s. 163 and 363 series" and Switch-off and Switch-on phases in the Czech and Slovak Republics.
SMK, s.r.o., Dukelskych hrdinov 10/143; 960 01 Zvolen, Slovakia	Raiffeisenbank a.s.	8,000,000	CZK	31.12.2019	Ensuring the obligation related to the transfer for consideration of part of the fleet of railway freight wagons Eas series.
SMK, s.r.o., Dukelskych hrdinov 10/143; 960 01 Zvolen, Slovakia	Raiffeisenbank a.s.	8,000,000	CZK	31.07.2020	Ensuring the obligation related to the transfer for consideration of part of the fleet of railway freight wagons faccs, falls, eas series
TATRAVAGÓNKA, a.s., Štefánikova 887/53; 05801 Poprad, Slovakia	COMMERZBANK Aktiengesellschaft, pobočka Praha	148,200	EUR	31.10.2020	Ensuring the supply of 20 new tank wagons of Zacns type, according to exercised option from 11.9.2019.
Trojek, a.s., V jámě 1371/8, 110 00 Prague 1	Česká spořitelna, a.s.	13,600,000	CZK	31.07.2020	Ensuring the disposal of 1,000 units of unused and non-serviceable wagons - third wave.
Metrostav, a.s., Koželužská 2450/4, 180 00 Prague 8	Raiffeisenbank a.s.	2,966,678	CZK	14.06.2024	Ensuring the construction of a new steel hall for cleaning railway vehicles in the Repair centres of the railway wagons (SOKV Ustí nad Labem).

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, they are: the iron and engineering products, brown and black coal, building materials, food and agricultural products, chemicals and liquid fuels, wood and paper products, automotive, and also combined transportation and shipping of other consignments including those indicated as being extraordinary. Transportation of these goods is conducted in two types of products: individual wagon loads and complete trains. Complete trains are the most convenient type of transportation for larger shipments that go directly from the sender to the recipient without any shift work. Conversely, transportation of cargo by individual wagon or group of wagons is used by the customer for shipping of smaller volumes of goods. Among railway carriers in the Czech Republic, only ČD Cargo, a.s. offers individual wagon loads within the entire railway network, because it is technologically more demanding in comparison to complete trains. Individual wagon loads from the sender are delivered to the nearest marshalling station by a so-called handling train. With the use of the long-range train, wagons are then sent to the marshalling station that is the closest to the recipient, and then delivered to him again using the handling train.
- Within the segment of complementary services for transportation, additional services for the handling of goods are offered, which are directly related to the shipping of goods by rail, meaning collection and loading of goods including storage, shuttle service, i.e. parking and removal of wagons to and from the factory siding, ensuring the shift to siding, shifting cars before furnishing the siding, forwarding operations, complex customs procedures for all types of transportation, including contact with government authorities, etc. Lease of unused capacity of locomotives and wagons to external entities is also offered within this segment. Last but not least, there is also the repair and maintenance of locomotives and wagons for the internal needs of ČD Cargo Group, as well as for external customers, which is performed in different rail vehicles repair centres.

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. The Group does not monitor the other information.

2019 (CZK million)	Transportation	Additional services	Elimination	Total
Revenue from the principal operations	**11,606**	**3,591**	**(2,160)**	**13,037**
- within the Group	*1,650*	*510*	*(2,160)*	*-*
- outside the Group	*9,956*	*3,081*	*-*	*13,037*
Purchased consumables and services	**(5,331)**	**(2,655)**	**2,275**	**(5,711)**
Traction costs	(1,249)	-	-	(1,249)
Payment for the use of the railway route	(954)	(2)	-	(956)
Other purchased consumables and services	(3,128)	(2,653)	2,275	(3,506)
Personnel costs	**(4,135)**	**(427)**	**(1)**	**(4,563)**
Payroll costs including insurance	(3,933)	(410)	(1)	(4,344)
Other social costs	(33)	(20)	-	(53)
Benefits arising from the collective agreement	(169)	3	-	(166)
Other operating revenues	71	492	(142)	421
Other operating expenses	(151)	(196)	6	(341)
Depreciation	(1,454)	(339)	(62)	(1,854)
Interest expense	(175)	(23)	-	(198
Other financial expenses	(79)	(13)	(25)	(117)
Other financial income	87	18	13	118
Profit before tax	**439**	**448**	**(96)**	**791**
Income tax	(92)	(89)	(2)	(183)
Profit for the period	**347**	**359**	**(98)**	**608**

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	**(5,672)**	**(2,482)**	**1,865**	**(6,289)**
Traction costs	(1,367)	-	-	(1,367)
Payment for the use of the railway route	(1,124)	(2)	-	(1,126)
Other purchased consumables and services	(3,181)	(2,480)	1,865	(3,796)
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	(1,120)	(182)	23	(1,279)
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**

22. Revenue

(CZK million)	2019	2018
Revenue from freight transportation:	**11,787**	**11,869**
Revenue from freight transportation - local	4,217	4,134
Revenue from freight transportation - foreign	7,570	7,735
– Revenue from freight transportation - Germany	2,385	2,478
– Revenue from freight transportation - Slovakia	1,048	1,383
– Revenue from freight transportation – Poland	1,095	1,493
– Revenue from freight transportation – Austria	886	778
– Revenue from freight transportation – Italy	210	202
– Revenue from freight transportation – Slovenia	-	195
– Revenue from freight transportation – Hungary	-	210
– Revenue from freight transportation – Romania	220	170
– Revenue from freight transportation – Kazakhstan	-	151
– Revenue from freight transportation – Ukraine	365	-
– Revenue from freight transportation – Russia	230	-
– Revenue from freight transportation – other countries	1,131	675
Other revenue from freight transportation:		
– Other revenue from freight transportation- local	363	345
– Other revenue from freight transportation- foreign	175	180
Other freight revenue recognized over time	**538**	**525**
Other revenue related to transportation	233	223
Total revenue from customer contracts	**12,558**	**12,617**
Revenue from lease	479	459
Total revenue	**13,037**	**13,076**

Revenue from lease includes revenues from short-term and occasional leases of freight wagons and railway traction vehicles, see Note 19.2.

Other revenue from freight transportation include mainly revenues from services performed at 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.

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

Railway transportation companies (national carriers)

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

Other companies

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

22.1. CONTRACT LIABILITIES AND REFUNDS

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

Refunds liabilities (CZK million)	31 Dec 2019	31 Dec 2018
Refunds liabilities	18	31
Total refunds liabilities	**18**	**31**

22.2. REMAINING PERFORMANCE OBLIGATIONS

Remaining liabilities (CZK million)	31 Dec 2019	31 Dec 2018
Revenue from freight transport	15	26
Other revenue from freight transport	1	2
Other revenue from principal activity	1	1
Other revenue from operating activity	1	2
Total	**18**	**31**

23. OTHER OPERATING INCOME

(CZK million)	2019	2018
Gain from sale of property, plant and equipment	51	35
Gain from disposal of unnecessary assets	51	69
Compensations for deficits and damage	52	53
Contractual penalties and default interest	10	8
Foreign exchange gains - operational	134	95
Changes in provisions	-	1
Changes in impairment allowance for receivables	51	1
Changes in impairment allowance all for tangible fixed assets and rights-of-use	30	-
Dividends received	-	-
Other	42	25
Total other operating income	**421**	**287**

24. Services, Rental, Material and Energy Consumption

(CZK million)	2019	2018
Traction costs	**(1,276)**	**(1,367)**
– Traction fuel (diesel)	*(408)*	*(432)*
– Traction electricity	*(868)*	*(935)*
Payment for the use of railway route	**(1,006)**	**(1,126)**
Other purchased consumables and services	**(3,429)**	**(3,796)**
– Consumed material	*(279)*	*(308)*
– Consumed other energy	*(92)*	*(83)*
– Consumed fuel	*(13)*	*(12)*
– Repairs and maintenance	*(260)*	*(333)*
– Travel costs	*(64)*	*(64)*
– Telecommunication, data and postal services	*(58)*	*(57)*
– Other rental	*(85)*	*(155)*
– Rental for rail vehicles	*(175)*	*(686)*
– Transportation charges	*(1,818)*	*(1,488)*
– Services associated with the use of buildings	*(46)*	*(41)*
– Operational cleaning of rail vehicles	*(4)*	*(5)*
– Border area services	*(187)*	*(182)*
– Advertising and promotion costs	*(15)*	*(11)*
– Leasing	*(1)*	*(11)*
– Infrastructure capacity allocation	*(26)*	*(28)*
– IT	*(146)*	*(133)*
– Performances of fire brigade service	*(1)*	*(10)*
– Services in the field of ecology	*(9)*	*(8)*
– Other services	*(150)*	*(181)*
Total services, material and energy consumption	**(5,711)**	**(6,289)**

Traction electricity for the period from 1 January 2019 to 31 December 2019 includes mainly traction electricity purchased from Správa železnic, s.o, in the amount of CZK 788 million (in 2018: CZK 828 million and the supplier was České dráhy, a.s.).

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 and other companies in the PricewaterhouseCoopers network are presented in following table:

(CZK million)	2019	2018
Statutory audit of annual financial statements (including subsidiaries)	(2)	(4)
Other services (including subsidiaries)*	(11)	(3)
Total	**(13)**	**(7)**

* warehouse optimisation projects in the Parent Company

25. Employee Benefit Costs

(CZK million)	2019	2018
Payroll costs	(3,205)	(3,113)
Severance pay	(28)	-
Pension benefits	(863)	(828)
Other social security and health insurance	(356)	(371)
Emoluments to key management	(58)	(54)
Other employee benefit costs	(53)	(41)
Total employee benefit costs	**(4,563)**	**(4,407)**

Other employee benefit costs mainly includes employee training costs.

Average recalculated total number of employees within the Group:

	2019	2018
Employees	7,115	7,134
Key management	30	31
Average recalculated total number of employees	**7,145**	**7,165**

Key management consists of the Board of Directors and the Supervisory Board of individual companies. The Parent Company's key management includes also the Audit Committee. More detailed information on the Parent Company is disclosed in Note 1.5.

Key management compensation:

(CZK million)	2019	2018
Short-term benefits	(43)	(40)
Pension benefits	(10)	(9)
Other social and health contributions	(5)	(5)
Total key management compensation	**(58)**	**(54)**

26. Depreciation and Amortisation

(CZK million)	2019	2018
Depreciation of property, plant and equipment (Note 5)	(1,133*)	(1,191)
Depreciation of leasing – IFRS 16	(654**)	-
Amortisation of intangible assets (Note 6)	(68)	(88)
Total depreciation and amortisation	**(1,855)**	**(1,279)**

* in Note 5 the net book value of disposed assets amounting to CZK 102 million is reported in addition to depreciation.

** Depreciation of finance leases was included in Depreciation of property and equipment

27. Other Operating Expenses

(CZK million)	2019	2018
Change in provisions for property, plant and equipment	-	(83)
Change in inventory allowances	(6)	-
Costs of contractual penalties and default interest	(14)	(12)
Taxes and fees	(10)	(6)
Foreign exchange losses - operating	(125)	(93)
Premium	(84)	(81)
Recurrent losses	(24)	(31)
Other	(78)	(62)
Total other operating expenses	**(341)**	**(368)**

28. Financial Expenses

(CZK million)	2019	2018
Interest on bank overdraft accounts and loans	(14)	(2)
Interest on finance lease payables and leasebacks	(68)	(91)
Interest on lease obligations - IFRS 16	(84)	-
Interest expense – bonds	(39)	(28)
Other interest expense	(6)	(11)
Unwinding of the discount of provisions	(2)	(3)
Derivative transactions costs	-	(1)
Exchange rate losses – financial	(96)	(90)
Bank expenditures	(3)	(3)
Other financial expenses	(3)	(14)
Total financial expenses	**(315)**	**(243)**

29. Financial Income

(CZK million)	2019	2018
Exchange rate gains - financial	101	86
Other financial income	3	3
Total financial income	**104**	**89**

30. Income Tax

30.1. INCOME TAX RECOGNIZED IN PROFIT OR LOSS

(CZK million)	2019	2018
Current income tax for the period recognized in the Statement of profit or loss	(118)	(64)
Deferred tax recognized in the Statement of profit or loss	(65)	(151)
Total income tax expense	**(183)**	**(215)**

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

(CZK million)	2019	2018
Profit before tax	791	878
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected income tax expense	(150)	(167)
Adjustments:		
Effect of the different income tax rate in other countries	13	(7)
Other non-deductible expenses	(47)	(54)
Non-taxable income	8	39
Income tax related to prior periods	(7)	(26)
Income tax recognized in profit or loss	**(183)**	**(215)**

30.2. INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME

(CZK million)	2019	2018
Revaluation of financial instruments recognized as cash flow hedges	(10)	23
Total income tax recognized in other comprehensive income	**(10)**	**23**

30.3. DEFERRED TAX

(CZK million)	Non-current assets	Provisions	Leases	Receivables	Derivatives	Other	Total
Balance as of 1 January 2018	**1,146**	**(156)**	**510**	**(18)**	**17**	**-**	**1,499**
Deferred tax recognized in statement of profit or loss	71	8	72	(2)	-	2	151
Deferred tax recognized in other comprehensive income	-	-	-	(1)	(22)	-	(23)
Balance as of 31 December 2018	**1,217**	**(148)**	**582**	**(21)**	**(5)**	**2**	**1,627**
Adjustment according to IFRS 16			(10)			0	(10)
Balance as of 1 January 2019	**1,217**	**(148)**	**572**	**(21)**	**(5)**	**2**	**1,617**
Deferred tax recognized in statement of profit or loss	(3)	4	47	13	-	4	65
Deferred tax recognized in other comprehensive income	-	-	-	-	10	-	10
Balance as of 31 December 2019	**1,214**	**(144)**	**619**	**(8)**	**5**	**6**	**1,692**

* For the application of the new IFRS, see Note 3.1.

31. Related Party Transactions

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

31 Dec 2019 (CZK million)	Receivables	Payables
České dráhy, a.s.	**6**	**117**
RAILLEX, a.s.	3	-
BOHEMIAKOMBI, spol. s r.o.	1	-
Ostravská dopravní společnost, a.s.	15	-
Ostravská dopravní společnost - Cargo, a.s.	3	11
Joint ventures and associated companies	**22**	**11**
ČD - Telematika a.s.	-	9
ČD - Informační Systémy, a.s.	-	109
DPOV, a.s.	1	20
ČD Relax s.r.o.	-	2
Dopravní vzdělávací institut, a.s.	-	1
Výzkumný Ústav Železniční, a.s.	9	-
Other companies in the České dráhy Group	**10**	**141**
Total	**38**	**269**

31 Dec 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 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	**38**	**368**

Related party transactions were conducted at an arm's length basis reflecting the amount of purchased goods and relationships between parties.

Outstanding balances are not collateralized and will be paid by non-cash payment or by netting. No guarantees were received or provided.

31.2. INCOME FROM RELATED PARTIES TRANSACTIONS

2019 (CZK million)	Sale of tangible fixed assets	Sale of services	Other income	Total
České dráhy, a.s.	1	21	1	23
DPOV, a.s.	-	4	-	4
Výzkumný Ústav Železniční, a.s.	-	44	-	44
RAILLEX, a.s.	-	27	-	27
BOHEMIAKOMBI, spol. s r.o.	-	13	-	13
Ostravská dopravní společnost, a.s.	-	53	-	53
Ostravská dopravní společnost - Cargo, a.s.	-	24	2	26
Total	**1**	**186**	**3**	**190**

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**

31.3. PURCHASE FROM RELATED PARTIES

2019 (CZK million)	Assets	Material and energy	Services	Other expenses	Financial expenses	Total
České dráhy a.s.	50	531	124	7	7	719
ČD - Telematika a.s.	2	2	18	-	-	22
ČD - Informační Systémy, a.s.	71	5	113	-	-	189
DPOV, a.s.	54	15	2	-	-	71
ČD Relax s.r.o.	-	-	18	-	-	18
Dopravní vzdělávací institut, a.s.	-	-	21	-	-	21
JLV, a.s.	-	-	2	-	-	2
RAILLEX, a.s.	-	-	4	-	-	4
Ostravská dopravní společnost - Cargo, a.s.	-	-	55	-	-	55
Total	**177**	**553**	**357**	**7**	**7**	**1,101**

Purchases from České dráhy, a. s., in 2019 represented mainly purchased traction energy in the amount of CZK 788 million and motor diesel worth CZK 406 million.

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**

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

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

31.4.1. Sales

In 2019, no significant sales of assets to related parties were made.

31.4.2. Purchases

Purchases (CZK million)	Intangible assets	Property, plant and equipment	Intangible assets	Property, plant and equipment
	2019	2019	2018	2018
České dráhy, a.s.	-	50	-	25
ČD - Telematika, a.s.	-	2	-	-
ČD - Informační Systémy, a.s.	60	11	53	2
DPOV, a.s.	-	54	-	10
Total	**60**	**117**	**53**	**37**

31.5. LOANS FROM RELATED PARTIES

On October 17, 2016, the Company drew a loan from České dráhy, a.s., in the amount of CZK 540 million to finance the purchase of series 383 locomotives (Vectron). As of 31 December 2018, the loan balance is divided into a long-term portion of CZK 281 million and a short-term portion of CZK 74 million. As of 31 December 2019, the loan balance is divided into a long-term portion of CZK 205 million and a short-term portion of CZK 73 million. The loan is disclosed in Note 15. "Loans, borrowings and bonds".

As of 19 December 2019, ČD Cargo, a.s. drew a loan in the amount CZK 250 million on the basis of Mutual credit facility agreement from the parent company České dráhy, a.s. The maturity of the loan is set at 18 March 2020. The interest rate is 2.30 % p.a. The loan is disclosed in Note 15 "Loans, borrowings and bonds".

31.6. RELATIONS WITH SPRÁVA ŽELEZNIC

The costs incurred in relation to Správa železnic, s.o. predominantly include the fees for the allocation of capacity and use of the railway route in the years 2019 and 2018. The costs for the years 2019 and 2018 are disclosed in Note 24.

In 2019, the income of the Group includes sales from intrastate wagonload transport in the amount of CZK 14 million in particular. In 2018: CZK 15 million.

Expenses and income of the Group resulting from the transactions conducted with Správy železnic, s.o. in 2019 and 2018 were as follows:

31 Dec 2019 (CZK million)	Expenses	Income
Operation of railway route	1	-
Use of the railway route and allocated route capacity	909	-
Property rental	11	-
Electric traction energy	778	-
Revenue from freight transportation	-	16
Performance of firefighter emergency services	1	-
Telecommunication services	41	-
Contractual fines and default interest	17	-
Compensation of damages	8	12
Extraordinary events investigation	3	-
Repairs and maintenance	1	-
Other	12	4
Total	**1,782**	**32**

31 Dec 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**

As a result of the activities above, the Group records receivables and payables to Správa železnic, s.o.:

Receivables (CZK million)	31 Dec 2019	31 Dec 2018
Revenues from freight transportation	2	3
Estimated receivables	11	3
Other	69	5
Total	**82**	**11**

Payables (CZK million)	31 Dec 2019	31 Dec 2018
Use of railway route and allocated capacity of the railway – freight transport	182	212
Property rental – expenses and income	-	-
Electric traction energy	17	-
Court settlement – traction energy	26	89
Settlement Agreement – exclusions	5	18
Court verdict - exclusions	-	-
Radio communication technology	9	12
Other	4	20
Estimated payables	85	33
The fee for the use of transport infrastructure	1	-
Compensation of damaged caused by extraordinary events	4	2
*Uncollected capacity ŽDC**	10	14
Electric traction energy	60	
*Performance of HZS***	4	10
Heat supply	6	6
Office space rental	-	-
Other estimated payables	4	1
Total	**328**	**384**

* untaken capacity of railway infrastructure
** fire rescue service performances

The amount of CZK 5 million is the short-term part of the liability relating to the compensation for damage caused by the exclusions of the Správy železnic, s.o. based on a judicial decision dated 15 January 2014. In 2018, this liability was CZK 18 million.

The amount of CZK 26 million is the short-term part of the liability relating to the settlement of the out-of-court agreement on the dispute over the price of traction energy consumed during the 2009 accounting period. In 2018, this liability was in the amount CZK 89 million.

31.7. RELATIONS WITH ČEZ GROUP

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

31 Dec 2019 (CZK million)	Expenses	Income
Use of railway route and allocated capacity of the railway	1	-
Revenue from freight transportation	-	256
Heat energy	9	-
Other	1	2
Total	**11**	**258**

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

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

Receivables (CZK million)	31 Dec 2019	31 Dec 2018
Revenue from freight transportation	18	40
Total	**18**	**40**

Given the activities above, the Group records the following payables to the ČEZ Group:

Payables (CZK million)	31 Dec 2019	31 Dec 2018
Other	1	-
Estimated payables	1	-
Heat supply	1	-
Total	**2**	**-**

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 2019 (CZK million)	Terminál Brno, a.s.	ČD-DUSS Terminál, a.s.	Total
Non-controlling interests of	**33.07%**	**49%**	
Share capital	**24**	**2**	**26**
Retained earnings – current period	2	3	5
Retained earnings	2	3	5
Total	**28**	**8**	**36**

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**

32.2. SUMMARY OF FINANCIAL INFORMATION – COMPANIES WITH NON-CONTROLLING INTERESTS

31 December 2019 (CZK million)	Terminál Brno, a.s.	ČD-DUSS Terminál, a.s.
Total assets	**86**	**21**
Non-current assets	69	6
Current assets	17	15
Total liabilities	**4**	**3**
Current liabilities	4	3
Net assets	82	18
Share of net assets – non-controlling interests	**28**	**8**
Share of net assets – the Group	**54**	**10**

31 December 2018 (CZK million)	Terminál Brno, a.s.	ČD-DUSS Terminál, a.s.
Total assets	**80**	**15**
Non-current assets	63	6
Current assets	17	9
Total liabilities	**2**	**3**
Current liabilities	2	3
Net assets	78	12
Share of net assets – non-controlling interests	**26**	**6**
Share of net assets – the Group	**52**	**6**

(CZK million)	2019	2018
Total income	80	63
Profit for the period	11	6
Share of net assets – non-controlling interests	**4**	**2**
Share of net assets – the Group	**7**	**4**

33. Financial Instruments

33.1. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that it is able to continue as a going concern while optimizing the ratio between external and own resources. According to bank requirements, the maximum target ratio between foreign and own funds is 70 % (according to the internal targets set at 65 %).

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 2019	31 Dec 2018
Loans, borrowings and bondsy	15	10,052	5,223
Cash and cash equivalents	12	(471)	(725)
Total net debt		**9,581**	**4,498**

(CZK million)		31 Dec 2019	31 Dec 2018
Share capital	13	8,494	8,494
Capital funds	13	444	360
Retained earnings/accumulated losses		752	240
Total equity		**9,690**	**9,094**

The Group is not subject to any capital requirements from the external parties.

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. CATEGORIES OF FINANCIAL INSTRUMENTS

Categories of financial assets under IFRS 9 (CZK million)	Categories of financial assets under IAS 39	Classes of financial assets	Note	31 Dec 2019	31 Dec 2018
Financial assets at amortised cost	Loans and receivables	Cash and cash equivalents	12	471	725
		Trade receivables	9	1,602	1,756
		Other financial assets	10	280	497
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	24	8
Total				**2,377**	**2,986**

Categories of financial assets under IFRS 9 (CZK million)	Categories of financial assets under IAS 39	Classes of financial assets	Note	31 Dec 2019	31 Dec 2018
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
		Other financial liabilities – other derivatives	17	-	-
Financial liabilities at amortised cost	Financial liabilities at amortised cost	Finance lease and leaseback liabilities	15	4,553	1,816
		Issued bonds	15	4,791	3,010
		Loans	15	708	397
		Trade payables	14	2,230	2,209
		Liabilities arising from supplier loans	17	4	45
		Liabilities from settlement agreements	17	31	102
		Other financial liabilities	17	160	47
Total				**12,477**	**7,664**

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

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)	2019	2018	Presented in statement of profit or loss
Interest on cash and cash equivalents	1	-	Financial income
Total	**1**	**-**	

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

33.3. FINANCIAL RISK MANAGEMENT OBJECTIVES

The Department of Financial Management and Risks provides services to the Group, monitors and manages the financial risks related to the operations of the Group. Financial risks include market risks (currency, interest rate and commodity risk), credit risk and liquidity risk.

33.4. 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 2019 (CZK million)	EUR	USD	Other	Total
Financial assets	1,422	4	36	1,462
Financial liabilities	(1,175)	(11)	(38)	(1,224)
Total	**247**	**(7)**	**(2)**	**238**

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**

33.4.1. 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)	2019	2018
Translation of item denominated in foreign currencies at the end of the period	(9)	(30)
Change in the fair value of derivatives at the end of the period	-	(6)
Total impact on the profit for the period	**(9)**	**(36)**
Change in the fair value of derivatives at the end of the period	71	94
Total impact on the other comprehensive income	**71**	**94**

If the Czech currency weakened by CZK 1, the values would be the same only with the opposite sign.

33.4.2. 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 par forward 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, then converted into foreign currency earnings (EUR) in the Group's currency (CZK). The maximum hedging volumes are set in the Financial Risk Management Strategy of ČD Cargo, a.s. as follows:

- For 2020, a maximum 80 % of the underlying asset (expected balance in EUR);
- For 2021, a maximum 65 % of the underlying asset (expected balance in EUR);
- For 2022, 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 par forward. 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 on 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	Fair value
31 December 2019	26.162	EUR	1,884	21
31 December 2018	25.969	EUR	2,493	(18)

Open foreign currency forwards and options to buy foreign currency were not closed in 2018. In 2019, three foreign currency forwards were closed.

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 2019 (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	102	203	915	610	-	1,830

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

33.5. 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.

33.5.1. 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)	2019	2018
Interest from loans and lease with variable rate for the period	(11)	(19)
Change in the present value of long-term provisions at the end of the period	-	-
Total impact on the profit for the period	**(11)**	**(19)**
Change in the fair value of derivatives at the end of the period	-	-
Total impact on other comprehensive income	**-**	**-**

If interest rates were reduced by 200 basis points, the values would be the same with the opposite sign only.

33.5.2. 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.

For the Group, the interest rate risk represent the fluctuation of overdraft interest rates and sources of funding at a floating interest rate. The Parent Company has decided to reduce the risk by hedging interest rates on the part of its floating-rate funding sources.

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, a.s. expects a high efficiency of hedging.

Swaps nominal values are the same as the nominal values of the respective volume of individual leases. The floating 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, a.s. 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 Dec 2019	Average contracted fixed interest rate	Principal CZK million	Fair value of assets (liabilities) CZK million
Less than 1 year	3.250%	13	-
1 to 5 years	3.250%	-	-
Total			**-**

31 Dec 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)**

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. COMMODITY RISK MANAGEMENT

The Group is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically diesel 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 diesel purchase,
- The risk arising from the purchase of electricity from the relevant supplier is eliminated by the purchase of the annual consumption at the fixed contractual price.

33.6.1. 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 diesel 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)	2019	2018
Change in the fair value of derivatives at the end of the period	-	-
Total impact on the profit for the period	**-**	**-**
Change in the fair value of derivatives at the end of the period	12	8
Total impact on other comprehensive income	**12**	**8**

In the case of a 10 % reduction in the price of diesel, the values would only be the same with the opposite sign.

33.6.2. Commodity Derivatives

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

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 diesel, i.e. 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:

- 2020, a maximum of 80 % of the underlying asset (expected volume of diesel purchased);
- For 2021, a maximum of 65 % of the underlying asset (expected volume of diesel purchased);
- For 2022, a maximum of 50 % of the underlying asset (expected volume of diesel 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 diesel.

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 potential inefficiency may arise due to unsecured components of the total diesel price (i.e. various surcharges, the impact of biodiesel prices, excise duty, etc.) and a significant decline in the counterparty's creditworthiness. 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 diesel as of the end of the accounting period:

Purchase of diesel	Hedged average (CZK/mt*)	Volume of contract (mt*)	Fair value (CZK million)
31 Dec 2019	12,912	9,600	4
31 Dec 2018	12,920	7,200	(11)

* mt = metric ton

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 2019 (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	63	50	-	134

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

33.7. 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:
- Corporate customers
- Financial institutions

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 advance payments 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.

At the same time, the development of the number of receivables, revenues and transport performance by individual companies is monitored using reports. The overview shows the payment discipline of individual customers according to the selected period of time.

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 rates determined for trade receivables.

Expected credit loss rates are determined under the payment profile and sales for the 5-year prior period until 1 December 2019, respectively 31 December 2019 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 indexes, 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 willingness to meet its obligations to the Group. The analyzes were conducted on the basis of conditions and expectations as of December 31, 2019. They do not take into account the possible impacts of the expected economic downturn due to the spread of COVID-19 since February 2020.

Overview of impairment for short-term receivables

31 Dec 2019	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%	1%	1%	80%	100%	98%	6%
Short-term trade receivables - Gross residual value	1,441	142	30	5	23	61	1,702
Expected credit loss	**(5)**	**(2)**	**(6)**	**(4)**	**(23)**	**(60)**	**(100)**
Individual expected credit loss	-	-	-	-	-	-	-
Expected credit loss total	**(5)**	**(2)**	**(6)**	**(4)**	**(23)**	**(60)**	**(100)**

* impairment matrix = % of allowance from historical developments + % of considered future development = % of total allowance

1 Jan 2019	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)**

* impairment matrix = % of allowance from historical developments + % of considered future development = % of total allowance

Movement of provision for doubtful debts (CZK million)	2019	2018
Adjustments as of 1 January	**148**	**145**
Creation of adjustments - trade receivables	77	58
Use of adjustments - trade receivables	(67)	(42)
Write-offs - trade receivables	(58)	(13)
Adjustments as of 31 December	**100**	**148**

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.

Amount of receivables (CZK million)	2019	2018
Gross receivables – not overdue	1,441	1,629
Allowance – not overdue 0.3%	(5)	(5)

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).

Short-term liabilities exceed short-term assets by approximately CZK 2,900 million, but the Group has contracted funding of up to CZK 3,500 million (bills of exchange and overdrafts), which is why the Group's operations are secured in the foreseeable future.

33.8. 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 Note 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 2019, the Parent Company issued bonds in the aggregate volume of CZK 4,770 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 traction vehicles. 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 700 million beyond the cash pooling limit from České dráhy, a.s. During the years 2018 and 2019, the promissory notes programme was not used by the Group.

In addition, on 19 December 2019, a loan of CZK 250 million was drawn on the basis of the Agreement on mutual credit frames in the form of drawdown beyond cash-pooling from the parent company České dráhy, a.s. The maturity of the loan is set at 18 March 2020.The interest rate is 2.30 % p.a.

33.8.1. 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 yield curve valid at the end of the reporting period. It may vary if the interest rates differ from the estimates.

31 Dec 2019 (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	1,452	874	99	1	-	2,426
Liabilities from finance and leaseback	32	63	283	1,021	332	1,731
Lease liabilities*	-	1	708	2,430	73	3,212
Variable interest rate instruments – loan	3	266	-	289	-	558
Fixed interest rate instruments - bonds	156	-	1,094	1,273	2,850	5,373
Celkem	**1,643**	**1,204**	**2,184**	**5,014**	**3,255**	**13,300**

* implementation of IFRS 16

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	161	75	480	1,041	159	1,916
Lease liabilities*	2	5	22	36	-	65
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**

* Comparable IAS 17, prior to IFRS 16 implementation

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.

31 Dec 2019 (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	1,701	408	142	100	-	2,351
Hedging derivatives	2	4	8	10	-	24
Total	**1,703**	**412**	**150**	**110**	**-**	**2,375**

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**

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.

33.8.2. 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 Jan 2018	**125**	**354**	**529**	**1,634**	**3**	**1,997**	**4,642**
Cash flows from financing activities	(110)	25	(348)	-	-	998	565
Credit, loans and bonds drawings	17	25	196	-	-	998	1,235
Credit, loans and bonds repayments	*(127)*	-	*(543)*	-	-	-	*(670)*
Non-monetary flows:							
Consequences of changes in exchange rates	(3)	7	-	12	-	-	16
Loans and credits classified as of 1 January 2018 as long-term, which became short-term during 2018	79	(79)	496	(508)	-	-	(12)
Other non-monetary movements	-	-	-	-	12	-	12
Liabilities from financing activities as of 31 Dec 2018	**91**	**306**	**678**	**1,138**	**15**	**2,995**	**5,223**
IFRS 16 amendments	-	-	630	2,371	-	-	3,001
Liabilities from financing activities as of 1 Jan 2019	**91**	**306**	**1,308**	**3,509**	**15**	**2,995**	**8,224**
Cash flows from financing activities	214	96	(1,514)	527	-	1,770	1,093
Credit, loans and bonds drawings	310	96	-	527	-	1,770	2,703
Credit, loans and bonds repayments	*(96)*	-	*(1,514)*	-	-	-	*(1,610)*
Non-monetary flows:							
Consequences of changes in exchange rates	4	(3)	(27)	12	-	-	(14)
Loans and credits classified as of 31 December 2018 as long-term, which became short-term during 2019	82	(82)	1,078	(1,078)	1,000	(1,000)	-
Other non-monetary movements	-	-	116*	622*	11	-	749
Liabilities from financing activities as of 31 Dec 2019	**391**	**317**	**961**	**3,592**	**1,026**	**3,765**	**10,052**

* Other non-monetary movements in the lease liability columns are due to the recalculation of the value of the lease contract for an indefinite period as at 31 December 2019, the increase in new contracts and the disposal of contracts for the period under IFRS 16

The Group uses the following financing facilities:

(CZK million)	31 Dec 2019	31 Dec 2018
Cash pooling:		
– loan facility at	*300*	*600*
Overdraft loans:		
– loan facility at	*1,713*	*1,210*
Promissory note programme*:		
– loan facility at	*1,500*	*1,500*
Total	**3,513**	**3,310**

* Internal approved limit for promissory note programme is CZK 1,500 million. The approved framework funding with the banks is approved for CZK 2,000 million.

The overdraft was drawn at the amount of CZK 156 million in 2019 from the above mentioned financing facilities. It was CZK 11 million in 2018.

33.9. STRATEGY FOR THE GROUP'S FINANCING IN SUBSEQUENT YEARS

33.9.1. Finance Lease

In February 2018, a new finance lease of two Vectron Siemens traction vehicles (HV 383 series) was realised. The lease term is 120 months and the fixed interest rate is 1.45 % p.a. The lease was made in EUR.

In 2019, a lease contract was concluded with ČSOB Leasing, a.s. for the purpose of financing 4 Siemens Vectron traction vehicles (HV 383 series). The contractual lease term is 120 months and the fixed interest rate is 1.34 % p.a. The lease was made in EUR. In the same year, a leasing contract was concluded with ČSOB Leasing, a.s. to finance 4 Effishunter traction vehicles (HV 744 series). The lease term is 120 months with the fixed interest rate of 1.91 % p.a. The lease was made in CZK.

In connection with the planned investments, it is expected that the Company will be using financing in the form of financial lease in the in subsequent years.

33.9.2. Operating Bank Loans

In funding its operating needs, the Group has overdraft limits on loans in the maximum amount of CZK 1,713 million provided by four banks. The stratification of the lending to several financing entities sufficiently diversifies related risks.

33.9.3. Promissory Note Programme

The Group 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. During 2018 and 2019, the promissory note programme was not used, however the promissory note framework is left as a form of short-term financing provision, directly independent of bank resources.

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

ČD Cargo, a.s. has contractually secured with the Parent Company České dráhy, a.s. the possibility to draw up financial resources of up to CZK 700 million (beyond the limit of group cash-pooling). On 19 December 2019, a loan of CZK 250 million was drawn on the basis of the Agreement on Mutual Credit Frames, beyond the limits of the cash-pooling agreement. The maturity of the loan is set at 18 March 2020. The interest rate is 2.30 % p.a.

33.9.5. Bonds

With a view to securing the mid-term and long-term resources of funding to increase the stability of the Group's cash flows, the relevant bodies of the ČD Cargo, a.s. approved the bond programme in the aggregate amount of CZK 6 billion for 10 years, which was updated in 2015 to the current legal status (effective for new issuance). On the basis of this programme, the first, second and third issues were gradually realised in 2011 with the aggregate nominal value of CZK 2 billion. In 2012, a second issue of bonds was realised by the issuance of two tranches of bonds with a total nominal value of CZK 500 million. In 2015, a new, fourth bonds issue was realised with the total nominal value of CZK 1,000 million and maturing bonds of CZK 1,000 million 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, on the basis of separate issue conditions and these bonds were admitted to trading on the regulated market of the Prague Stock Exchange. In 2019, another two bond issues were carried out, the eighth and ninth. The eighth issue was realised in the total nominal amount of CZK 1,000 million, followed by the ninth issue in the nominal value of bond of CZK 770 million.

As of 31 December 2019, ČD Cargo, a.s. has currently issued bonds worth CZK 4,770 million. 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 the Group will continue to use bond financing.

33.9.6. Supplier Loans

The Group plans to use supplier loans for individual investments where this form of financing will be effective.

33.9.7. Investment loan

The Company is considering the use of investment loans, if such form of financing would be effective.

33.9.8. Summary

The above-mentioned current and planned structure of funding creates a desired framework that allows the Group to maintain financial stability with the possibility of flexible use of individual forms according to actual needs and convenience.

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.).

33.10. FAIR VALUE OF FINANCIAL INSTRUMENTS

33.10.1. Fair values of financial instruments carried at amortised cost

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.

As of 31 December 2019, the fair value of the lease liability amounted to CZK 4,289 million. The fair value of lease liability calculated with the fixed rate is determined by the recalculation according to the current rate. This up-to-date rate is determined 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 2018, the fair value of the lease amounted to CZK 1,947 million.

As of 31 December 2019, the fair value of bonds of ČD Cargo, a.s. amounted to CZK 4,728 million, as of 31 December 2018 amounted to CZK 2,986 million. The fair value of bonds is recalculated based on the up-to date issue rate published by individual banks.

Financial assets (CZK million)	Level	Fair value as of 31 Dec 2019	Book value as of 31 Dec 2019	Fair value as of 31 Dec 2018	Book value as of 31 Dec 2018
Financial derivatives used in hedge accounting	Level 2	24	24	8	8
Loans, other financial assets	Level 2	-	-	-	-
Total		**24**	**24**	**8**	**8**

Financial liabilities (CZK million)	Level	Fair value as of 31 Dec 2019	Book value as of 31 Dec 2019	Fair value as of 31 Dec 2018	Book value as of 31 Dec 2018
Financial derivatives used in hedge accounting	Level 2	-	-	38	38
Trading financial derivatives	Level 2	-	-	-	-
Bonds issued	Level 2	4,728	4,791	2,986	3,010
Liabilities from finance lease and leaseback	Level 2	4,289	4,553	1,947	1,816
Total		**9,017**	**9,344**	**4,971**	**4,864**

Cash and cash equivalents, trade receivables and payables and other financial liabilities that were not presented in the table, were not presented because their fair value is equal to the carrying value, due to their short-term maturity. Furthermore, the table does not include a loan from České dráhy, a.s., due to the fair value is also the same as the book value.

33.10.2. 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 options valuation model is used for derivatives that include an option.

33.10.3. Fair Value Measurements Recognized in the Statement of Financial Position
Financial instruments measured at fair value are grouped into Levels from 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 2019 and 31 December 2018 were included in Level 2.

34. Post Balance Sheet Events

On 12 March 2020, České dráhy, a.s. as the sole shareholder of ČD Cargo, a.s. in the exercise of the powers of the General Meeting, decided to dismiss Mr. Bohumil Rampula from the Board of Directors of ČD Cargo, as effective as of 31 March 2020. Also General Meeting decided on the election of Ing. Radek Dvořák as a member of the Board of Directors of ČD Cargo, a.s. effective as of 1 April 2020.

The existence of the novel coronavirus (Covid-19) was confirmed by the beginning of 2020, which subsequently spread through China and the world; including the Czech Republic. This unprecedented crisis has had wide ranging and negative effects on most, if not all, business activities. The Group considers the coronavirus crisis a subsequent event with respect the the issuance of financial statements dated 31.12.2019. As such, the Group did not make any adjustments to the financial statements for 2019.

Since the situation is unstable and continuously evolving, it is not possible to make a qualified judgment with respect to the effects this crisis will have on the Group. With respect to freight transportation, there was a decrease in transportation services primarily due to the decreased production in the automobile industry as well as loss of business in the shipping sector, specifically to and from China. Further implications of this crisis are dependant on the length and severity of the mitigating actions taken by the Group as well as governmental agencies in the future.

The management of the Group is mitigating the impacts of the crisis by lowering operating expenses and restructuring investments.

Taking the above points into account, the management of the Group has created contingency plans for many different scenarios for the future development of this crisis as well as their effects on the financial statements. However, at this time it is not possible to make concrete predictions on the impact of the crisis on the financial statements. The combination of the entity's large resevoirs of disposable cash as well as future rollbacks of government order mitigation procedures indicate there will be no issue with respect to the entity's liquidity position in the next 12 months.

After taking all of the impacts of the Covid-19 crisis into account, management does not assume there will be any impact on the going concern assertion of the Group.

35. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 14 April 2020.

16

Events after the Balance Sheet Date

On 12 March 2020, České dráhy, a.s. as the sole shareholder of ČD Cargo, a.s. in the exercise of the powers of the General Meeting, decided to dismiss Mr. Bohumil Rampula from the Board of Directors of ČD Cargo, as effective as of 31 March 2020. Also General Meeting decided on the election of Ing. Radek Dvořák as a member of the Board of Directors of ČD Cargo, a.s. effective as of 1 April 2020.

The existence of the novel coronavirus (Covid-19) was confirmed by the beginning of 2020, which subsequently spread through China and the world; including the Czech Republic. This unprecedented crisis has had wide ranging and negative effects on most, if not all, business activities. The Company considers the coronavirus crisis a subsequent event with respect the the issuance of financial statements dated 31.12.2019. As such, the Company did not make any adjustments to the financial statements for 2019.

Since the situation is unstable and continuously evolving, it is not possible to make a qualified judgment with respect to the effects this crisis will have on the Company. With respect to freight transportation, there was a decrease in transportation services primarily due to the decreased production in the automobile industry as well as loss of business in the shipping sector, specifically to and from China. Further implications of this crisis are dependant on the length and severity of the mitigating actions taken by the Company as well as governmental agencies in the future.

The management of the Company is mitigating the impacts of the crisis by lowering operating expenses and restructuring investments.

Taking the above points into account, the management of the Company has created contingency plans for many different scenarios for the future development of this crisis as well as their effects on the financial statements. However, at this time it is not possible to make concrete predictions on the impact of the crisis on the financial statements. The combination of the entity's large resevoirs of disposable cash as well as future rollbacks of government order mitigation procedures indicate there will be no issue with respect to the entity's liquidity position in the next 12 months.

After taking all of the impacts of the Covid-19 crisis into account, management does not assume there will be any impact on the going concern assertion of the Company.

17

Report on Relations

Report of the Company's statutory body on relations prepared in accordance with the provisions of Section 82 of Act No. 90/2012 Coll., The Business Companies and Cooperatives Act (Business Corporations Act), 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 2019 to 31 December 2019 in compliance with Section 82 of Act No. 90/2012 Coll., The Business Companies and Cooperatives Act (Business Corporations Act), as amended.

The report is attached to the annual report and the statutory body ensures its inclusion in the list of documents held by the relevant Commercial Register Court.

Article I.

Structure of relations between the Controlling Entity and the Controlled Entity and the Controlled Entity and Entities Controlled by the Same Controlling Entity

1) Controlling Entity:

Entity: **České dráhy, a.s.,**
With its registered office in: Prague 1, Nábřeží L. Svobody 1222, postal code 110 15
Corporate ID: 709 94 226
Recorded at the Commercial Register held at the Municipal Court in Prague, Section B, File 8039.

Miroslav Kupec, Chairman of the Board of Directors from 1 January 2019 to 10 June 2019 (commencement of membership on 7 December 2016, office established on 11 September 2018),
Václav Nebeský, Chairman of the Board of Directors from 1 October 2019 to 31 December 2019 (commencement of membership on 1 October 2019, office established on 1 October 2019),
Radek Dvořák, Vice-chairman of the Board of Directors from 10 June 2019 to 31 December 2019 (commencement of membership on 18 September 2018),
Radek Dvořák, member of the Board of Directors from 1 January 2019 to 31 December 2019 (commencement of membership on 18 September 2018),
Michal Štěpán, member of the Board of Directors from 1 January 2019 to 20 February 2019 (commencement of membership on 21 February 2014),
Michal Heřman, member of the Board of Directors from 16 January 2019 to 14 May 2019,
Michal Vereš, member of the Board of Directors from 1 March 2019 do 30 September 2019,
Patrik Horný, member of the Board of Directors from 1 June 2019 do 31 December 2019,
Michal Kraus, member of the Board of Directors from 14 October 2019 do 31 December 2019

(hereinafter the "Controlling Entity")

2) Controlled Entity:

Entity: **ČD Cargo, a.s.**
With its registered office in: Prague 7 - Holešovice, Jankovcova 1569/2c, PSČ 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 2019 to 31 December 2019 (commencement of membership on 1 October 2014, re-election on 2 November 2019, commencement of membership on 3 November 2014, re-election on 4 November 2019),
Bohumil Rampula, member of the Board of Directors from 1 January 2019 to 31 December 2019 (commencement of membership on 1 November 2014, re-election on 2 November 2019),
Zdeněk Škvařil, member of the Board of Directors from 1 January 2019 to 31 December 2019 (commencement of membership 1 November 2014, re-election on 2 November 2019)

(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 Praha, 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 Slunсové 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 Slunсové 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 totaling CZK 9,663 million of the Controlled Entity as identified from the most recent financial statements amounts to CZK 966.3 million, such activities that would take place between 1 January 2019 and 31 December 2019 are not recorded.

Article III.

Contracts and Agreements Effective between Related Entities

During the relevant reporting period (i.e. from 1 January 2019 to 31 December 2019), 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.	51	3	-	20	74
České dráhy a.s.	9	1	53	125	188
ČD – Telematika, a.s.	3	1	1	4	9
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.	-	-	-	1	1
DPOV, a.s.	12	-	4	16	32
ODP-software, spol. s r.o..	-	-	-	-	-
Smíchov Station Development, a.s.	-	-	-	-	-
Výzkumný Ústav Železniční, a.s.	-	-	1	5	6
JLV, a.s.	-	-	-	-	-
Žižkov Station Development, a.s.	-	-	-	-	-
TOTAL	**75**	**5**	**59**	**173**	**312**

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 of ČD Group included business transactions arising from both contracts concluded in the reporting period (i.e. from 1 January 2019 to 31 December 2019) and from contracts not concluded in the reporting period (i.e. contracts concluded in previous periods that were applicable and effective in the reporting period) as follows:

Name of the entity	Sales of ČD Cargo, a.s. (in CZK thousand)	Purchases of ČD Cargo, a.s. (in CZK thousand)
České dráhy a.s.	23,236	719,438
ČD Telematika, a.s.	305	21,944
ČD - Informační Systémy, a. s.	-	189,499
DPOV, a.s.	4,390	70,897
ČD travel, s.r.o.	-	-
ČD Relax, s.r.o.	-	17,981
Dopravní vzdělávací institut, a.s.	-	20,712
Výzkumný Ústav Železniční, a.s.	44,294	50
ODP-software, spol. s r.o.	-	-
JLV, a.s.	-	1,680
Smíchov Station Development, a.s.	-	-
Žižkov Station Development, a.s.	-	-
Masaryk Station Development, a.s.	-	-
CHAPS spol. s r.o.	-	-
ČSAD SVT Praha s.r.o.	-	-
SVT Slovakia s.r.o.	-	-
Inprop, s.r.o.	-	-
TOTAL	**72,225**	**1,402,201**

The Board of Directors declares that it identified relations between the relevant related parties of ČD Group 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 2019 to 31 December 2019:

- 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 2019,
- in the reporting period from 1 January 2019 to 31 December 2019, 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 2019 to 31 December 2019, 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 of ČD Group

During the reporting period from 1 January 2019 to 31 December 2019, no measures were taken by the Controlled Entity in the interest or at the initiative of another related entity of ČD Group 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 of ČD Group pursuant to Section 71 of Act No. 90/2012 Coll., The Business Companies and Cooperatives Act (Business Corporations Act), 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 of ČD Group 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 of ČD Group. 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.

Prague, 10 March 2020

Signature of the Chairman of the Board of Directors and a member of the Board of Directors of the Controlled Entity ČD Cargo, a.s.:

Ivan Bednárik
Chairman of the Board of Directors

Bohumil Rampula
Member of the Board of Directors

Zdeněk Škvařil
Member of the Board of Directors

18

List of Used Abbreviations

AEO	Authorised Economic Operator
BCC	Bureau Central de Clearing
OHS	Occupational Health and Safety
CER	Community of European Railway and Infrastructure Companies
CIM	Uniform Rules concerning the Contract of International Carriage of Goods by Rail
ČD	České dráhy, a.s.
ČDC	ČD Cargo, a.s.
Eas, Zaes, Falls, Eanos, Zacns, Sggrrs, Laaps, Faccs	Business series of freight wagons
EMS	Environment Management System
ERTMS	European Railway Traffic Management System
HDV	Railway traction vehicle
HZS	Fire brigade
ICT	Information and Communication Technologies
IFRS	International Financial Reporting Standards
ISR	European Central System for Wagon and Shipment Tracking
ISO	International Organization for Standardization
JPO	Fire protection unit
CCTT	Coordinating Council for Trans-Siberian Transportation
EE	Extraordinary event
NL	Bill of lading
NV	Freight wagons
OHSAS	Occupational Health and Safety Assessment Series
OKV	Railway wagons repair shop
OSŽ	Union of Railway Workers
OSŽD	Railway Cooperation Organization
PJ	Operating Unit
SOKV	Repair Centres for the Railway Wagons
SQAS	Safety and Quality Assessment System
SŽ	Správa železnic, státní organizace (Railway Administration)
UIC	International Union of Railways
ÚDIV	Central information system for operating control of railway wagons
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: Praha

File number: Section B, Insert 12844

Phone: +420 9722 42 100

Fax: +420 9722 42 101

Data box: 8tscdpq

e-mail: press@cdcargo.cz

http: www.cdcargo.cz

Infoline:

Phone: +420 972 242 255

e-mail: info@cdcargo.cz

Customer Service:

Phone: +420 725 957 735

e-mail: ZakaznickeCentrum@cdcargo.cz

Cargo