Annual Report 2016

Annual Report 2016

Cargo

Czech Railways Group


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01
Mission, Vision and Goals

The strategic vision of ČD Cargo, a.s. is to follow its rich history and to maintain its leading position in railway freight transportation in the Czech Republic, while at the same time to strengthen its position among the five largest railway transportation companies in the region of Central Europe. Therefore the Company intends to increasingly use the potential of its foreign affiliates and to intensify its impact across Europe, especially in neighbouring countries. Success of ČD Cargo, a.s. is closely related with balanced rules and conditions for railway transport and road transport both in the Czech Republic and in the EU, in which the plans to transfer transport from road to rail are not completely fulfilled. The Company will continue to strive for a clear, fair and long-term definition of domestic and European transport policy to remove all the circumstances that discriminate the rail.

To fulfil this vision, the Company will have to successfully meet a number of goals. These primarily include the ability to extend and adapt its services to the needs of customers, to respond flexibly to emerging trends, and to focus attention on new products bringing long-term prospects and further business opportunities. It is absolutely necessary to provide such services, that will represent the complexity and the highest possible quality, fully compliant with customer requirements, to allow ČD Cargo, a.s. completely fulfil the role of a modern, strong and stable partner.

All strategies, plans and goals are aimed at stabilising the Company's profitability in the medium to long-term and at strengthening its position as a key player in the European railway transportation market, but also at significantly strengthening its position in the dynamically developing transport of goods from Asia to Europe.


DIESEL

02
Company Profile

ČD Cargo, a.s. was formed on 1 December 2007 following the investment of part of the business of České dráhy, a.s. The sole founder and owner is the joint stock company České dráhy. ČD Cargo, a.s. is a subsidiary of České dráhy, a.s. specialising in providing freight transport.

Name, Address and Identification of the Company

Business entity: ČD Cargo, a.s.
Registered office: Prague 7, Holešovice, Jankovcova 1569/2c, 170 00
Corporate ID: 28196678
Recorded 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 comprehensive related services. The goal of the Company is to improve its leading position and to be the driving force in the freight transport market in the Czech Republic and the Central European region.

Its principal business activity – the rail transportation of goods – is structured into two principal segments:
- Transportation,
- Additional services.

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

The Company transports almost all types of goods, which are split 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,
- 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),
- services of security advisors,
- lease of railway vehicles,
- repairs and maintenance of railway vehicles,
- other.

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Basic Economic Indicators of ČD Cargo Group

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

Key financial indicators of ČD Cargo Group according to IFRS consolidated financial statements			
	2016	2015	2014
Structure of assets and liabilities (CZK million)			
Total assets	18,171	17,742	17,333
Fixed assets	15,279	14,588	14,528
Equity	7,717	6,727	6,122
Structure of profit/loss (CZK million)			
Revenue from main activities	11,765	12,063	12,352
Operating profit or loss	1,371	968	1,568
Profit or loss before tax	1,152	698	1,273
Ratio indicators (%)			
Current liquidity (current assets/current liabilities)	83%	62%	59%
Total indebtedness (liabilities /total assets)	58%	62%	65%
Average number of employees	7,065	7,335	7,451
Performance indicators			
Amount of transports (millions of tons)	65,5	66,4	68,6
Transport performance (net kilometres million)	11,282	11,139	11,622

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

Transportation segment is implemented under conditions of ČD Cargo, a.s. through the product of complete trains and product of individual wagon loads that ČD Cargo, a.s. offers to its customers as a single carrier in the Czech Republic. In the segment of Additional services the Company offers such products as rail sidings operations, customs services, security consultancy, storage, rentals of dispensable capacity or maintenance and repair of traction and towed vehicles.

These activities are provided through both own capacities and cooperation with companies with equity share.

Potential of subsidiaries is mainly used for the implementation of foreign expansion, which is one of the strategic goals of ČD Cargo, a.s. especially cooperation in Poland, with the subsidiary Koleje Czeskie, was developing very dynamically, what had a positive impact e.g. on transport of black coal.

With volume of transports of over 65.5 million tonnes of goods ČD Cargo Group ranks among the most important railway freight transportation carriers in Europe. ČD Cargo, a.s. is also an important employer in the Czech Republic.

Segmental analysis (CZK million)		Transportation	Additional services	Elimination	Total
Revenue from main activities	2016	10,627	2,417	(1,279)	11,765
	2015	10,766	2,367	(1,070)	12,063
Cost of sales	2016	(5,112)	(2,210)	1,448	(5,874)
	2015	(5,576)	(1,960)	1,184	(6,352)
Employee benefits costs	2016	(3,480)	(386)	0	(3,866)
	2015	(3,571)	(349)	0	(3,920)
Depreciation and amortization	2016	(964)	(114)	(1)	(1,079)
	2015	(1,011)	(115)	0	(1,126)
Operating profit or loss	2016	934	444	(7)	**1,371**
	2015	336	653	(21)	**968**
Profit/loss before taxation	2016	750	454	(52)	**1,152**
	2015	88	658	(48)	**698**
The profit for the period from continuing operations	2016	620	366	(52)	**934**
	2015	75	517	(17)	**575**

TRANSPORTATION SEGMENT

In the transportation segment the Company was able to increase operating profit year-on-year by CZK 598 million and profit before tax by CZK 662 million. Due to strong competition between rail and road carriers there was decrease in revenues from freight transportation in the domestic market. The Company managed to partly compensate it by increase in transportation performances of the subsidiary Koleje Czeskie Sp. z o.o. on the territory of Poland, and also a significant reduction in operating costs in parent ČD Cargo.

Cost of sales meant mainly lower costs of traction energy and fuel consumption, positive impact was caused also by increase in discount for the railway freight transport for transportation of individual wagon loads in Czech Republic. Result in transportation segment also positively affected by the continued optimization of subtransport activities with impact on employment and other costs.

ADDITIONAL SERVICES RELATED WITH TRANSPORTATION SEGMENT

In the segment of Additional services related with transportation, profit before tax of ČD Cargo Group for the year 2016 amounted to CZK 454 million. There was year-on-year decrease in profitability of Additional services of the parent company ČD Cargo, a.s. which plans in future to focus primarily on its main activity, which is transportation. As a result of higher utilization of the internal repair capacities for the maintenance and modernization of its own fleet of railway vehicles, revenues from external performance and other services decreased. There was also increase in the cost of repairs and maintenance of other fixed assets owned by ČD Cargo, a.s. and growth of real wages of employees. Year-on-year comparison is also negatively impacted by lower traffic closures in 2016, for which ČD Cargo a.s. works regularly. In contrast, companies with equity share of ČD Cargo, offering logistics and other support services in the segment of transportation, managed to improve their operating result and contribute to profit in segment of Additional Services.

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Major Events in 2016

January

- 1 January – a new department of railway vehicles management, so-called fleet management, was launched;
- 1 January – due to optimization, operational centres Prague-Uhříněves and Kralupy nad Vltavou were liquidated;
- 19 January – concession to operate road freight passenger transportation, operated vehicles designed to carry more than 9 persons including the driver was obtained;
- 29 January – realization of interesting transport – we brought to the test circuit front locomotive of series 445,008 Dbpzfa Twindexx Vario Bombardier designed for DB.

February

- Extension of the ČD Cargo, a.s. service portfolio with the transportation in Chopper wagons and new offers for employees in controlling, e.g. with closures;
- 9 February – start-up with Belgium Czech Xpress – Czech Republic fast connection with the port of Antwerp.

March

- 15 March – the first transport of containers with flood walls from Mnichovo Hradiště to Žilina was launched.

April

- ČD Cargo, a.s. becomes a founding member of the association of rail carriers ŽESNAD;
- 1 April – visit of the South Korean delegation of government representatives, focused on development of transport between Central Europe and Asia;
- 13 April – an agreement between ČD Cargo, a.s. and Siemens Czech Republic for the delivery of the first five interoperable Vectron locomotives was signed;
- 19 – 22 April – ČD Cargo, a.s. participated in the fair TransRussia 2016;
- 25 April – project of Preventive train, in which ČD Cargo, a.s. was traditionally involved was launched.

May

- 13 May – conference „Lithuanian transport solutions for Czech entrepreneurs“, during which the Memorandum of Cooperation between ČD Cargo, a.s. and Lithuanian railways was signed;
- 15 May – the first part of a campaign to promote transportation www.1vagon.cz and to support transport of individual wagon loads has started;
- 28 May – ČD Cargo, a.s. participated in drive securing of express postal museum Ostrava – Prague-Malešice;
- 31 May – technical and safety test (TBZ) of new locomotive ČD Cargo Vectron 383.001.

June

- By realization of cement transportation, ČD Cargo, a.s. contributes to the modernization of the D1 motorway in further locations;
- Issue of new bonds with total value of CZK 500 million;
- 7 June – new transport of sand to Liberec was implemented. The material was designed to tram sanding. The cooperation with DPMLJ was launched;
- 14 – 16 June – the Czech Raildays fair, ČD Cargo, a.s. participated in the international railway and handling technology fair in Ostrava, where footballer Antonín Panenka inaugurated the first locomotive Vectron ČD Cargo;
- 22 June – the Memorandum on mutual cooperation concerning closer cooperation between the three parties involved (ČD Cargo, ČD, SŽDC) was signed; cooperation is related with improvement of railway infrastructure and speed-up of railway connection Prague - Mnichov by border crossing Česká Kubice – Furth im Wald;
- 24 June – an agreement on strategic cooperation between ČD Cargo, a.s. and Chinese company Zhengzhou International Hub Development and Construction Co., Ltd. was signed; aimed to railway container transport and logistics centres development;
- 28 – 30 June – the 27th annual meeting of party representatives to the Agreement MTT (International railway transit tariff) in Karlovy Vary. The event was organized by ČD Cargo, a.s.;
- 29 June – the first train fully controlled by ČD Cargo, a.s. as operator left from Rostock to Brno. The journey ended the next day at Brno Terminal, which is a subsidiary of ČD Cargo, a.s.

July

- A record month in transport of subsidiary, Koleje Czeskie - the company for the first time exceeded 200 thousand tonnes of transported goods this month, especially black coal and iron, resp. ore.;
- 14 July – transport of soil in Innofreight containers from Prague-Bubenec to Mydlovary storage was launched;
- 25 – 31 July – during the closure of railway line between Mladá Boleslav hl. n. and Mladá Boleslav město, ČD Cargo, a.s. ensured connection unconventionally on regional routes between Mlada Boleslav, Dolní Bousov and Bakov nad Jizerou to the full satisfaction of the customer Škoda Auto.

August

- 1 August – to reach new customers, especially within the transport in individual wagon loads, new positions of regional sales managers were established;
- 18 August – the first of another series of palatal broad-gauge electric units from series 575 were send; units were ordered in December 2014 by Lithuania railways, from Škoda Vagonka plant.

September

- 4 September – reconstruction of hump in Prague-Liben was launched to reduce noise pollution during composition of railway vehicles;
- 12 September – sugar-beet campaign in sugar factory in Hrušovany nad Jevišovkou was launched. Transport of sugar-beet is implemented in a large volume by ČD Cargo, a.s, recently also from Austria and Slovakia;
- 26 September – a train with KIA cars left from Žilina to Hamburg. The train for the entire route was led by ČD Cargo Vectron;
- 30 September – ČD Cargo representatives took over last of five Vectron locomotives from Siemens factories.

October

- 1 October – personnel changes in the management of operational units;
- 1 October – a train with Škoda cars left from Nymburk to Curtici. The transport for the entire route was led by ČD Cargo Vectron;
- 14 October – first train with diesel fuel from German Krailling to ČEPRO warehouses in Třemošná u Plzně arrived;
- 14 October – conversion of ČD Cargo, a.s. shares from ordinary to registered in order to meet the requirement of the Act no. 134/2016 Coll;
- 18 October – a train with road semitrailers left from Brno to Rostock. The train was for the entire route led by ČD Cargo a.s. driver and Vectron locomotive.

November

- 7 – 14 November – traffic restrictions at the busiest border crossing to Germany Děčín/Bad Schandau. ČD Cargo, a.s. flexibly ensured connection over other border crossings;
- 10 November – traditional conference for important business partners of ČD Cargo, a.s.;
- 25 November – takeover of the first wagon of Sggrrs series designed especially for transport in containers or on Innofreight pallets;
- 29 November – at the Transport Week fair a Memorandum of Cooperation between ČD Cargo, a.s. and company TransContainer was signed in Moscow.

December

- Issue of new bonds with total value of CZK 500 million, which are listed on the stock exchange CPP;
- 13 December – ČD Cargo, a.s. participated in the conference 'Innovation & Railway' concerning theme of innovation and investment in railway and ensuring safe railway transport. ČD Cargo, a.s. presented here a vision of railway freight transportation in the 21st Century;
- 20 December – a train with chipped wood (Innofreight) left from Havlíčkův Brod to Gratwein-Gratkorn. The train was for the entire route led by Vectron locomotive.

Ivan Bednárik
Chairman of the Board of Directors

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Opening Statement of the Chairman of the Board of Directors

Ladies and Gentlemen, dear Shareholders and Business Partners,

it's an honour and pleasure to present you the annual report of ČD Cargo, a.s. for the year 2016. As in recent years, this period was rich in a wide range of events, which influenced the activity and, ultimately, the overall results of the company.

As operating result shows, we have successfully coped with many obstacles, however, in last year we faced a number of problems that worked against better values of some important parameters, for example in the area of own transportation of goods. The largest problem is the ongoing unequal status of railway freight transport and road transport. As a result, it is impossible to move transport of goods from road to rail, not only on a nationwide scale but also on a European scale. In that situation, in May we became one of the founding members of the professional association of railway freight transportation carriers in the Czech Republic – ŽESNAD.CZ, which represents more than 90% of domestic railway freight transportation and its primary aim is joint coordination of actions within railway area.

We also had to adapt broad modernization of the railway infrastructure, not only in the Czech Republic but also in the neighbouring countries. This brought us, as well as other carriers a number of problems, however, we are aware that this is an absolutely necessary step, which will contribute to greater competitiveness of the railways in the future. Increased efficiency and reliability of those actions may be helpful in movement of transport of goods to rail.

Year 2016 also meant a turning point in the activities of ČD Cargo, a.s. outside the Czech Republic. Only last year the results of an updated company strategy, were fully reflected in focuses company's attention on foreign markets. For example in Poland, we have already ranked among the most important players on the local railway freight transportation market.

Expansion of the territorial impact is naturally related with modernization of our fleet of vehicles. In 2016, for the first time in the history of the company, we introduced and put into operation a brand new locomotive, Siemens Vectron, which with the slogan "Across Europe", can be seen not only on domestic but especially on foreign routes. Thanks to these interoperable locomotives, the most modern in our fleet, we intend to use the potential of our foreign affiliates increasingly. Although last year was not simple for the company, it confirmed that ČD Cargo, a.s. has the certain place at the freight transportation market. It showed, that we can change and adapt to the needs of customers, expand into new markets and focus attention on prospective areas that can bring us new business opportunities. Year 2016 proved, that ČD Cargo, a.s. is a strong and stable partner.

We are able to respond to the market development also on the costs side, thanks to the cross-functional activities of the company, which are continuation of its optimization and restructuring measures already initiated in recent years. It was therefore possible to conclude before the year end a collective agreement for year 2017, and to confirm personnel stabilization of ČD Cargo a.s. for the next periods.

In the last year's assessment, my thanks go not only to employees, but also to our customers and business partners. Thanks to them ČD Cargo, a.s is able to defend its position in the railway freight transportation market and with an open visor enter the tenth anniversary of its independent existence.

Ivan Bednárik
Chairman of the Board of Directors

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Statutory Bodies and Management of the Company

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

Board of Directors and Management

1. Ivan Bednárik
Chairman of the Board of Directors (member since 1 November 2014, Chairman since 3 November 2014), age: 41
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.

2. Bohumil Rampula
Member of the Board of Directors (since 1 November 2014), age: 60
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 Republic 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: 59
Zdeněk Škvařil graduated from the Transport University at Žilina. Throughout his career he has worked in the railway segment and has held numerous operational and management positions. He has been employed by ČD Cargo, a.s. as the head of the operational unit in Brno since the Company's formation. Since 1 November 2014, he has been a member of the Board of Directors of ČD Cargo, a.s. and has managed the Operations Division.

Ivan Bednárik
Chairman of the Board of Directors

Bohumil Rampula
Member of the Board of Directors

Zdeněk Škvařil
Member of the Board of Directors

Supervisory Board

1. Pavel Krtek

Chairman of the Supervisory Board (since 16 March 2014), age: 46

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

2. Ludvík Urban

Chairman of the Supervisory Board (since 16 March 2014), age: 46

Ludvík Urban graduated from the University of Transport and Communications in Žilina. He has worked in the railway sector throughout his career and has held numerous operational and management positions. In May 2014, he was appointed deputy CEO of ČD, a.s. for regional integration. Since November 2014, he has been Vice-Chairman of the Board of Directors of ČD, a.s.

3. Jan Kasal

Member of the Supervisory Board (since 12 March 2014), age: 65

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

4. Radek Nekola

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

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

5. Jindřich Nohal

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

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

6. Jan Hart

Member of the Supervisory Board (since 3 February 2015), age: 42

Jan Hart graduated from the Faculty of Law at Charles University and gained a law degree from Central European University in Budapest. He started his career as an attorney trainee in the Beiten, Burkhardt, Mittl & Wegener law office. In 2002, he passed the attorney's examination. From 2002 to 2005, he was head of the legislation and legal department of the Czech Securities Commission. Since 2005, he has worked as an attorney specialising primarily in commercial law and financial regulation. He assisted in establishing several financial institutions focusing on collective investments and provision of investment services. He is a member of the ČNB's Appeals Committee and a member of the Supervisory Board of ČD, a.s.

7. František Bureš

Member of the Supervisory Board (since 28 April 2015), age: 43

His studies range from a technical high school graduation to a degree in arts and philosophy and an MBA degree which included studies in Canada. He also gained an LLM degree at the Faculty of Law at Masaryk University in Brno. In 1993, he joined and later led the sales department of a Pilsen company engaged in the provision of electro-technological services for industry. In the Skoda company between 2004 and 2007, he developed a system of procurement management, improvement of production outsourcing, and he led the process of acquisition and restructuring of the subsidiary Sibelelektroprivod in Russian Novosibirsk. Between 2007 and 2011, he was the Alstom Power & Transport country manager for the Czech and Slovak Republics. From 1 January 2012 to 27 January 2015, he was Chairman of the Board of Directors and the general manager of DPOV, a.s. Since 16 October 2014, he has been a member of the Board of Directors of ČD a.s. responsible for services, technology and property. From 7 December 2016 he is Chairman of the Supervisory Board and the general manager of VÚŽ, a.s. Praha.

Audit Committee

1. Oldřich Vojíř

Chairman of the Audit Committee (member since 15 December 2009, Chairman since 18 February 2010), age: 55, on 16 December 2014, he was re-appointed for another term.

Oldřich Vojíř graduated from the Faculty of Education of Jan Evangelista Purkyně University in Ústí nad Labem and completed doctoral studies at the Transport Faculty of the University of Pardubice. He was a deputy of Parliament and has managed or supervised business, energy and transportation companies. At present, he manages ENIMA PRO, a.s., which focuses on engineering and work in the construction industry, electrotechnology and transportation technology in Prague, with branches in Ostrava and Most.

2. Libor Joukl

Member of the Audit Committee (since 15 December 2009), age: 50, on 16 December 2014, he was re-appointed for another term.

Libor Joukl graduated from the Brno University of Technology. In 1989, he joined ŽĎAS in Žďár nad Sázavou, dealing with plant equipment construction and design. From 1991 to 1992 he worked as an independent agent for the PENTA Žďár nad Sázavou advertising agency. Since 1992 he has been self-employed. Between 1994 and 2000, he acted as the Production Manager of JMZ-CATONEX s.r.o. In 2000 he became a Statutory Executive and Director of APOLY s.r.o. Přibyslav. Since 2002 he has been a member of the Town Council of Přibyslav. He was a member of the Supervisory Board of MERO, a.s., Kralupy nad Vltavou from 2003 to 2006 and its Vice Chairman from 2004 to 2006. Since 2004 he has been a member of the Regional Council of Vysočina; in November 2008 he became the Deputy Governor of the Vysočina Region for transportation and property. He is a member of the Vysočina Regional Council Board.

3. Miroslav Zámečník

Member of the Audit Committee (since 15 December 2009), age: 54, on 16 December 2014, he was re-appointed for another term.

Miroslav Zámečník graduated from the University of Economics in Prague, and was a Pew Fellow at the School of Foreign Services, Georgetown University, Washington. From 1990 to 1993, he worked as an advisor to the federal Minister of Finance and then the head of the Centre for Economic Analysis of the Office of President Václav Havel. Between 1994 and 1998 he was a representative of the Czech Republic at the World Bank in Washington, D.C. Since 2001 he has worked as an independent economic consultant specialising in the restructuring of companies. He was a member of the National Economic Council of the Czech Government.

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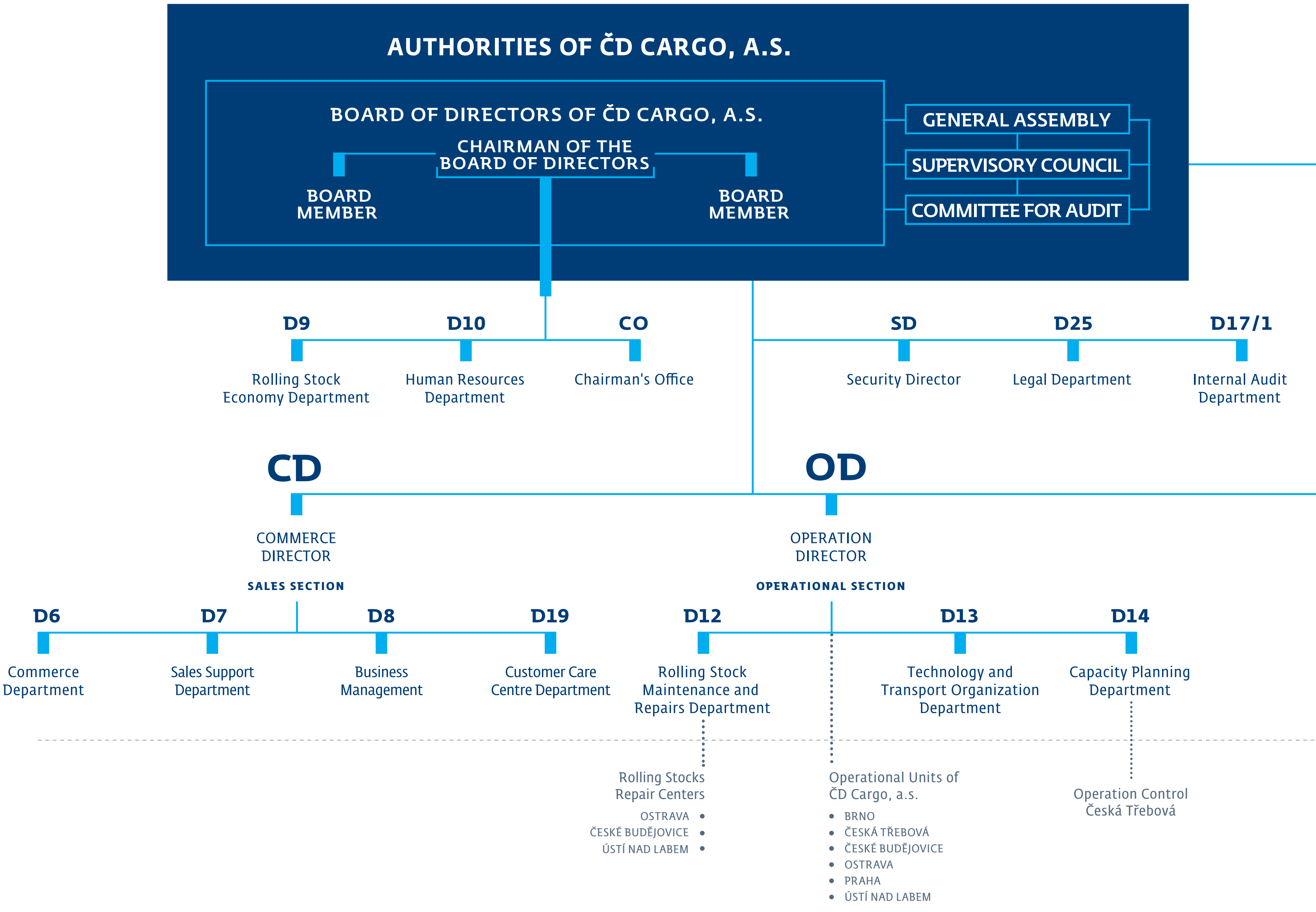
Organization Chart of ČD Cargo, a.s., 31. 12. 2016



Joint ventures,capital interests

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

Subsidiaries

- CD Generalvertretung GmbH(based in Frankfurt am Main)
- KOLEJE CZESKIE SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ (based in Warszawa)
- Terminal Brno, a.s.(based in Brno)
- ČD Logistics, a.s.(based in Praha)
- ČD-DUSS Terminál, a.s.(based in Lovosice)
- Auto Terminal Nymburk, s.r.o.(based in Praha)
- Generálne zastúpenie ČD Cargo, s.r.o.(based in Bratislava)

FD

FINANCE DIRECTOR

FINANCE SECTION

- **D1** Economics and Financial Management Department
- **D2** Accounting Department
- **D3** Controlling Department
- **D20** Process Engineering Department

Project Management Office(D18/1)

Traffic Receipts Clearing Olomouc

CENTRAL LEVEL (GM)

EXECUTIVE LEVEL


TRANSCÉRÉALES

08

Report of the Board of Directors on the Business Activities of ČD Cargo, a.s.and the Balance of its Assets

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

Freight Transportation Operations

FREIGHT TRANSPORTATION

In 2016, ČD Cargo trains transported 65.4 million tonnes of goods, which is 1 million tonnes less than in the previous year, representing approx. 1.5% year-on-year decrease. The largest decrease occurred in domestic transportation (8%), while export from Czech Republic increased by 11%.

Revenues from main activities amounted CZK 11.1 billion, what represents year-on-year decrease by approx. 3.5%, expressed in absolute value of approx. CZK 386 million. A comparison of weight of transported good shows a decrease in transport unit price because of the pressure of competing rail and road carriers. Unfortunately, in year 2016 it was impossible to stop the decrease in individual wagon loads transportation, even though a number of steps have been taken to prevent the decrease and to obtain new carriages, for example implementation of advertising campaign www.1vagon.cz with reasonable price offer, establishment of the positions for regional sales managers etc. However, we expect the results of these steps in the long run. Different road and railroad charge conditions also account for a large portion of the decrease in transports in this sector.

Results in iron and engineering products commodities were in the first two months negatively impacted by the stagnation in steel production in the Czech Republic (increase in volumes of steel and other products from China). Decrease in transport of iron ore and metallurgical products was related with that situation. However, in March there was a significant increase in transport of metallurgical materials and scrap iron. Even though the volume plan, due to an active trade policy and acquisition of wide range of new business plans was met, revenues in this commodity have not been achieved in the planned amount. It is a consequence of already mentioned competitive pressure in transit in imports. New transports were obtained inter alia in cooperation with the subsidiary, Koleje Czeskie. A turning point is also use of Innofreight technology to transport wire rolls.

The volume of transport in the construction materials commodity was negatively affected by three factors. Warm winter, which caused a limitation in transport of desulfurized limestones to power plants, unfavourable situation on the steel market at the beginning of the year, related to a decrease in transport of dolomitic limestones, and lower extent of traffic closures on the rail network. New orders for this product were obtained only because of the complexity of the ČD Cargo, a.s. portfolio, which besides providing transports in special vehicles Ua (Dumpcar) and Chopper, offers their unloading and provide other qualified personnel, e.g. employees to control on the unused track, etc. We have participated for example in rail grinding on some main lines in Bohemia and Moravia. It was quite successful fight against private carriers in this commodity, because we didn't lose any significant transport in year 2016.

Warm winter naturally influenced transport volumes of brown coal, especially at the beginning of the year. Due to overstock of landfills, power plants and heating plants refused scheduled trains. A number of accidents (e.g. transformer fire in power plant Mělník 3, carburization crash and fire in power plant Chvaletice) had a negative impact. One of the most important customers, power plant Opatovice, began to increasingly burn black coal, what is naturally reflected in a decrease of transports of brown coal. On the other hand we managed to obtain new transports (e.g. route Světec – Vysoké Mýto or Třebušice – Osijek). End of the year brought significantly increased transport requirements.

In black coal and coke commodity, year-on-year we transported 1 million tonnes more of these materials. It is the result of an active and aggressive business strategy in acquisition of new business transactions; we managed to take advantage of unclear situation in OKD and thanks to the cooperation with the subsidiary Koleje Czeskie we offer to our customers secure coal transport throughout the entire transport route. We also managed to get not only coal imports from Poland, but also many transit transports e.g. from Poland to Germany. We fulfilled the plan also thanks to an increase in the number of trains from Poland to power plant Opatovice.

Results in the chemicals and liquid fuels commodity, even because of year-on-year decrease cannot be evaluated negatively. Unfortunately, on 30 April 2016 transports of fuels from Slovnaft Bratislava were terminated and taken over by another carrier. On the other hand, as a result of accidents in refineries in Litvinov and Kralupy nad Vltavou, imports of fuels from Poland to warehouses throughout the Czech Republic significantly increased. A completely new business case is to ensure the transport of oil from the Bavarian Krailling to warehouses in the Czech Republic for State Reserves Bureau.

Also contracts for the next year for the transports of fertilizers mainly from Slovak Šaľa DUSLO were implemented successfully. Slight decrease took place in transports of chemical products, which again is a result of the takeover of some other transportation carriers.

In wood and paper products commodity a trend has been positive since the beginning of the year. This is mainly due to the successful managing of calamity transports from Jeseníky area, not only to Germany, but now also for example to Slovakia or Romania. Loading in Jeseníky during the year was limited by its own capacities; transports fluency was negatively impacted by extensive traffic closures. However, slight increase was shown in transport of chipboards, lumber, chipped wood and paper products. Cooperation with MONDI company on transport of paper products and their distribution from the warehouse ČD Cargo in Lovosice was continued.

The first half of 2016 in the food and agricultural products commodity was not too successful. The situation has gradually improved since mid-year; the unloading of power began, and therefore export of grain abroad. Despite strong competition in this field ČD Cargo, a.s. successfully implemented a number of new business cases. It was good year for transport of sugar beet – for the customer Moravskoslezské cukrovary we realized imports of sugar beet from Slovakia and bio sugar beet from Austria in addition to domestic transports. The sugar industry was related with the increases in exports of sugar from the Czech Republic to Russia. In other commodities (malt, mineral waters, etc.), the situation was stabilized.

Performance in 'other' commodity was marked by the failure in realization of military transports to military exercises in the announced range. Due to the geopolitical situation a big part of the exercises takes place in Poland and the Baltic States and foreign armies are not using the Czech training areas. For other customers in this commodity the situation was stable or there was slight increase in volume of transports. This was for example in the case of logistic transports for Czech Post or for company Lagermax. We have successfully participated in transports of extraordinary consignments and vehicles fleet on its own wheels. In this area cooperation with ČD Logistics was continued.

Combined transport commodity showed significant year-on-tear decrease and failure in realization of plan. Almost all operators of combined transport reported decrease, mainly due to lower volumes of transports from China. However, it was possible to successfully manage the redirection of trains from Prague- Žižkov terminal to terminal in Mělník (RCO CSKD operator). ČD Cargo, a.s. recently became the operator of the train with trailers from Rostock to Brno, which resulted in the re-expansion of the number of trains to the 4 pairs. The number of connections realized with the operator Bohemiakombi increased. We defended our reliability for Fosfa customer, for which we provide comprehensive transport of dangerous white phosphorus in tank containers from Kazakhstan to Břeclav. Transport of containers from the Czech Republic to the east and in the opposite direction was also success for trade.

After a constant increase, in year 2016 results in automotive commodity were negatively impacted by the acquisition of most transports in block trains from automakers Cologne by carrier AWT. The carrier also took over all transit transports from Slovakia (PCA Trnava) through the Czech Republic to the west. There was also a loss in transports from KIA Žilina to Koper and partly to Kelheim. They were recently redirected through Slovakia and Austria. Contrary to that, we recorded year-on-year increases in transports from Škoda, the situation was stable with automaker Hyundai, however, trade flows were changing, which unfavourably affected the transport distances, and the amount of revenue at the same time.

OPERATIONAL MANAGEMENT (OPERATIONAL STRUCTURE)

In 2016, the Company dispatched an average of 656 trains a day (without mechanical rides). Traffic closures had very negatively impact on transport taking place on the SŽDC network this year. Meeting our customers' requirements under these extraordinary circumstances placed high demands on all the employees of the operations department, both those working in the basic and in the operative management departments. Another strong trend among our customers had marked impact for the operative collection of loads. A large number of complete trains had to travel along different routes than those marked in the GVD train diagram due to reductions of railroad capacity. The dispatching apparatus dealt with a number of extraordinary situations within its competence. The transport of direct complete trains based on customers' requirements was organised by product system specialists from the Operational Management department in the key commodities. Significant category was consisted of other one-time and campaign transports, in which it is worth to mention in particular the ensuring of calamity wood transports from Jeseníky area.

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

In 2016, there were increased demands for cargo space in wagons from the Eas, Falls, Roos and Laaps class due to extraction of calamity wood in Jeseníky and Beskydy. In November and December there was a situation, when the capacity of cargo spaces was insufficient to satisfy customer demands, also because of the services provided for transport companies other than ČD Cargo. Another significant change was the increase in the number of vehicle assistance to Poland.

In the information systems field, the development of links IS ÚDIV with TMS (Transport Management System) was continued; also there was closer connection with DISC-OŘ and PRIS. Any completion of information systems are strengthening the role of surveillance traffic management Czech Třebová, which must ensure the maximum possible accuracy and plenitude of data passed-through the IS.

OPERATIONAL SAFETY

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

Basic duties of the rail operator and operator of rail transport during the rise of EE is determined in section 49 of Act No. 266/1994 Coll., on Railways, as amended in decree on the railway safety system and railway transport and procedures during rise of EE on the railways No. 376/2006 Coll. To fulfil those obligations ČD Cargo a.s. concluded an "Agreement on cooperation in cases of extraordinary events in railway transport and in cases of fatal and serious accidents at work" (the "Agreement"). Investigating the causes and circumstances of EE in the railway transport is performed for ČD Cargo, a.s. by state organization ("SŽDC") and its authorized persons, under the contract Správa železniční dopravní cesty.

For reporting and investigating the EE ČD Cargo a.s. applies appropriate measures of operating officer ČD Cargo, a.s. and the internal regulations of SŽDC D17 "Předpis pro hlášení a šetření mimořádných událostí" including implementing measures, for the regulation of the reporting and investigation of EE SŽDC D17 – 1.

In 2016, 204 EEs were recorded with the Company participating as the railway transporter or the railway operator. Out of these, as at 24 January 2017, 181 EEs have been concluded, of which 96 were the Company's responsibility or co-responsibility.

The total material damage caused by all the EEs is estimated at CZK 61,861,395. The concluded investigations show that ČD Cargo, a.s. is responsible for an estimated damage of CZK 22,382,627, while the damage caused to the assets of ČD Cargo, a.s. is estimated at CZK 20,451,511.

During the EEs, a total of 28 people were killed and 9 people were injured. The deaths occurred due to the people being in restricted areas of the railway track and in collisions at railway crossings. One employee of the Company was injured during work. A total of 14 traction vehicles (of which 13 owned by the Company) and 68 wagons (of which 37 owned by the Company) derailed. A total of 86 traction vehicles (of which 77 owned by the Company) and 51 wagons (of which 36 owned by the Company) were damaged.

The results of the investigations into the 2016 EEs are as follows:

- According to the relevant numbers it is clear that the total number of EEs dropped by 6% compared to 2015.
- In comparison with 2015, the total material damage that the Company suffered decreased by approximately CZK 36 million in 2016. In 2015, the aggregate damage resulting from EEs amounted to CZK 98,158,553, while in 2016, the aggregate damage is estimated at CZK 61,861,395, as stated above. The damage to the assets of ČD Cargo, a.s. is about 36% lower in 2016 than in 2015. Even though not all the investigations of the 2016 EEs are finished, it is clear that the damage for which ČD Cargo, a.s. is responsible will be much lower than in 2015. Only the investigations that have already been concluded show a decrease of over CZK 30 million.
- ČD Cargo, a.s. was not responsible for any of the deaths. In one of 13 railroad crossing accidents an employee of our company is co-responsible for the emergence, due to exceed of the maximum permissible speed.
- No EE was caused by a system mistake.

The total amount of the damage always depends on occurrence of serious accidents in the period. In comparison with 2015, in which there were three serious accidents, in 2016 "only" one serious accident happened. The EE was A2-category accident, which took place on 26 May 2016. During the drive of freight train Pn 62800 between railway station Dobronín and railway station Jihlava there was derailment of the last rail vehicle to the right (the first chassis on the right-front) in 201,433 km. Due to the drive in derailment there was damage of the first axis by the left wheel until 199,639 km, where on the point no. 49 the rail vehicle overturned on the right side. Last rail vehicle drove in derailment a distance of 1,794 meters. During the overturn, there was a split of the rail vehicle from previous rail vehicle and derailment of back chassis from second last rail vehicle. Last and second last rail vehicles drove in derailment a distance of 201 meters. The EE was caused by a bearing technical defect in right wheel no. 4 of rail vehicle of foreign holder, when after the destruction of the last bearing and the damage of front bearing, pin wheels were twisted. Because it was a train of ČD Cargo, a.s. carrier, our company has general responsibility for the occurrence of EE, with particular responsibility of rail vehicle holder. The damage caused by this EE is estimated at CZK 18,663,630.

During 2016, other EEs also occurred causing material damage that significantly contributed to the aggregate estimated damage for 2016. An example is the EE from 23 February 2016, when during the entry of locomotive train to the Česká Třebová railway station circuit, there was a fire on the front drive car ČD Cargo, a.s. due to technical defect. The cost of reactivation of front drive car is estimated at CZK 8,000,000.

Many EEs are caused by failure of or disruption to the technical condition of the railway vehicles or infrastructure facilities. EEs caused by employees of ČD Cargo a.s. are due to human error. All cases are consistently investigated under the super vision of state bodies and adequate preventive measures are adopted with respect to all findings.

Information on the Balance of the Company's Assets

THE COMPANY'S REAL ESTATE

In addition to rail vehicles, the Company also owns real estate. Strategically significant real estate includes the Rail Vehicle Repair Centres which form part of the Company's internal repair capacities. A total of 228 buildings and 234 plots of land owned by the Company are registered at the Czech Cadastral Office. The year-on-year changes are the result of a process of unifying plots of land or buildings into logical units and settling ownership relations that had not yet been settled. The built-up area amounts to almost 114 thousand square meters. The total land area is 645 thousand square metres (including built-up areas of individual buildings). Regular maintenance of the real estate is carried out by the Rail Vehicle Repair Centres in line with the financial plan; the investment activities are carried out in line and in cooperation with the General Directorate of ČD Cargo, a.s.

Following the change in the licence for the operation of railway transportation, real estate tax returns for all land and buildings owned by the Company have been filed since 2015.

LEASE OF RAIL VEHICLES

One of the Company's significant business activities includes the lease of railway vehicles, i.e. wagons and locomotives.

In the case of locomotives we perform exceptions for long-term rentals to our partners. We mean redundant and, in terms of usability, temporarily unneeded locomotives, exclusively for use outside the territory of the Czech Republic.

With regard to the lease of wagons, we provide our customers with both long-term and short-term or repeated leases of vehicles for spot and one-off transactions. For these purposes, the Company has sufficient vehicle capacity available and offers the leasing of all wagon series, including cisterns. The Company additionally cooperates in projects for the use of non-operating vehicles that are put into operation at the cost of the future lessee and are subsequently operated. Increasingly frequent trend is to use the overcapacities of the rail vehicles in cooperation with our subsidiaries during the implementation of their business transactions in foreign markets.

VEHICLES FLEET, MANAGEMENT OF VEHICLES

In 2016, the Company operated 859 locomotives and 24.5 thousand freight wagons of different types. For all of these vehicles, the body responsible for the maintenance is department of maintenance and repairs, KV ČD Cargo. The vehicles fleet is adjusted as required by leases of vehicles amounting on average to 2,400 vehicles. These comprise primarily vehicles of a different type than owned by the Company; their parameters are fully compliant with the conditions of safe operation and are leased for specific transportation purposes.

Of the total vehicles fleet, approximately 15.5 thousand vehicles were in operational condition. As at 31 December 2016, 1,200 freight wagons were scrapped due to their physical obsolescence, moral wear and tear, and poor technical condition. Then 3,000 freight wagons and 139 locomotives were selected to liquidation which will be conducted during the year 2017. Suitable parts from liquidated vehicles were recovered for use in the repairs of operated vehicles.

Maintenance and repair of rail vehicles was carried out primarily by the Company's repair centres, by České dráhy a.s., DPOV a.s., Přerov and partially also based on concluded agreements, in external capacities. Year-on-year the extension of unscheduled common repairs of freight vehicles decreased. Repair capacities were used for planned major repairs, like technical inspections and inspection repairs. In the rail vehicles repair centres, ČD Cargo carried out also construction work related with implemented projects, such as measure of consumption of electric traction energy in front drive cars, activation of multifunctional displays on locomotives for display and transfer of operating data, or projects to improve working conditions and safety of driver's work. For railway vehicles, the most important was to change combined wooden floors with full metal floors.

Investment activities of ČD Cargo, a.s. focused mainly on the renewal and modernization of the freight wagons fleet, improvement of the technical equipment of workplaces for vehicle repairs and improvement of working conditions. The most important investments in 2016 were purchase of 5 new interoperable multi-system Vectron locomotives from Siemens CZ and acquisition of another 8 locomotives of series 163 from the ČD, which extended the stock with previously purchased locomotives of the same type. It is worth to mention about capital expenditures for the technical improvements of front drive cars and freight vehicles. In the year 2016 inspection repairs of other supporting lines of freight vehicles and major repairs and berthing of front drive cars took place.

In the year 2016 our aim was maximum adaptation of railway freight vehicles fleet to the needs of the transport market for a greater operability of vehicles in international transport. We focused mainly on the use of own capacity of vehicles and their adaptation to changing customer requirements.

In the area of freight wagons, strong emphasis was placed on the planning and utilisation of vehicles fleet capacity in 2016, and great attention will be paid to these issues also in the coming years. All this effort is exerted in order to minimise the number of vehicles necessary for contracted transportation activities, which should result in the minimisation of funds invested in repairs. Regular evaluation of vehicles fleet capacity is performed within the Company's reporting, including the identification of key parameters based on individual commercial groups of freight vehicles. Excessive vehicles fleet will be used within other business segments for leases in order to achieve maximally efficient utilisation of the available vehicles fleet that would ensure sufficient sources for the operability of the Company's vehicles fleet. Recently we are also trying to use free capacities through closer cooperation with neighbouring ŽDP, where we offer currently unused vehicles as emergency vehicles.

In line with the Company's efforts to increase its efficiency, from 1 January 2016 the department of management with vehicles fleet inaugurated its activity. „Fleet management" project was aimed at the integration of processes and activities related to freight wagons and locomotives fleet management both in the area of regular activities as well as in the area of strategic development of vehicles fleet for future periods.

Cross Functional Activities

MARKETING AND COMMUNICATION ACTIVITIES

The Company's marketing and communication activities are predominantly based on our need to support the sale of our own products and services, create a new corporate identity, and increase brand Awareness. In relation to the Company's business activities, the Company set the objectives of individual marketing campaigns and activities for 2016. Communication activities, however, significantly affected also other business partners, and professional and general public. The biggest interference of all these target groups is then carried out by the premiere digital campaign, in its spring and autumn part it generated millions of views and also spread awareness on the Company's services on the dedicated microsite (business section) featured an extensive brand campaign in order to strengthen awareness of the company and its brand.

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

WEB PRESENTATION

ČD Cargo websites traffic increased also in 2016. There are news and interesting routes information published on the company's websites. They are all aimed at convincing our present and potential customers that ČD Cargo's transport offer is wide and of good quality. An interesting news that the site is offering is information on the excessive vehicle capacity. Also the personnel section of the website has undergone significant changes. It has been directly linked with other portals, for example. Jobs.cz. In addition to the Czech language, all the information on the website are offered to the visitors also in English. Launch of other language versions and versions for mobile devices is being prepared.

In the customer's portal EROZA, services for registered customers were gradually extended; the completion of this part of the portal is expected in the coming years following the development of the Company's other information systems.

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

An interesting action was a photo competition Vectron. Its aim was to the aim was to propagate the purchase of five new interoperable locomotives Siemens Vectron, which since mid-2016 began to appear on ČD Cargo trains.

PRINT AND MEDIA COMMUNICATION WITH CUSTOMERS

By means of the Company's printouts internal and external communication was conducted in 2016. New printed materials "Profiles of ČD Cargo" were offering new products such as: trains heading east, Belgium Czech XPRESS or offer to provide personnel to manage the sequence of construction work on the railway. Special product list was supporting also the campaign promoting single wagon loads www.1vagon.cz. Two issues of the ČD Cargo Bulletin were released and one special number (in Russian), in relation to "Meeting of representatives of the Parties to the MTT Agreement (International railway transit tariff)" in Karlovy Vary. ČD Cargo Bulletin is available for download on the websites.

An important part of the Company's internal communication was (as in previous years) the internal newspaper Cargovák. New in 2016 are columns presenting organizational units and single professions within the ČD Cargo. Both those columns were warmly welcomed by readers.

Job seekers in selected professions were approached with special leaflets. Leaflets were made available among others at the Czech Raildays in Ostrava.

Communication with journalists and the general public was provided by the press department of České dráhy. News, especially purchase of new Vectron locomotives or single wagon loads were communicated. By means of Železničář – a holding newspaper – ČD Cargo reached out to the wide range of customers interested in the rail freight and transport. In addition, the Company presented itself through professional articles in other periodicals, e.g. in Dopravní noviny, Železniční magazín and Railvolution.

TRADE FAIRS AND CONFERENCES

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

In 2016 the ČD Cargo presented its full offer on the Moscow fair TransRussia. Active participation of business managers has led to the acquisition of a series of important new contacts in increasing volumes of freight heading east. These activities were further supported by meeting of representatives of the Parties to the MTT Agreement (International railway transit tariff) in Karlovy Vary. It was 27th event of this action, which has significantly increased creditability of ČD Cargo with its partners from CIS countries.

Equally important was presentation within the Czech national exhibition on the international fair. Logistic China.

Traditionally, ČD Cargo, a.s. participated in the international fair Czech Raildays in Ostrava. Apart from joint exhibition with České dráhy Group, we presented the visitors with separate free air exhibition of the new interoperable Siemens Vectron locomotive, which was which was officially inaugurated.

Significant conferences include the "Business Conference of ČD Cargo", which can be seen as official start of the new business year. This conference took place on 10th November 2016 in Galant hotel in Mikulov. Traditionally, ČD Cargo, a.s. participated in the SpeedChain international logistics conference which was held in Prague at the end of the year. ČD Cargo, a.s., was one of the partners of the first annual forum called the Day of Czech Logistics.

RESEARCH, DEVELOPMENT AND COOPERATION WITH UNIVERSITIES

During 2016, the Company continued its cooperation with certain Czech universities, predominantly technical and economic universities – the Jan Perner Transportation Faculty in Pardubice, the Faculty of Transportation at the Czech Technical University in Prague, the Technical University in Ostrava, etc. We offer students topics that can be used in their work as they connect theory and practice, provide statistics, and if necessary ensure internships. University students have the opportunity to gain experience in certain specific areas of activities of ČD Cargo, a.s.. For ČD Cargo, a.s., these issues can help to reduce costs or change in technology.

The cooperation is based on a general agreement on cooperation between the university and ČD Cargo, a.s., and is aimed at providing information on scientific research programmes as well as on the practical application of scientific and technological knowledge.

ČD Cargo sees the cooperation with universities as highly significant, both with regard to seeking and finding new solutions and as a means of recruiting future employees.

INFORMATICS

Also in 2016 ČD Cargo, a.s. used operational business information system that responded to the new changes of functional areas (specifics) of TSI-TAF. Use of telematics in rail freight of the European Union system (TSI TAF). Thank to this system, ČD Cargo, a.s., is one of the first successful implementers of the standard into its systems and standard operating in the European Union.

The development of information systems of ČD Cargo is focused primarily on business and controlling processes.

Implementation of the new storage system of Logistics centre Lovosice was launched as well as equipping the object with wireless network. The quality of storage operations greatly improved with this action.

Adjustments were made to the dispatching information system, enhancing the effectiveness and coherence of the economic and trading systems.

At the end of the year Smart wagon project was launched in the environment of ČD Cargo, a.s. Its aim is to test advanced technologies in monitoring and evaluating behaviour and movement of operating wagons in order to manage fleet work and its effective use.

First steps were made in the Electrisation of train drivers' project (Elektronizace strojvedoucích). It aims at equipping train drivers with tablets with special applications to enhance their flexibility and management.

Within the ICT security programme in ČD Cargo, a.s. there has been preparation started for changing security processes in line with the meaning of Act No. 181/2014 Coll., on Cybersecurity and in order to gain the ISO 27001 certificate.

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

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

These areas are amended by certain special applications or software tools, of which the support of HR activities using the EGJE programme is the most extensive. Based on the decision of the general meeting, the Company's ICT development will be harmonised with ICT development in the ČD Group in the following period. The implemented measures should result in an increased efficiency of developing and using ICT means (HW and SW).

INVESTMENT

ČD Cargo, a.s., investments reached in 2016 amount of CZK 1,491 billion which is CZK 1,395 billion according to Czech accounting standards. Of these CZK 2.9 million were paid with investment subsidies. The Company's investment activities focused primarily on the renovation and modernisation of railway vehicles in which investments amounting to CZK 1,323 billion were made (including component repairs of freight vehicles and locomotives), which amounts to 89% of the acquired fixed assets.

Investments in Freight wagons

In 2016 investments in freight wagons continued to focus primarily on the technical improvement of floors of Eas 52 freight wagons.

Investments in Traction Vehicles

Within investments in traction vehicles in 2016, most significant was purchase of 5 new multi-system Vectron locomotives and 8 further locomotives of 163 class from ČD, a.s., which were added to previously purchased compatible traction vehicles.

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

Investments in Construction and Machinery

Another significant part of the Company's investment activities is in the area of construction and machinery. The investments in construction and machinery were focused on modernising machinery and technological equipment for the needs of organisational structure units, and on renovating administrative and repair centres within these units. Major investments included the renovation of the unit for the renovation and adjustments for re-profiling wheelsets of railway vehicles in SOKV Ústí nad Labem.

In 2016 the company received a grant for energy savings in OKV Nymburk buildings from the Environment Operational Program and grants in the range of de minimis to insulate the outer shell of the office building in the Česka Třebová from the Green Investment Scheme program.

Other investments

Other investments include IT investments, acquisition of handling technology, and other investment activities.

Investments in the area of IT continued to focus on the further development of internal information systems, and the ICT security project continued (cybersecurity) in order to gain the ISO 27 0001 certificate (Information Security Management System). Also the SAP upgrade was finished. Another investments was renovation of equipment for workshop serving to freight wagons renovation in OKV Břeclav.

Component Accounting for Significant Repairs of Railway Vehicles

Since 2010, the Company has applied the method of component accounting for significant repairs of railway vehicles. In 2016, within the internal and external repairs capacities there were repairs of electric and diesel locomotives conducted, necessary for the implementation of performance ČD Cargo.

STAFF POLICY AND SOCIAL PROGRAMME

In 2016 process aiming at strengthening the role of the business of providing quality services to its customers continued.

In 2016 the Company continued in contractual cooperation with selected grammar schools and other that expressed interest in such cooperation. The general agreement with these schools focuses on the practical preparation of students. Students are introduced to the Company's selected activities in real operation. After graduation, students may join the Company, mostly in the position of an engine driver trainee.

In cooperation with trade unions and in compliance with the applicable legal regulations, the Company covered issues relating to health and safety protection at work. All the requirements of OHSAS 18001:2008 norm were fulfilled. ČD Cargo, a.s. actively approaches improvements in the work and social conditions of employees, including the protection of their health, for example, through the provision of occupational medical services and attendance at wellness centres.

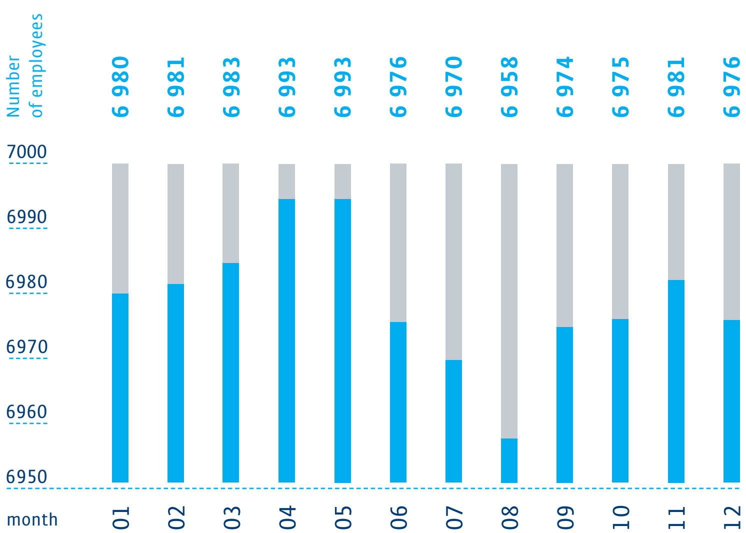
The principles of remuneration and the scope of the provision of employee benefits were agreed in the Company Collective Agreement of ČD Cargo, a.s. The Company met all its obligations towards employees in the remuneration and provision of employee benefits in 2016.

The set of provided employee benefits is primarily used to strengthen and stabilise the employee base and includes, among other things, benefits relating to working hours and vacation days; the employer continued to contribute to the employees' pension savings scheme and life insurance.

According to the defined rules, the employer made additional contributions from the social fund of the Company to the employees, primarily for holidays, summer camps for children and young people, sports and cultural events, social subsidies, etc.

In 2016 the average number of employees recalculated to FTE was 6,978.37. The number of employees as of 31 December 2016 was 6,971 people.

Average number of employees recalculated to FTE individual months of 2016



01 | JANUARY 6 980 02 | FEBRUARY 6981 03 | MARCH 6 983 04 | APRIL 6 993
05 | MAY 6 993 06 | JUNE 6 976 07 | JULY 6970 08 | AUGUST 6 958
09 | SEPTEMBER 6 974 10 | OCTOBER 6 975 11 | NOVEMBER 6 981 12 | DECEMBER 6 976

In 2016 the average salary in ČD Cargo, a.s., i.e. the payroll costs, excluding other staff costs, amounted to CZK 32,136.

Nine trade unions operate within ČD Cargo, a.s., including multi-professional unions as well as unions solely representing specific professional groups of employees. On 22 December 2016 the collective agreement was signed for year 2017, which regulates individual and collective relationships between the employer and the employees, as well as mutual relationships between trade unions and the employer.

CODE OF ETHICS AND ANTI-CORRUPTION RULES

In 2016 employees of the company obeyed the rules of Code of ethics of ČD Cargo, a.s., which is an important tool for development of the corporate culture and strengthening company's identity. The Code of Ethics helps to ensure that the Company's everyday operational activities and the conduct of its employees are in line with the rules and principles set by the Company. Despite the above, the employer prepared novelization of the Code of ethics, which after being approved by with social partners and company's management will be published in 2017. Following the change of legislation on criminal liability of legal persons the anti-corruption rules of ČD Cargo, a.s. were adopted in 2016.

QUALITY MANAGEMENT – ISO

The main goal of ČD Cargo, a.s. – to be a reliable and sought-after carrier with a stable share in the railway freight transportation market is monitored by introduction of ISO management systems. The satisfaction of customers with the quality of provided services, the safety of loads, long-term financial stability, increase of the volume of transported goods and strengthening of position in the national and international transportation market is an essential prerequisite to the fulfilment of the goal.

The control of management systems, including ISO internal audits, was delegated by the Board of Directors of Cargo ČD, a.s. to the Internal Audit department.

The significant event in ISO management systems in 2016 was the annual maintenance of quality, environment, and OHS management system certificates which were previously granted to the Company. In May 2016 the Company underwent an external supervision audit for all three certified systems – ISO 9001, ISO 14001 and OHSAS 18001. The team of auditors realized a process-oriented audit focusing on significant aspects, risks and objectives required by certification standards. The audit did not identify any inconsistencies. The external audit identified several findings (in units order) – in the category of observation and recommendation. The Company adopted appropriate approach to the findings and they were naturally handled.

The result of the audit was the inspection of the Company's compliance with the above standards, the extension of the existing certificates' effect and the following opinion of the leading external auditor:

- in accordance to the findings from the first supervision audit under ISO 9001 and ISO 14001, and the second supervision audit under OHSAS 18001, it can be stated that ČD Cargo, a.s. fulfil requirements of quality, environment and OHS management according to the above standards;
- the ISO integrated system of management systems has been established and is functional;
- the Company proved the process of continuous improvement.

The conclusion of the auditor was the recommendation to continue the registration under ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 under the accreditation of SGS CZ s.r.o.

During the year, audits of ISO management systems were conducted. Their purpose was to verify the setting of these systems. Internal and external audits are always announced as combined (integrated), i.e. these audits are conducted together in ČD Cargo, a.s organisational structure units and workplaces. The purpose of all the quality, environment, and health and safety at work audits, both external and internal, is confirmation that the system of ISO management systems:

- in compliance with the requirements of international standards;
- constructed to let ČD Cargo, a.s., achieve its goals;
- in compliance with legislation, applicable regulations and contractual requirements.

In December 2016 the first stage of external audit of Energy Management System in accordance to ISO 50001:2011 standard was realised. Completion of certification (second stage) will take place at the end of February/early March 2017. The energy audit was realized in accordance to Act no. 406/2000 Coll, on energy management, amended by later regulations.

The scope of certification for quality management system, occupational health and safety assessment and energy management is as follows:

- business activities within the area of freight carriage by rail and transport;
- implementation of services within the area of freight carriage by rail and transport;
- operation of railway and the railway transport on the spur line;
- maintenance and repairs of railway wagons and their parts;
- lease and hire of railway wagons.

The scope of environmental management system is as follows:

- maintenance and repairs of railway wagons and their parts.

Practically all units of the central level of ČD Cargo, a.s and all organizational structure of operating units – settlement department for transportation sales in Olomouc operations management department in Česká Třebová, all Operating units (including subordinated workplaces) and repair centres for rail vehicles (including subordinated rail vehicle repair plants) are certified units in the organizational structure of QMS (ISO 9001). EMS system (ISO 14001) includes only Maintenance and Repairs of Railway Vehicles O12 GŘ ČD Cargo and all Rail vehicle repair service centres. The whole ČD Cargo, a.s is included in Occupational Health and Safety Assessment Management Systems (OHSAS 18001) and Energy Management System a (ISO 50001).

Besides the certificates mentioned above, in 2015 the SQUAS (Rail) system was implemented in accordance with CEFIC SQAS 2011 methods. This certification is valid up to 2018. It is a system that assesses the quality, safety, impact on environment and compliance with the requirements of the chemical industry in the realization of transport services provided in form of united unambiguous standard assessment, which is conducted by an independent accredited assessor. It is an European assessment system used in road and railway transport, combined transport, sea transport of bulk and packaged goods, at cleaning stations, in distribution, storage terminals, cargo ships and tugboats in cooperation with companies in consideration to the issue of dangerous chemicals. The Company also plans to launch information security management system according to ISO 27001 standard.

AEO Certificate

SIMPLIFIED CUSTOM PROCEDURES/ SECURITY AND SECURITY MEASURES (AEOF)

On 1 May 2016 the long-awaited legislation became effective. Among the other things, it newly regulates the status of Authorized Economic Operator. ČD Cargo, a.s. was requested by Customs Office for South Bohemian Region, which is the administrative authority for AEO authorization, to monitor the compliance with the conditions and criteria that authorized economic operator is obliged to fulfil, to submit documents for processing of financial analysis. ČD Cargo, a.s. succeeded and maintained the AEO certificate.

The AEO certificate is recognised and reflected in all European Union member countries. The certificate is recognized in Switzerland, Norway, Japan, Andorra and negotiations with USA and China are ongoing.

Mutual recognition of AEO program would reduce the frequency of physical and document checks, but also controls by customs authorities of third countries. AEO certification is a crucial condition to authorization of simplified procedures and certain benefits from the customs administration. Obtaining the certificate provides guarantees to the customs administration, namely that the Company is a reliable operator and is aware of customs issues. The AEO certificate can be used in the application and advancing of the Company's new business activities.

Customs services

As part of supplementary services ČD Cargo, a.s., provides is customers' representation in customs procedures and statistics management Intrastat. Customs agents' activity is an integral part of comprehensive range of services in order to provide railway transport. In previous year we provided our customers help with export and import, and custom procedures at waypoints in selected workplaces. An advantage of customer service at waypoint stations is that goods delivered to the stations are already cleared by customs. Especially importers of metallurgical materials, methanol or coal are users of these services. Within export we cooperate with coal and coke producers. Companies of the chemical industry are also our significant customers.

The Company and the Community

INTERNATIONAL ACTIVITIES AND RELATIONSHIPS

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

ČD Cargo, a.s., is actively involved in a number of international bodies and working groups. Within UIC and CER we are members of the Freight Transportation Forum of UIC and its study groups. In information technology, the Company organises the IT group and participates in the activities of the work sub-group GRU for application in freight transport. We are also a member of RAILDATA organisation, which operates Central European data Exchange systems. The Company is engaged in the ISR system, which allows the monitoring of the current location and condition of vehicles in 20 European countries. We use ORFEUS system for the central exchange of data from freight and wagon sheets. In 2015 we initiated using this method of data Exchange with all ORFEUS users and changed bilateral exchange to central Exchange with DB Cargo. Together with the carrier RCA we run a pilot operation of parcels delivery to electronic consignment note. The number of partners for data exchange continues to grow as the number of transporters cooperating in rail transportation increases, especially in accordance to the composition of freight trains.

Drawing on its experience with the implementation of all the required relationships with the infrastructure administrator of which the Company is still the only operator in Europe, the Company is involved in an international project for the implementation of interoperability specifications for telematics applications for freight transportation in the European Union (TSI TAF). Together with ČD, a.s., the Company is connected to the European railway data IP through the VPN Hermes network and is involved in the activities of HIT Rail.

In the long-term, ČD Cargo, a.s., focuses on cooperation with Eastern European states. To this end, it generally supports and promotes, among other things, the unified CIM/SMGS cargo document, which reduces the costs of transporters, and increases the speed and quality of the transportation process. In 2016, 10,867 shipments were transported with the CIM/SMGS cargo document (4,844 export, 6,023 import). In transports with the Russian federation, the CIM/SMGS cargo document was used as follows (export – 94%, import – 17%), with Belarus (export – 93%, import: 3%), Ukraine (export – 1%, import – 1%).

In 2016 ČD Cargo, a.s. presented itself in trade fair in Moscow, actively participated in international conferences (High Level Freight Meeting in Vienna, the rail tariff conference in Moscow) or was directly involved in in their organization – negotiations over International Railway Transit Tariff in Karlovy Vary. Three memorandums of cooperation were concluded (with Chinese Zhengzhou International Hub Development and Construction Co., s Lithuanian railways and Russian TransContainer). In cooperation with Belgian carrier B Logistics, during last year, ČD Cargo launched new attractive connections between Czech Republic and port of Antwerp.

ECOLOGY AND ENVIRONMENTAL PROTECTION

The ČD Group, which includes ČD Cargo, a.s., actively promotes environmental protection. The cooperation of ČD Cargo, a.s., and ČD, a.s., is based on the Mandate Contract concluded on 27 May 2008 and attachment No.1 concluded on 22 April 2016. Given the concluded contract, ČD, a.s. provides methodological support in ecology and Rail Vehicle Repair Services Centres. Such includes especially comprehensive services related to removal of consequences of emergencies, methodical support during implementation of existing environmental remedies, supervision and post-remedial monitoring, environmental protection trainings, methodical support during the takeover, transport and disposal of dangerous waste. In operational units of ČD Cargo, a.s., this is ensured by contact persons for environmental issues who work together with ecologists at the Rail Vehicle Repair Services Centres. Together they follow the methodological guidance of the central ecologist from O12 of the General Directorate of ČD Cargo, a.s.

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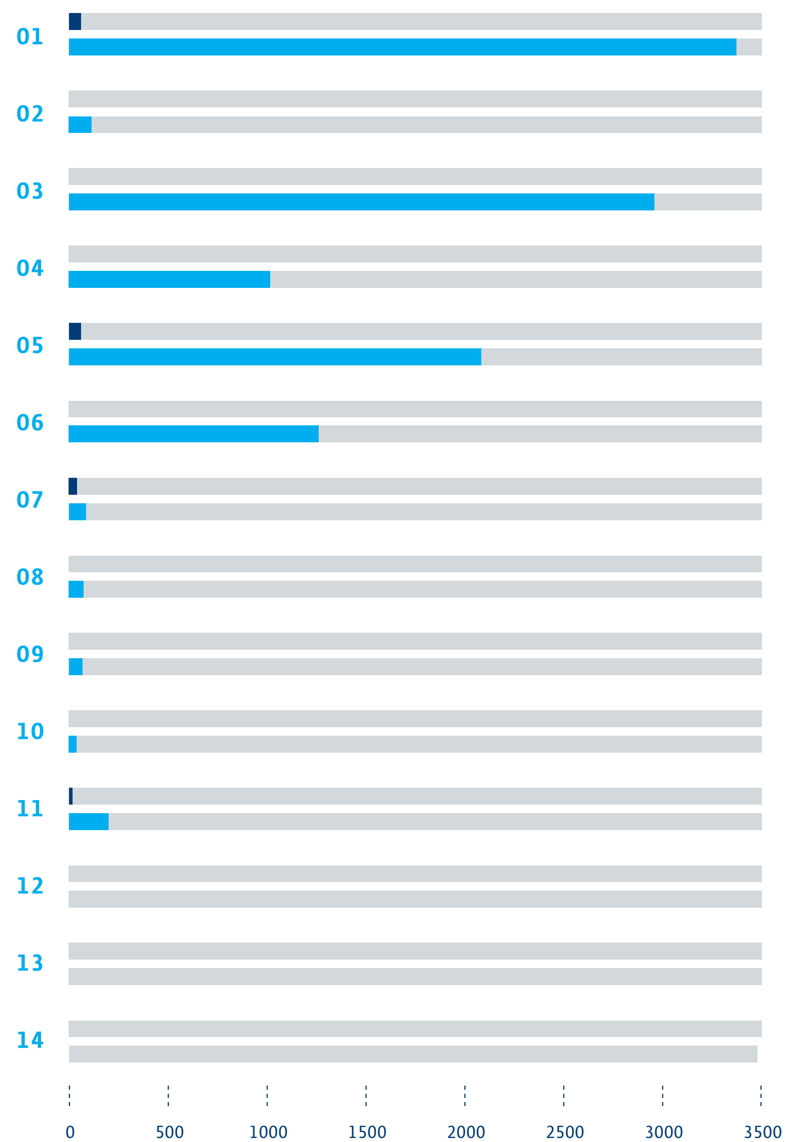
By adopting the environmental policy, all employees of ČD Cargo, a.s., are bound to environmental management which primarily aims to describe, review, assess and improve the management system at O12 and in Rail Vehicle Repair Services Centres in terms of waste and the negative impacts of activities and 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 (see the chart below).

Production of waste in ČD Cargo, a.s., in 2016, by category

NO (t) OO (t)

01 | OKV UNL
02 | OKV MO
03 | OKV Nbk
04 | OKV Cheb
05 | OHV OVA
06 | ONV OVA
07 | OKV Břeclav
08 | OKV Brno
09 | OKV Přerov
10 | OKV Třinec
11 | OKV CBE
12 | OKV Jihlava
13 | PrP Strakonice
14 | PrP Horní Dvořiště



As the EMS system focuses on providing the best conditions for environmental protection, the Company realised investments in 2016 for improving certain environmental activities. CZK 1.1 million was invested in project documentation for thermal insulation of buildings – energy savings for heating, and reduced the emissions of greenhouse gases.

Throughout the year, the Company organised regular internal audits focusing on compliance with the defined criteria and obligations resulting from the applicable environmental protection legislation. The Company aimed to assess the success rate and functioning of the introduced EMS system and the readiness of specific departments for an external audit of EMS.

An external audit of manager systems ČSN EN ISO 14001:2005 successfully took place during the year 2016 in selected units of ČD Cargo, a.s organizational structure.

All documentation to the introduced ISO systems (EMS/QMS/OHSAS) is internally available to all employees of ČD Cargo, a.s., at the ČDC portal and the website of ISO O12. The public has access to the information through the website of ČD Cargo, a.s.

Fire Protection:

- 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 potential inspections, performed by the Czech Fire Service, identified no failures.
- Contract with SŽDC, s.o. on mutual assistance in case of emergencies, fires and other circumstances specified by the contract, which sets up fixed maximum amount of CZK 9.9 million for ČD Cargo for HZS SŽDC intervention (including the cost of continuous availability).
- The Fire Brigade of SŽDC, as the guarantor ensuring that the transport route is put into operation after an extraordinary event for ČD Cargo, a.s.
- In 2016, there were 156 interventions in total for ČD Cargo a.s., of which 11 were fires in traction vehicles due to technical failures, and 7 were fires of vehicles, mostly due to someone else's fault. 5 cases were caused by smoke-filled HKV engine room due to leakage of lubricant on heated hoops. 32 fire protection units' interventions were related to removing dripping from the tanks, 36 were related to emergencies caused by putting derailed train back on tracks. Other interventions provided additional services performed under contractual relationship were related to securing loose cargo on vehicles, transfer of cargo, tree pruning, securing roof covering damaged by weather conditions or disposal of troublesome insects.

Reach reports:

Price charged for interventions in 2016/ excluding ancillary costs of HZS SŽDC operating	Fires and burns	Drips and reseal	Assistance in removing the consequences of emergency	Other activities performed under contract	The total number of interventions for ČDC
CZK 2,702,235	23	32	36	65	156

Corporate Social Responsibility

The Company is fully aware of its social responsibility and participates in various projects in this area. It is a traditional partner of projects mostly organized 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. In 2016 Legiovlak, whose proud partner is also ČD Cargo, a.s., continued its journey in Czech Republic. It helps to renew public awareness, especially young people, about Czech legions and their contribution to forming independent Czechoslovakia. ČD Cargo a.s., also supported the 14th annual project called Prevention Train focused on safe railway transportation. ČD Cargo, a.s. newly participated in the realization of some rides of anti-drug train, "Revolution Train". With its gruff exterior, simple silver coating, but especially with deliberated interior, the train creates the impression of vivid experience related to all stages of drug-taking, starting with the first pleasant experiences and ends tragically with people addicted to hard drugs. The project has an international dimension.

In 2016 ČD Cargo, a.s., supported various sport events from disciplines such as especially athletics, mountain biking or floorball.

The Company traditionally cooperates with Diakonie Broumov. The Company has provided the transport of collected clothing and other humanitarian aid for the Diakonie Broumov civic association for a number of years. From approximately 50 stations in the Czech Republic, the goods are transported by rail to the sorting centre in Broumov. In total, the Company transported more than 500 wagons for Diakonie Broumov in 2016, which is approximately 5 thousand tonnes of goods, what is once again more than in previous year.

As part of propagation of railway transportation, ČD Cargo, a.s. was involved in various social events, such as anniversary celebration of launching of operating on railway tracks, Children's day celebration, Santa Claus drives, etc. The Company rented trains for these purposes or provided railway transport under preferential conditions. Within support of railway nostalgia and tourism the Company was involved in transportation of narrow-gauge trains of Silesian Regional Railways (Slezské zemské dráhy) from Třemešná to repair plant in Krnov.

Companies in which ČD Cargo has an Equity Interest

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

GENERÁLNE ZASTÚPENIE ČD CARGO, S.R.O.
Date of entry in the Register of Companies: Slovakia, 24 September 2008
Share capital: EUR 201,197
ČD Cargo, a.s. interest: 100 %
Principal business activities: mediation of services in freight transport on behalf of and for ČD Cargo, a.s., shipping.

KOLEJE CZESKIE SP. Z O.O.
Date of entry in the Register of Companies: Poland, 18 December 2006
Share capital: PLN 41,966,000
ČD Cargo, a.s. interest: 100 %
The company is engaged in the mediation of services in freight transportation on behalf of and for ČD Cargo, a.s., shipping, lease of freight wagons and locomotives, operation of rail transportation.

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

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

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

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

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

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

OSTRAVSKÁ DOPRAVNÍ SPOLEČNOST, A.S.
Date of entry in the Register of Companies: 30 May 1995
Share capital: CZK 15,000,000
ČD Cargo, a.s. interest: 20 % (CZK 3 million)
Principal business activities: operation of railway transport and lease of locomotives.

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

ČD Cargo, a.s. has no organisational branches abroad.

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Financial Position of ČD Cargo, a.s.
(according to Czech Accounting Standards)

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

Investment Activities

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

*) Investments of CZK 58 million and CZK 59 million in 2012 and 2013, respectively, were acquired from investment subsidies.
**) Including the modernisation of locomotives from series 163 to 363.5
***) In addition to this amount, the Company made in 2014 investments of CZK 23.92 million from subsidies. Other investments including these assets would amount to CZK 192 million.
****) Investments amounting to CZK 57.09 million were in 2015 acquired from investment subsidies.
*****) Investments amounting to CZK 2.93 million were in 2016 acquired from investment subsidies.
In 2015, in addition to the above, the Company, under a contract for settlement with its subsidiary, exchanged part of the freight vehicles sold in 2003 with its subsidiary Koleje Czeskie

Balance Sheet

as at 31 December 2016 (in thousand Czech crowns)		31.12.2016			31.12.2015
		Gross	**Adjustment**	**Net**	**Neto**
	TOTAL ASSETS	**35,185,766**	**20,095,662**	**15,090,104**	**14,705,764**
A.	**Receivables for subscribed capital**				
B.	**Fixed assets**	**31,601,565**	**19,917,319**	**11,684,246**	**11,302,972**
B.I.	**Intangible fixed assets**	**827,971**	**460,417**	**367,554**	**329,637**
B.I.1.	Research & development				
B.I.2.	**Valuable rights**	**806,875**	**460,417**	**346,458**	**260,435**
B.I.2.1.	Software	674,141	344,446	329,695	246,061
B.I.2.2.	Other valuable rights	132,734	115,971	16,763	14,374
B.I.3.	Goodwill				
B.I.4.	Other intangible fixed assets				
B.I.5.	**Advances paid for intangible fixed assets and intangible fixed assets in course of construction**	**21,096**		**21,096**	**69,202**
B.I.5.1.	Advances paid for intangible fixed assets				
B.I.5.2.	Intangible fixed assets in course of construction	21,096		21,096	69,202
B.II.	**Tangible fixed assets**	**30,045,632**	**19,456,902**	**10,588,730**	**10,361,393**
B.II.1.	**Land and constructions**	**1,617,798**	**749,017**	**868,781**	**874,552**
B.II.1.1.	Land	85,867	169	85,698	85,692
B.II.1.2.	Construction	1,531,931	748,848	783,083	788,859
B.II.2.	Equipment	22,717,196	14,507,763	8,209,433	7,680,388
B.II.3.	Adjustment to acquired fixed assets	5,611,411	4,196,459	1,414,952	1,742,297
B.II.4.	**Other tangible fixed assets**	**59**	**4**	**55**	**58**
B.II.4.1.	Cultivated areas				
B.II.4.2.	Full-grown livestock				
B.II.4.3.	Other tangible fixed assets	59	4	55	58
B.II.5.	**Advances paid for tangible fixed assets and tangible fixed assets in course in construction**	**99,168**	**3,659**	**95,509**	**64,100**
B.II.5.1.	Advances paid for tangible fixed assets	22		22	22
B.II.5.2.	Tangible fixed assets in course in construction	99,146	3,659	95,487	64,078
B.III.	**Long-term investments**	**727,962**		**727,962**	**611,942**
B.III.1.	Equity investments - controlled or controlling entity	688,051		688,051	571,812
B.III.2.	Loans and borrowings - controlled or controlling entity				
B.III.3.	Equity investments - associates	39,767		39,767	39,985
B.III.4.	Loans and borrowings - associates				
B.III.5.	Other securities and investments				
B.III.6.	Other loans and borrowings				
B.III.7.	**Other long-term investments**	**144**		**144**	**145**
B.III.7.1.	Other financial investments	144		144	145
B.III.7.2.	Advances paid for long-term investments				
C.	**Current assets**	**3,196,880**	**178,343**	**3,018,537**	**2,953,748**
C.I.	**Inventories**	**182,338**	**3,833**	**178,505**	**163,526**
C.I.1.	Raw materials	182,338	3,833	178,505	163,526

Balance Sheet

as at 31 December 2016 (in thousand Czech crowns)		31.12.2016			31.12.2015
		Gross	Adjustment	Net	Neto
	Assets continuation				
C.I.2.	Work in progress and semi-finished products				
C.I.3.	Finished goods and goods for resale				
C.I.3.1.	Finished goods				
C.I.3.2.	Goods for resale				
C.I.4.	Immature livestock				
C.I.5.	Advances paid for inventory				
C.II.	**Receivables**	**1,959,474**	**174,510**	**1,784,964**	**1,926,146**
C.II.1.	**Long-term receivables**	**12,684**		**12,684**	**1,564**
C.II.1.1.	Trade receivables				
C.II.1.2.	Receivables - subsidiaries / controlling parties				
C.II.1.3.	Receivables - associates				
C.II.1.4.	Deferred tax asset				
C.II.1.5.	**Receivables - other**	**12,684**		**12,684**	**1,564**
C.II.1.5.1.	Receivables from shareholders				
C.II.1.5.2.	Long-term advances paid	578		578	259
C.II.1.5.3.	Estimated receivables				
C.II.1.5.4.	Other receivables	12,106		12,106	1,305
C.II.2.	Short-term receivables	1,946,790	174,510	1,772,280	1,924,582
C.II.2.1.	Trade receivables	1,531,352	165,603	1,365,749	1,372,301
C.II.2.2.	Receivables - subsidiaries / controlling parties	2,562		2,562	117,265
C.II.2.3.	Receivables - associates				
C.II.2.4.	Receivables - other	412,876	8,907	403,969	435,016
C.II.2.4.1.	Receivables from shareholders				
C.II.2.4.2.	Receivables for social security and health insurance				
C.II.2.4.3.	Taxes - receivables from the state	47,936		47,936	142,608
C.II.2.4.4.	Short-term advances paid	127,912		127,912	75,050
C.II.2.4.5.	Estimated receivables	188,485		188,485	201,821
C.II.2.4.6.	Other receivables	48,543	8,907	39,636	15,537
C.III.	**Financial assets**				
C.III.1.	Equity investments - controlled or controlling entity				
C.III.2.	Other financial assets				
C.IV.	**Cash and cash equivalents**	**1,055,068**		**1,055,068**	**864,076**
C.IV.1.	Cash in hand	2,179		2,179	1,908
C.IV.2.	Cash at bank	1,052,889		1,052,889	862,168
D.	**Prepayments and accrued income**	**387,321**		**387,321**	**449,044**
D.1.	Prepaid expenses	387,107		387,107	449,044
D.2.	Complex prepaid expenses				
D.3.	Accrued income	214		214	

as at 31 December 2016 (in thousand Czech crowns)		31.12.2016	31.12.2015
	TOTAL LIABILITIES AND EQUITY	15,090,104	14,705,764
A.	**Equity**	**7,604,812**	**7,238,330**
A.I.	**Share capital**	**8,494,000**	**8,494,000**
A.I.1.	**Share capital**	**8,494,000**	**8,494,000**
A.I.2.	Own shares held (-)		
A.I.3.	Changes in share capital not yet registered		
A.II.	**Share premium and capital contributions**	**512,808**	**336,729**
A.II.1.	Share premium	138,540	138,540
A.II.2.	**Capital contributions**	**374,268**	**198,189**
A.II.2.1.	Other capital contributions		
A.II.2.2.	Assets and liabilities revaluation (+/-)	374,268	198,189
A.II.2.3.	Merger/demerger revaluation reserve (+/-)		
A.II.2.4.	Differences from mergers and demergers (+/-)		
A.II.2.5.	Valuation adjustments from mergers and demergers (+/-)		
A.III.	**Funds from profit**	**218,629**	**210,391**
A.III.1.	Other reserves	115,861	108,885
A.III.2.	Statutory and other reserves	102,768	101,506
A.IV.	**Accumulated losses (-)**	**(1,834,766)**	**(1,942,307)**
A.IV.1.	Retained earnings		
A.IV.2.	Accumulated losses (-)	(1,834,766)	(1,942,307)
A.IV.3.	Restatements of retained earnings		
A.V.	**Profit / loss for the current period (+/-)**	**214,141**	**139,517**
A.VI.	Decided on advance for profit-sharing payment (-)		
B.+C.	**Liabilities**	**7,456,057**	**7,433,936**
B.	**Provisions**	**883,727**	**968,466**
B.I.	Provisions for pensions and similar liabilities		
B.II.	Income tax provision		
B.III.	Provisions as per special legislation		
B.IV.	Other provisions	883,727	968,466
C.	**Liabilities**	**6,572,330**	**6,465,470**
C.I.	**Long-term liabilities**	**3,948,551**	**2,391,909**
C.I.1.	**Debentures and bonds issued**	**2,000,000**	**1,000,000**
C.I.1.1.	Convertible bonds		
C.I.1.2.	Other bonds	2,000,000	1,000,000
C.I.2.	Liabilities to lending institutions		
C.I.3.	Long-term advances received		
C.I.4.	Trade payables		
C.I.5.	Long-term notes payable		
C.I.6.	Liabilities - subsidiaries / controlling parties	449,770	
C.I.7.	Liabilities - associates		

as at 31 December 2016 (in thousand Czech crowns)		**31.12.2016**	**31.12.2015**
	Liabilities continuation		
C.I.8.	Deferred tax liability	893,331	771,037
C.I.9.	**Liabilities - other**	**605,450**	**620,872**
C.I.9.1.	Liabilities to shareholders		
C.I.9.2.	Estimated payables		
C.I.9.3.	Other payables	605,450	620,872
C.II.	**Short-term liabilities**	**2,623,779**	**4,073,561**
C.II.1.	**Debentures and bonds issued**		**1,158,300**
C.II.1.1.	Convertible bonds		
C.II.1.2.	Other bonds		1,158,300
C.II.2.	Liabilities to lending institutions		
C.II.3.	Short-term advances received	1,887	3,298
C.II.4.	Trade payables	1,363,361	1,891,327
C.II.5.	Current notes payable		
C.II.6.	Liabilities - subsidiaries / controlling parties	77,264	
C.II.7.	Liabilities - associates		
C.II.8.	**Liabilities - other**	**1,181,267**	**1,020,636**
C.II.8.1.	Liabilities to shareholders		
C.II.8.2.	Other short-term borrowings		
C.II.8.3.	Liabilities to employees	210,089	205,466
C.II.8.4.	Liabilities for social security and health insurance	114,922	104,895
C.II.8.5.	Taxes and state subsidies payable	69,385	33,271
C.II.8.6.	Estimated payables	502,357	305,689
C.II.8.7.	Other payables	284,514	371,315
D.	**Accruals**	**29,235**	**33,498**
D.1.	Accrued expenses	29,235	33,498
D.2.	Deferred income		

In the period from 31 December 2015 to 31 December 2016, the value of the Company's total assets and liabilities increased by CZK 384.3 million. The value of fixed assets increased by CZK 381.3 million and amounted to CZK 11,684.2 million, i.e. 77.4% of the total assets.

The current assets, which include inventory, receivables and current financial assets, increased by CZK 64.8 million to CZK 3,018.5 million, i.e. 20.0% of the total assets. Deferred expenses and accrued income decreased by CZK 61.7 million to CZK 387.3 million and account for 2.6% of the total assets.

The value of the Company's equity in the reporting period increased by CZK 366.5 million to CZK 7,604.8 million, i.e. 50.4% of its total liabilities. External funding increased by CZK 22.1 million to CZK 7,456.1 million in the reporting period, which represents 49.4% of the total liabilities. Accrued expenses and deferred income decreased by CZK 4.3 million to CZK 29.2 million and represent 0.2% of the total liabilities

Profit and Loss Account

as at 31 December 2016 (in thousand Czech crowns)		**Year ended 31.12.2016**	**Year ended 31.12.2015**
I.	Sales of products and services	11,403,862	11,799,811
II.	Sales of goods		
A.	**Cost of sales**	**6,456,401**	**6,748,127**
A.1.	Cost of goods sold		
A.2.	Raw materials and consumables used	1,740,214	1,857,141
A.3.	Services	4,716,187	4,890,986
B.	Changes in inventories of finished goods and work in progress (+/-)		
C.	Own work capitalised (-)	(220,761)	(190,184)
D.	**Staff costs**	**3,846,805**	**3,885,100**
D.1.	Wages and salaries	2,760,490	2,791,772
D.2.	**Social security, health insurance and other costs**	**1,086,315**	**1,093,328**
D.2.1.	Social security and health insurance costs	924,816	928,990
D.2.2.	Other costs	161,499	164,338
E.	**Valuation adjustments in operating area**	**1,046,042**	**993,574**
E.1.	Valuation adjustments to non-current intangible and tangible assets	1,111,142	967,606
E.1.1.	Valuation adjustments to non-current intangible and tangible assets - permanent	1,024,969	988,417
E.1.2.	Valuation adjustments to non-current intangible and tangible assets - temporary	86,173	(20,811)
E.2.	Valuation adjustments to inventory	(31)	3,864
E.3.	Valuation adjustments to receivables	(65,069)	22,104
III.	**Other operating income**	**262,771**	**212,758**
III.1.	Revenue from disposal of non-current assets	3,557	65,631
III.2.	Revenue from disposal of material	118,142	16,482
III.3.	Other operating income	141,072	130,645
F.	**Other operating expenses**	**152,011**	**208,166**
F.1.	Carrying value of non-current assets sold	659	8,901
F.2.	Carrying value of material sold	23,985	9,301
F.3.	Taxes and fees	6,816	6,601
F.4.	Provisions in operating area and complex pre-paid expenses	(84,740)	3,498
F.5.	Other operating expenses	205,291	179,865
*	**Operating result (+/-)**	**386,135**	**367,786**
IV.	**Income from non-current financial assets - equity investments**	**40,435**	**27,642**
IV.1.	Income from equity investments - controlled or controlling entity	30,435	20,621
IV.2.	Other income from equity investments	10,000	7,021
G.	Expenses expended on sold equity investments		
V.	**Income from other non-current financial assets**		**1,233**
V.1.	Income from other non-current financial assets - controlled or controlling entity		
V.2.	Other income from other non-current financial assets		1,233
H.	Expenses from other non-current financial assets		3,423
VI.	**Interest income and similar income**	**2,733**	**7,204**
VI.1.	Interest income and similar income - controlled or controlling entity	1,938	6,844

as at 31 December 2016 (in thousand Czech crowns) continuation		Year ended 31.12.2016	Year ended 31.12.2015
VI.2.	Other interest income and similar income	795	360
I.	Adjustments to provisions in financial area		
J.	**Interest expense and similar expense**	**56,508**	**80,371**
J.1.	Interest expense and similar expense - controlled or controlling entity	876	
J.2.	Other interest expense and similar expense	55,632	80,371
VII.	Other financial income	72,215	279,799
K.	Other financial expenses	117,264	364,620
*	**Financial result (+/-)**	**(58,389)**	**(132,536)**
**	**Net profit before taxation (+/-)**	**327,746**	**235,250**
L.	**Income tax**	**113,605**	**95,733**
L.1.	Income tax - due	5,398	260
L.2.	Income tax - deferred (+/-)	108,207	95,473
**	**Profit after tax (+/-)**	**214,141**	**139,517**
M.	Transfer of profit share to equity holders (+/-)		
***	**Net profit for the financial period (+/-)**	**214,141**	**139,517**
*	**Net turnover for period**	**11,782,016**	**12,328,447**

The Company's net profit before taxation for 2016 in the amount of CZK 327.7 million was achieved with the aggregate revenues CZK 11,782 million and the total costs (excluding income tax) of CZK 11,454.3 million, including accounting amortisation and depreciation charges of CZK 1,025 million. The value of EBITDA (earnings before taxes, interest, depreciation and amortisation) amounted to CZK 1,409.2 million.

Funding

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

OPERATING BANK LOANS

In financing operating activities ČD Cargo, a.s. has overdraft loans of up to CZK 1.2 billion, provided by four banks. Since 2013, the Company has been additionally included in the physical cash-pooling of ČD, a.s. As part of the cash-pooling, the Company use funds of up to CZK 0.6 billion and the contractual limit above the drawing limit of CZK 0.4 billion.

PROMISSORY NOTES PROGRAMME

The Promissory Notes Programme was approved in the amount of CZK 1.5 billion. The Company's Supervisory Board must be informed about any intention to draw more than CZK 1 billion in advance. The Promissory Notes Programme was not drawn as of 2016; however, the promissory notes facility is kept as a reserve for short-term financing independent of bank sources.

LEASES

In 2016, the Company realized no new leases.

BONDS

This funding source significantly increases the financial stability of the Company's cash flow due to its long-term nature. The bond issuing between 2011 and 2012 was realized in connection with the introduction of the strategy for the gradual replacement of short-term funding sources with long-term ones. In 2016, two new bonds were issued amounting to CZK 1 billion. Due bonds amounting to CZK 1.158 billion were redeemed. The total bonds issued in June 2016 by the administrator Raiffeisenbank, a.s. (under the approved bonds program of the Company ČD Cargo, a.s.) amount to CZK 0.5 billion. The total bonds issued in December 2016 (issued on the basis of separate issue conditions) by administrator UniCredit Bank Czech Republic and Slovakia, a.s. amount to CZK 0.5 billion. These bonds were accepted for trading on Regulated Market of the Prague Stock Exchange. The total bonds issued by the Company as of 31 December 2016 amounted to CZK 2 billion.

LOANS

On 13 October 2016, the Company ČD Cargo, a.s. has concluded the credit contract with its parent company ČD, a.s. for an amount of EUR 19,975 million, for a repayment term of up to seven years and for the purpose of financing the purchase of five Siemens Vectron locomotives. The amount of interest includes sum of 6M EURIBOR and margin.

Risk Management

On an ongoing and long-term basis, ČD Cargo, a.s., monitors and assesses all material business risks, specifically business, operating, financial and compliance risks.

The Company has an integrated risk management system, which is based on the best practice and set framework of Corporate Governance rules. The activities of organizational units in the Company within the risk management system are governed by the ČD Group Manual for risk management, which determines specific procedures for the identification, analysis, measurement, strategy and processes for dealing with, monitoring, reporting and communicating risks.

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

The principal objective of the implemented system for active risk management is to achieve the maximum reduction in the negative impact of individual risks on the results of the Company, i.e. minimize the impacts of unused opportunities for generating income and reduce the negative impacts of costs. As part of the active risk management, the Company introduced the ongoing monitoring and assessment of compliance with approved risk limits and the overall risk appetite of the Company in 2016.

The deliverables from the risk monitoring systems are discussed on a regular basis by the Risk Management Committee, delivered to the Board of Directors of the Company and subsequently to the Audit Committee.

INSURANCE OF OPERATIONAL RISKS

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

FINANCIAL RISKS

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

BUSINESS RISK

In connection with the development of the transport market, ČD Cargo, a.s. faced in 2016 with the strong downward pressure on prices. Sustained competition of other railway transporters significantly influenced the price and trade policy, especially in whole train loads. The pricing policy in the area of transport of individual wagon loads was aimed at maximum efficiency in this activity and thus maintaining its competitiveness against road transport. By offering promotional prices, we have addressed new potential customers.

Business meetings were held with the aim of stabilizing traffic volumes and revenues in the form of multi-year contracts. Another means to eliminate the business risk was complex services offer, including the transportation of goods abroad – among other through certain subsidiaries ČD Cargo, Inc.

LIQUIDITY RISK

The Company's liquidity risk is managed so as to ensure that the volume of funding necessary to settle the financial liabilities is sufficient and diversified.

On a day-to-day basis, liquidity development, the balance of available funds, and the Company's cash flow are assessed.

CREDIT RISK

The Company has a system in place to continuously monitor receivables per individual company and default periods with a particular focus on receivables past due by more than 15 days. The development of past due receivables is dealt with by individual responsible employees and the Receivables Committee at top level.

To provide additional collateral to support risky receivables, standard tools are used in various combinations. To improve the liquidity level and decrease the amount of receivables and payables, the Company actively pursues a netting policy, paying special attention to receivables past due by more than 30 days.

CURRENCY RISK

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

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

During 2016, the Company mitigated the risk of possible currency strengthening by the continued hedging of the exchange rate of the Czech crown against the euro. With respect to the expected collections in the euro for the performance delivered and the internal price calculation, the hedging of the CZK/EUR exchange rate will be subsequently agreed upon on an ongoing basis in line with the Financial Risk Management Strategy as approved by the Company's Board of Directors and in view of the market situation.

COMMODITY RISK – PRICE OF RAILWAY DIESEL

Railway diesel used by the Company represents a significant cost component. During 2016, the Company used a hedging of the diesel price, which reduced the Company's commodity risk.

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

INTEREST RATE RISK

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

Through various hedging instruments, interest rates are hedged to eliminate any possible risk of a floating rate increase in compliance with the Financial Risk Management Strategy as approved by the Company's Board of Directors.

10
Anticipated Development, Objectives and Intended Activities

The primary objective will be to maintain the share on the domestic transport market and raising the share of transports realized abroad. We always want to be the first-choice carrier that offers quality and cost-effective services. We want to offer customers more direct connections similar to these, which since 2016 we have offered for transportation to the port of Antwerp. As the carrier with its own licence or through subsidiaries, ČD Cargo, Inc. wants to operate actively in foreign markets. In this way, we aim to take over the transport of black coal from Poland to the Czech Republic and in transit through it, we want to be a reliable partner in implementing transportation from / to the east.

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

A very important goal for us is development of combined transport, which represent significant potential, particularly in continental road transports of road semitrailers and swap bodies. In preparation are projects of deployment of Innofreight container for bulk cargo transportation. All these objectives will be supported by the modernization of the vehicles fleet.

An important prerequisite of fulfilling the Company's vision is increasing the efficiency of individual activities across the entire Company as well as by adjusting the capacities (particulary of the vehicles fleet) to the current requirements of the increasingly globalized market. The economic goals of ČD Cargo, a.s., namely include sustaining a stable level of cash flow based, on the one hand, on securing the planned level of sales from internal transport and, on the other hand, on the effective drawing of expense items while ensuring sufficient liquidity of the Company in the medium-term and long-term horizons. The Company's long-term goals include stabilizing the profitability of principal activities and other business activities.

We strive to equalize conditions for rail and road infrastructure charging, to address runaway's lack of capacity and to help resolve the development and adaptation of traction electricity prices by membership in professional interest associations, especially in Rail Freight Forwarders' Association of Czech Republic (ŽESNAD). An important goal for us is to maintain social peace. We have to be coveted employer for graduates of (not only traffic-orientated) secondary schools and universities.


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11
Share Capital

The Amount of the Issued Share Capital

As of the balance sheet date of 31 December 2016, the share capital of the Company amounts to CZK 8,494,000 thousand, which was fully paid.

Ownership Structure

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

12
Report of the Supervisory Board and Audit Committee

Report of the Supervisory Board

Report of the Supervisory Board of ČD Cargo, a.s., on the performance of its remit for the year 2016 and the results of the supervisory activities

During 2016, the Supervisory Board of ČD Cargo, a.s., held eleven meetings, in which it always had a quorum.

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

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

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

In Prague on 28 March 2017

Pavel Krtek
Chairman of the Supervisory Board

Report of the Audit Committee

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

The Company's Audit Committee executed its duties and performed all tasks in accordance with legal regulations, the Company's Articles of Association, and the effective contractual arrangements. It systematically monitored the preparation of the Company's separate and consolidated financial statements, the audit and interim audit thereof, and related documents for the periods from 1 January 2016 to 30 September 2016 and 1 January 2016 to 31 December 2016.

The Company's Audit Committee was informed by the Company's representatives, duly and on time, of the relevant information and documents related to the individual steps of preparing the Company's separate and consolidated financial statements under IFRS as adopted by the EU and the Report on Related Party Transactions for the period from 1 January 2016 to 31 December 2016, and of preparing the Annual Report of ČD Cargo, a.s., for the year 2016.

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

With regard to the facts stated above and after discussing the draft auditor's report on the separate and consolidated financial statements and the contents of the Report on Related Party Transactions, the Audit Committee recommended that the Company's bodies discuss the separate financial statements along with the Auditor's Report and the Report on Related Party Transactions along with the Auditor's Report for the period from 1 January 2016 to 31 December 2016 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 2016 to 31 December 2016, 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 2016.

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 28 March 2017

Oldřich Vojíř
Chairman of the Audit Committee

12

Report of the Audit Committee of ČD Cargo, a.s. on the Report on Related Party Transactions for the year from 1 January 2016 – 31 December 2016

The Audit Committee of ČD Cargo, a.s., in line with the relevant provisions of Act 93/2009 Coll., on Auditors, as amended, and the Articles of Association of ČD Cargo, a.s., as amended, continuously monitored the proceedings taken in the preparation of the Report on Related Party Transactions for the year from 1 January 2016 to 31 December 2016, 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 Related Party Transaction Report for the year from 1 January 2016 to 31 December 2016.

The Audit Committee also assessed the impartiality and independence of the Company's auditor, PricewaterhouseCoopers Audit, s.r.o., discussed and communicated selected accounting information, and issued statements and communications in accordance with applicable legislation. During the preparation of the Related Party Transaction Report for the year from 1 January 2016 to 31 December 2016, the obligatory audit thereof and the relating activities, the Audit Committee, acting in its capacity, identified no errors or breaches of the legal regulations or the Company's Articles of Association by either the Company or the auditor.

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

Based on the information disclosed above, the Audit Committee of ČD Cargo, a.s., states that it fulfilled the obligations arising from legal regulations, principally from Act 93/2009 Coll., on Auditors of 26 March 2009, as amended, the Articles of Association of ČD Cargo, a.s., as amended, and that it took into consideration all information it has received related to the Related Party Transaction Report for the year from 1 January 2016 to 31 December 2016.

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 2016 to 31 December 2016, 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 2016 to 31 December 2016, 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 2016 to 31 December 2016.

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 2016 to 31 December 2016, 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 2016 to 31 December 2016 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 2016 to 31 December 2016, and the Auditor's Opinion.

Oldřich Vojíř
Chairman of the Audit Committee

Report of the Audit Committee of ČD Cargo, a.s., on the Consolidated Financial Statements of ČD Cargo, a.s., prepared under IFRS for the year from 1 January 2016 to 31 December 2016, 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 2016 to 31 December 2016, 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 2016 to 31 December 2016.

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 2016 to 31 December 2016, 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 2016 to 31 December 2016 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 2016 to 31 December 2016, 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.

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 2016, of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.
- The accompanying separate financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2016, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited
The Group's consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

The Company's separate financial statements comprise:
- the statement of financial position as at 31 December 2016;
- the statement of income for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the separate financial statements, which include significant accounting policies and other explanatory information.

Basis for Opinion
We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group and Company in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations.

Our audit approach
Overview

Overall materiality for the Group: CZK 105 million
Overall materiality for the Company: CZK 100 million

We have identified three entities, which were selected for audit based on their size or risk. For one more 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 Poland and Germany. All component auditors belonged to the PwC network.

Entities, for which we performed the above procedures, represent 99% of the Group's profit before tax and 98% of the Group's revenue.

The scope of the audit gives us a sufficient basis for our opinion on the consolidated financial statements.

- Work within the first year, when PwC is the auditor of the Company and the Group.
- Assessment of provisions for restructuring and loss making transactions.

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

Materiality

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

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

Overall Group materiality	CZK 105 million
How we determined it	0.85% of total revenue
Rationale for the materiality benchmark applied	Materiality was determined based on total revenue from operations. As a primary benchmark for determining materiality, we considered profit before tax; however, due to its year-to-year volatility, we have decided to use revenue as a more stable measure. Furthermore, we considered the method of measuring the performance of the Company, which is primarily focused on pre-tax profit, EBITDA and revenue. In order to take into account the impact of all these performance indicators, the basis for determining the materiality was reduced from the possible 1% to 0.85% of revenue.
Overall materiality for the separate financial statements	CZK 100 million
How we determined it	0.85% of total revenue
Rationale for the materiality benchmark applied	Materiality was determined based on total revenue from operations. As a primary benchmark for determining materiality, we considered profit before tax; however, due to its year-to-year volatility, we have decided to use revenue as a more stable measure. Furthermore, we considered the method of measuring the performance of the Company, which is primarily focused on pre-tax profit, EBITDA and revenue. In order to take into account the impact of all these performance indicators, the basis for determining the materiality was reduced from the possible 1% to 0.85% of sales.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Work within the first year, when PwC is the auditor of the Company and the Group Due to the fact that year ended 31 December 2016 was the first year when we are the auditor of the Group and the Company, one of the key matters for us was getting an understanding of the Group's and the Company's business as a precondition for its proper capturing in the financial statements. It was also essential to gain an understanding of and validate the control environment of the Group and the Company, which allowed us to develop the correct and effective way of detailed testing of transactions and balance sheet items. Within the first year in which we are performing the audit, we also assessed all significant accounting policies of the Group and the Company and their compliance with the International Financial Reporting Standards as adopted by the European Union.	Within the first year audit, we have gained an understanding of the Group and the Company's business as a result of research into independent sources of information, publicly available information about the Group and the Company, through meetings with key personnel of the Group and the Company as well as meetings with the predecessor auditor and studying their file. This work was an important precondition that has allowed us to make a proper assessment and to work with the other points listed below. In particular, it was mentioned about the area of tangible fixed assets presentation, sales and business activities of the Group and the Company, purchases and the area of employee benefits. Subsequently, we tested the reliability of selected internal controls applied by the Company and the Group. All tested controls proved to be fully functional, which allowed us to determine the extent for testing documents, which form the basis for accounting entries. In the course of this testing, the functioning control mechanisms helped us to focus on specific individual transactions that were considered risky or otherwise material to the assessment of the financial statements. Furthermore, we performed an assessment of all significant accounting policies. The accounting policies of the Group and the Company have been compared with the current version of International Financial Reporting Standards as adopted by the European Union in order to determine if there are no discrepancies in how they are applied. While assessing the appropriateness of the approach used for the deferred tax calculation, we found that, for the part of temporary differences between the carrying value of tangible fixed assets and their tax base, a deferred tax liability was not recognized. This has

Key audit matter	How our audit addressed the key audit matter
	resulted in the change of presentation in the consolidated and separate financial statements, which are further described in section 2.3.1. of the notes to the consolidated financial statements (in section 2.3.1 of the notes to the separate financial statements). Similarly, while assessing the appropriateness of recording transactions related to sale and leaseback of railway vehicles, we found that, by its substance, the transaction is borrowing from a lender with pledge of property, which is the subject of the leaseback. This has resulted in the change of presentation in the consolidated and separate financial statements, which are further described in section 2.3.1. of the notes to the consolidated financial statements (in section 2.3.1 of the notes to the separate financial statements). We consider the remaining accounting policies and their impact on the financial statements to be in accordance with International Financial Reporting Standards as adopted by the European Union.
Assessment of provisions for restructuring and loss making transactions The Company and the Group recognised a provision for restructuring on the basis of the long-term business plan. The provision is calculated on the basis of an internal estimate of costs that are associated with the restructuring. Another material provision is the provision for loss-making transactions. The Company and the Group calculate this provision based on discounted cash flows from non-cancellable contracts.	In connection with the restructuring provision, we performed the following procedures: - Determining whether the recognition criteria of a provision under IAS 37 are met, in particular with regard to the specifics of restructuring provisions. The provision meets all the relevant. - Tracing of input data used for the calculation of the provision to the relevant documents, including the assessment of the appropriateness and completeness of the input data and the relevant documents. Input data is deemed appropriate and complete for the calculation of the provision. - Check the mathematical accuracy of the calculation. We did not find obvious deficiencies in this area. - Review of the minutes of Board meetings in 2016 and 2017 to the date of this audit report. Minutes of the Board meetings do not indicate that the Company intended to significantly change the restructuring plan. In connection with the provision for loss-making transactions, we performed the following procedures: - Checking the contracts, which are the basis for the provision, in particular with regard to the possibilities of their being cancelled. The relevant contracts are properly taken into account in the calculation of the provision for loss-making transactions. - Verification of the individual parameters of the provision, particularly tracing contractual payments to the relevant documents (mainly the contracts), including an assessment of their suitability and completeness. We consider the parameters used for the calculation of the provision to be appropriate and complete. - Check of the mathematical accuracy of the calculation. We did not find obvious deficiencies in this area. - Verification of the appropriateness of the discount rates. We consider the discount rates used in the model to be appropriate. We consider that both of the aforementioned provisions are adequately captured in the separate and the consolidated financial statements.

How we tailored our audit scope

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

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

In the context of determining the scope of the audit, we set the scope of work that was deemed necessary for each entity. We determined that audit of three entities and specific audit procedures on one entity to be a suitable scope of work. The criteria for determining the extent of the work on individual entities were mainly their size, complexity and risk in terms of audit procedures.

Work on entities based in the Czech Republic was performed by the group audit team; work on entities located abroad was performed by component auditors from the PwC network and it was based on instructions provided by the group audit team. In cooperation with component auditors, we determined the level of mutual communication at a level, which forms a sufficient basis for our opinion. This included regular exchanges of information obtained during the audit and discussion of key audit and accounting practices.

The described range of work covers 98% of the Group's revenue and 99% of the Group's profit before tax. For the remaining entities, we performed analytical procedures focussed on significant year-to-year changes.

We consider the described scope of the audit to be sufficient for rendering our audit opinion.

Other Information

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

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

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

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

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

Responsibilities of the Board of Directors and Supervisory Board for the Financial Statements

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

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

The Supervisory Board is responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

4 April 2017

PricewaterhouseCoopers Audit

represented by

Václav Prýmek

Milan Zelený
Statutory Auditor, Evidence No. 2319

14 Separate Financial Statement

Separate Financial Statement for the Year Ending 31 December 2016

prepared under IFRS as adopted by the EU

ČD Cargo

Separate Financial Statements for the Year Ended 31 December 2016
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 4 April 2017

Ing. Martin Šimek
Chief Financial Officer

Statutory body of the reporting entity:

Ivan Bednárik
Chairman of the Board of Directors

Bohumil Rampula
Member of the Board of Directors

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2016

CZK million		31 Dec 2016	31 Dec 2015 (adjusted*)	1 Dec 2015 (adjusted*)
Property, plan and equipment	5	13,924	13,519	13,416
Intangible assets	6	362	317	326
Investments in subsidiaries and associates	7	358	353	350
Other financial assets	10	271	1	239
Other assets	11	1	-	-
Total non-current assets		**14,916**	**14,190**	**14,331**
Inventories	8	142	130	121
Trade receivables	9	1,553	1,572	1,538
Tax receivables	29	21	22	-
Other financial assets	10	75	131	19
Other assets	11	117	229	209
Cash and cash equivalents	12	763	864	680
Total current assets		**2,671**	**2,948**	**2,567**
TOTAL ASSETS		**17,587**	**17,138**	**16,898**
Share capital	13	8,494	8,494	8,494
Capital funds	13	315	245	184
Accumulated loss		(1,206)	(1,995)	(2,384)
Total equity		**7,603**	**6,744**	**6,294**
Loans, borrowings and bonds	15	4,057	3,015	3,620
Deferred tax liability	29	1,340	1,157	1,029
Provisions	16	538	672	635
Other financial liabilities	17	319	565	641
Other liabilities	18	369	133	79
Total non-current payables		**6,623**	**5,542**	**6,004**
Trade payables	14	1,778	2,170	2,012
Loans, borrowings and bonds	15	500	1 603	1 416
Tax payables	29	0	0	52
Provisions	16	317	296	330
Other financial payables	17	319	412	443
Other payables	18	447	371	347
Total current payables		**3,361**	**4,852**	**4,600**
TOTAL LIABILITES		**17,587**	**17,138**	**16,898**

*see section 2.3.1.

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

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STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

CZK million		Year ending 31 Dec 2016	Year ending 31 Dec 2015 (adjusted*)
Revenue from principal operations	21	11,099	11,485
Other operating income	22	483	676
Purchase consumables and services	23	(5,540)	(5,994)
Employee benefit costs	24	(3,758)	(3,844)
Depreciation and amortisation	25	(1,024)	(1,060)
Other operating income	26	(148)	(509)
Operating profit		**1,112**	**754**
Financial expenses	27	(235)	(255)
Financial income	28	93	36
Profit before tax		**970**	**535**
Income tax expense	29	(174)	(119)
Profit for the year		**796**	**416**

*see section 2.3.1.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

CZK million	Year ending 31 Dec 2016	Year ending 31 Dec 2015 (adjusted*)
Profit for the year	**796**	**416**
Actuarial gains / losses on liabilities related to employee benefits	3	(5)
Other comprehensive income/(loss) for the year (items that are not reclassified to profit or loss)	**3**	**(5)**
Cash flow hedging	74	48
Relating deferred income tax	(14)	(9)
Other comprehensive income/(loss) for the year (items that may be reclassified to profit or loss)	**60**	**39**
Total comprehensive income/(loss) for the year	**859**	**450**

*see section 2.3.1.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

CZK million	Share capital	Share premium	Reserve fund	Hedged cash flow fund	Actuarial Gains/losses	Accumulated losses	Total equity
Balance as at 1 January 2015 (adjusted*)	**8,494**	**197**	**82**	**(82)**	**(13)**	**(2,384)**	**6,294**
Profit for the period	-	-	-	-	-	416	416
Other comprehensive income for the year	-	-	-	39	-5	-	34
Comprehensive income for the year - total	-	-	-	39	-5	416	450
Allocation to the reserve fund	-	-	27	-	-	(27)	-
Transaction with owners for the year - total	-	-	27	-	-	(27)	-
Balance as at 31 January 2015 (adjusted*)	**8,494**	**197**	**109**	**(43)**	**(18)**	**(1,995)**	**6,744**
Profit for the period	-	-	-	-	-	796	796
Other comprehensive income for the year	-	-	-	60	3	-	63
Comprehensive income for the year - total	-	-	-	60	3	796	859
Allocation to the reserve fund	-	-	7	-	-	(7)	-
Transaction with owners for the year - total	-	-	7	-	-	(7)	-
Balance as at 31 January 2016	**8,494**	**197**	**116**	**17**	**(15)**	**(1,206)**	**7,603**

*see section 2.3.1.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

CZK million		Year ended 31 Dec 2016	Year ended 31 Dec 2015 (adjusted*)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax		**970**	**535**
Dividend income	28	(40)	(28)
Financial expenses		186	244
Profit from the sale and disposal of non-current assets		(3)	(55)
Depreciation and amortisation of non-current assets	25	1,024	1,060
Changes in impairmen of non-current assets		3	(9)
Changes in allowance for doubtful accounts	26	(9)	30
Decrease in provisions	26	(88)	(2)
Foreign exchange rate (gains) losses		1	(13)
Others		7	79
Cash flows from operating activities before changes in working capital		**2,051**	**1,841**
Decrease/(increase) in trade receivables		82	-51
(Increase)/decrease in inventories		(16)	(14)
(Increase)/decrease in other assets		67	(8)
(Increase)/decrease in trade payables		(235)	101
Increase in other payables		(137)	48
Total changes in working capital		**(239)**	**76**
Cash flows from operating activities		**1,812**	**1,917**
Interest paid		(205)	(234)
Income tax paid		(4)	(75)
Net cash flows from operating activities		**1,603**	**1,608**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment		(1,654)	(926)
Payments from property, plan and equipment	22	3	17
Payments for intangible assets		(115)	(100)
Interest received	28	2	7
Dividends received		10	8
Repayments of loans and borrowings from related parties		93	120
Received subsidies for the purchase of assets		0	58
Net cash flows (used in) from investment activities		**(1,661)**	**(816)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the bonds issue	15	1,000	1,000
Proceeds from loans and borrowings	15	558	-
Repayments of loans, borrowings and bonds	15	(1,603)	(1,608)
Net cash flows from financing activities		**(45)**	**(608)**
Net increase / (decrease) in cash and cash equivalents		(103)	184
Cash and cash equivalents at the beginning of the reporting period	12	868	684
Cash and cash equivalents at the end of the reporting period	**12**	**765**	**868**

*see section 2.3.1.

1. General Information

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

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

As of 31 December 2016, the Company's reported share capital of CZK 8,494,000 thousand which was fully paid in.

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

The financial statements were prepared as of 31 December 2016. The reporting period is the calendar year from 1 January 2016 to 31 December 2016.

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

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

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

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

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

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

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

The Consolidated Company of České dráhy for the financial year 2016 consists of following companies:

Name of the entity	Ownership of ČD, a. s. (%)	Type of influence	Registered office	Corporate ID
ČD - Informační Systémy, a.s.	100,00	Control	Pernerova 2819/2a, 130 00 Prague 3	24829871
ČD-Telematika, a. s.	69,18	Control	Pernerova 2819/2a, 130 00 Prague 3	61459445
Výzkumný Ústav Železniční, a.s.	100,00	Control	Novodvorská 1698, 142 01 Prague 4	27257258
JLV, a. s.	38,79	Significant	Chodovská 3/228, 141 00 Prague 4	45272298
DPOV, a. s.	100,00	Control	Husova 635/1b, 751 52 Přerov	27786331
ČD Cargo, a. s.	100,00	Control	Jankovcova 1569/2c, 170 00 Prague 7	28196678
Dopravní vzdělávací institut, a.s.	100,00	Control	Husitská 42/22, 130 00 Prague 3	27378225
ČD travel, s.r.o.	51,72	Control	28.října 372/5 , 110 00 Prague 1	27364976
Smíchov Station Development, a.s.	51,00	Joint Control	U Sluncové 666/12a, 186 00 Prague 8 – Karlín	27244164
Žižkov Station Development, a.s.	51,00	Joint Control	U Sluncové 666/12a 186 00 Prague 8 – Karlín	28209915
Masaryk Station Development, a.s.	34,00	Significant	Na Florenci 2116/15, 110 00 Prague 1	27185842
RAILREKLAM spol. s r.o	51,00	Joint Control	Štětkova 1638/18, 140 00 Prague 4	17047234
CD Generalvertretung GmbH	100,00	Control	Kaiserstrasse 60, 60329 Frankfurt on Main, SRN	DE 814191687
CD - Generalvertretung Wien GmbH	100,00	Control	Rotenturmstraße 22/24, 1010 Wien, Austria	FN 291407s
Koleje Czeskie Sp. z o.o.	100,00	Control	Ul. Grzybowska nr. 4, lok. 3, 00-131 Warsaw, Poland	140769114
Generálne zastúpenie ČD Cargo, s.r.o.	100,00	Control	Tomášikova 10/H, 821 03 Bratislava.	44349793
ČD Logistics, a.s.	78,00	Control	Nové Město, Opletalova 1284/37, 110 00 Prague 1	27906931
Terminal Brno, a.s.	66,94	Control	K terminálu 614/11, 619 00 Brno	28295374
ČD-DUSS Terminál, a.s.	51,00	Control	Lukavecká 1189, 410 02 Lovosice	27316106
RAILLEX, a.s.	50,00	Joint Control	Hlubočepy, Trnkovo náměstí 3, čp. 1112, 152 00 Prague 5	27560589
BOHEMIAKOMBI, spol. s r.o.	30,00	Significant	Opletalova 6, 110 00 Praha 1	45270589
Ostravská dopravní společnost, a.s.	20,00	Significant	Přívoz, U Tiskárny 616/9, 702 00 Ostrava	60793171
Auto Terminal Nymburk, s.r.o.	100,00	Control	Jankovcova 1569/2c, PSČ 170 00 Prague 7 - Holešovice	24234656
České dráhy, a. s.	-	-	Nábřeží L.Svobody 12/1222, 110 15 Prague 1	70994226
ODP-software, spol.s r.o.	100,00	Control	Pernerova 2819/2a, 130 00 Prague 3	61683809

1.3.2. Key Management

The concept of key management mainly concerns the members of the Statutory and Supervisory Bodies of the individual Company companies. The listing of individual organs is presented in Note 1.5 and amount of their benefits are shown in Note 30.7.

1.3.3. Relationship with SŽDC and ČEZ Company

The sole shareholder, the company České dráhy, a.s., is fully owned by the state. In accordance with exemptions specified in paragraphs 25-27 of IAS 24, the Parent Company and the entire Company does not treat other state-owned companies as their related parties. These financial statements present only transactions with SŽDC and ČEZ Company, due to their significant impact of the Company's activities. The most significant transactions carried out with these entities include the use of infrastructure, purchase of electricity and revenues from freight transport. Detailed relationships are disclosed in Notes 30.8 a 30.9.

1.4. ORGANISATIONAL STRUCTURE

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

- Sales Director division;
- Operational Director division;
- Finance Director division.

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

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

1.5. STATUTORY BODIES OF THE COMPANY

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

The composition of ČD Cargo, a.s., Bodies as of 31 December 2016:

Board of Directors

Chairman	Ivan Bednárik
Member	Ing. Zdeněk Škvařil
Member	Bohumil Rampula

Supervisory Body

Chairman	Pavel Krtek, M.Sc.
Member	Ing. Ludvík Urban
Member	Ing. Jan Kasal
Member	Radek Nekola
Member	Jindřich Nohal
Member	Mgr. Jan Hart
Member	Mgr. František Bureš, MBA, LL.M

Audit Committee

Chairman	Mgr. Oldřich Vojíř, Ph.D.
Member	Ing. Miroslav Zámečník
Member	Ing. Libor Joukl

During the year 2016 no changes took place in the Company Bodies.

2. Significant accounting policies

2.1. GENERAL INFORMATION

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

The separate financial statement of ČD Cargo, a.s., prepared under § 19a, odst. 1, Act number 563/1991. Sb., of Czech Accounting Standards.

2.2. STATEMENT OF COMPLIANCE

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

2.3. BASIS OF PREPARATION

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

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

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

2.3.1. Changes in Accounting and Reporting Method

Adjustment of Deferred Tax Presentation

For the part of the Company's assets were revised differences arising from different accounting and tax values. Total difference between the tax and accounting value of the property is newly considered as temporary difference for one category of assets and for that reason it is now part of the deferred tax calculation. In prior accounting periods, these differences were considered as permanent differences and thus were not subject to deferred tax calculation. As a result deferred tax liability was recorded at the lower value.

Change in Presentation of Leaseback

Leaseback undertaken in prior accounting periods from 1 January 2008 till 31 December 2015 was presented in accordance with IAS 17 as finance lease. When preparing the financial statements for the year 2016, this accounting methodology was revised with reference to SIC 27 'Evaluating the substance of transactions involving the legal form of a lease' and the comparative period of the financial statements was adjusted retrospectively. By its nature mentioned leaseback arrangements cannot be considered a lease but a loan from a lender which is secured by relevant property. The adjustment represents a reduction of the carrying value of fixed assets and a corresponding reduction of 'Other liabilities' (short- and long term).

Reclassification of items in the financial statements

In 2016, the Company changed the name of an individual line item 'Other gains (losses)' in the profit and loss account as presented in the financial statements for the year 2015 into 'Financial income'. The Company reclassified some items presented in this position, especially –'Operating foreign exchange gains' of CZK 242 mil. were reclassified to 'Other operating income' and 'Operating foreign exchange losses' of CZK 251 mil. were reclassified to 'Other operating expenses'.

1.1.2015 CZK mil.		Previously presented	Adjustment	Reclassification	Adjusted
Property, plant and equipment	5	13,935	(519[2])	-	13,416
Capital funds	13	197	-	(13)	184
Accumulated losses		(2,018)	(379[1])	13	(2,384)
Deferred tax liability	29	650	379[1]	-	1,029
Other liabilities - long-term	18	570	(491[2])	-	79
Other liabilities - short-term	18	375	(28[2])	-	347
31.12.2015					
Property, plant and equipment	5	14,008	(489[2])	-	13,519
Capital funds	13	263	-	(18)	245
Accumulated losses		(1,682)	(331[1])	18	(1,995)
Deferred tax liability	29	826	331[1]	-	1,157
Other liabilities - long-term	18	593	(460[2])	-	133
Other liabilities - short-term	18	400	(29[2])	-	371
Year 2015					
Other operating income	22	484	-	192	676
Employee benefits costs	24	(3,902)	-	58	(3,844)
Depreciation and amortization	25	(1,090)	-	30	(1,060)
Other operating expenses	26	(200)	-	(309)	(509)
Financial expenses	27	(245)	-	(10)	(255)
Financial income	28	(9)	-	45	36
Income tax for the year	29	(167)	48[1]	-	(119)
Profit for the period		363	48[1]	5	416
Comprehensive income for the period Total		402	48[1]	-	450

1) The effect of the deferred tax adjustment

2) The effect of changes in the reporting of regressive leasing

2.4. REVENUE RECOGNITION

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

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

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

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

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

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

2.5. LEASING

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

In all finance leases, the Company acts as a lessee.

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

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

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

2.5.1. Sale and Leaseback

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

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

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

2.6. FOREIGN CURRENCIES

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

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

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

2.7. BORROWING COSTS

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

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

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

2.8. GOVERNMENT GRANTS

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

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

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

2.9. EMPLOYEE BENEFIT COSTS

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

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

Provision for long-term employee benefits is shown at present value of the future cash outflows that will need to be spent on their payment. The discount rate used is a market rate of return on government bonds at the balance sheet date, as there is no developed market for high quality corporate bonds denominated in Czech crowns. Currency and terms of these bonds are consistent with the currency and the respective other long-term benefits. The value of this provision is determined annually based on calculations of independent qualified actuaries. Gains or losses arising from changes in actuarial assumptions for benefits at retirement are included in other comprehensive income, changes in provision for other benefits are included in the income statement.

2.10. TAXATION

The income tax includes current tax payable and deferred tax.

2.10.1. Current Tax Payable

The tax currently payable is based on taxable profit for the year. The taxable profit differs from the profit as reported in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax payable is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2.10.2. Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

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

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

2.10.3. Current Tax Payable and Deferred Tax for the Period

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

2.11. PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method (with the exception of some components, which are amortized using the power of depreciation).

The main component repairs and berthing for driving rail vehicles repairs and inspection on driving rail vehicles and passenger cars are regarded in the Company. Beginning from 2015, other components of wheelsets for freight cars and radios for driving rail vehicles were also singled out.

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

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

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

Wagons and traction vehicles without components are depreciated to the estimated residual value. The estimated residual value means the estimated justifiable positive amount that the Company can acquire upon the expected disposal of assets after deducting the estimated costs associated with its disposal. The estimated residual value at the wagon and driving railway vehicles based on the scrap value that could be gain at the disposal. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

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

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

2.12. INTANGIBLE ASSETS

2.12.1. Separately acquired intangible assets

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

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

2.13. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.14.INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

A subsidiary is an entity which is controlled by the Company, i.e. it has power over the investee, it is exposed to variable returns from its involvement with the investee or has the ability to use its power to affect its returns, and if it has power over the investee (i.e. holds existing rights based on which it is able govern the activities that significantly impact the revenues of this entity).

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

In the separate financial statements, investments in subsidiaries and associates and joint ventures, which are not classified as held for sale, are reported at cost. In case, the purchase price is higher than the share capital of subsidiaries and affiliates are accounted for by revaluation, which reduces the value of the purchase price. The provision is calculated as the difference between the acquisition price and the share capital of the Company.

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

2.15. INVENTORIES

Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined using the weighted arithmetic average method. The net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.16. PROVISIONS

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

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

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

2.17. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

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

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

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

2.17.1. Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income / expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts / expenditures (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, other net carrying amount on initial recognition.

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

2.17.2. Held to Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Upon initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

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

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

2.17.4. Loans and Receivables
Loans and receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

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

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

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

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

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

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

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

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

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

2.17.8. Financial Liabilities at Fair Value through Profit and Loss
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL recognised in profit or loss.

In this category, the Company reports derivatives.

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

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

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

2.17.11. Derivate Financial Instruments
The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate, currency and commodity risks.

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

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

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

2.17.13. Cash Flow Hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

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

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

2.17.14. Fair Value Hedges

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

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

2.17.15. Financial Derivatives Held for Trading

All derivative transactions that the Company concludes are agreed on economic terms for hedging purposes, but some of them are not classified as hedging instruments for formal reasons.

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

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

3. Adoption of new and revised international financial reporting standards

3.1. STANDARDS AND INTERPRETATIONS EFFECTIVE FOR ANNUAL PERIOD ENDED 31 DECEMBER 2016

During the year ended 31 December 2016 the following standards, amendments and interpretations came into force:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 10, IFRS 12 and IAS 28 – Amendment to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception	1 January 2016
IFRS 11 – Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IAS 1 – Amendment to IAS 1 Disclosure Initiative	1 January 2016
IAS 16, IAS 38 – Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 16, IAS 41 – Amendments to IAS 16 and IAS 41 – Bearer Plants	1 January 2016
IAS 19 – Amendments to IAS 19 Defined Benefit Plans: Employee Contributions	1 July 2014
IAS 27 – Amendment to IAS 27 – Equity Method in Separate Financial Statements	1 January 2016
Improvements to IFRSs – cycle 2010 – 2012 (published in December 2013)	1 July 2014
Improvements to IFRSs – cycle 2012 – 2014 (published in September 2014)	1 January 2016

*) in EU effective for the accounting period beginning from 1 February 2015.

The improvements and interpretation referred to above have no impact on recognition and presentation.

3.2. STANDARDS AND INTERPRETATIONS USED PRIOR TO THE EFFECTIVE DATE

The Company used no standard or interpretation before the effective date.

3.3. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET USED

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

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 9 – Financial Instruments (2014)	1 January 2018
IFRS 14 – Regulatory Deferral Accounts	1 January 2016*)
IFRS 15 – Revenue from Contracts with Customers	1 January 2018
IFRS 16 - Leasing	1 January 2019
IFRS 2- Amendment to IFRS 2 Share-based Payment	1 January 2018
IFRS 4 – Amendment to IFRS 4 using IFRS 9 Financial instruments together with IFRS 4 Insurance Contracts	1 January 2018
IFRS 10, IAS 28 – Amendment to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date will be determined
IFRS 15 – Amendment to IFRS 15 – Clarification of IFRS 15	1 January 2018
IAS 7 – Amendment to IAS 7 Disclosure Initiative	1 January 2017
IAS 12 – Amendment to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IAS 40 – Amendment to IAS 40 Investment Property	1 January 2018
Annual improvements to IFRS – cycle 2014 - 2016 (issued in December 2016)	1 January 2017/ 1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

*) The European Union has decided not to apply for approval of the temporary standard.

Management of the Company anticipates that the adoption of most of these standards, revised standards and interpretations will have no material impact on the Group in the following periods. IFRS 9 and IFRS 15 are expected to have impact on expanded disclosure requirements. Earlier adoption is not considered in respect of any of the above standards.

With respect to IFRS 16, the Company anticipates the need to disclose a significant number of concluded lease agreements in the balance sheet. IFRS 16 is effective for annual period beginning on 1 January 2019 but may be early adopted provided that IFRS 15 Revenue from contracts with customers has already been adopted or will be adopted at the same date. This standard has not yet undergone the approval process of the EU. The Company is currently assessing the impact of the new standard and assumes that it will be adopted when becomes effective, ie. on 1 January 2019. The current analysis of the effects shows that the value of the Group's assets and liabilities will increase by several hundred million CZK as a result of implementation of IFRS 16. The Group's financial results is also expected to be affected by tens of millions.

3.4. STANDARDS AND INTERPRETATIONS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED BY THE EUROPEAN UNION

At the balance sheet date, some of the standards and interpretations disclosed in the prior note have not been adopted by the European Union:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 14 – Regulatory Deferral Accounts	1 January 2016*)
IFRS 16 – Leasing	1 January 2019
IFRS 2- Amendment to IFRS 2 Share-based Payment	1 January 2018
IFRS 4 – Amendment to IFRS 4 using IFRS 9 Financial instruments together with IFRS 4 Insurance Contracts	1 January 2018
IFRS 10, IAS 28 – Amendment to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date will be determined
IFRS 15 – Amendment to IFRS 15 – Clarification of IFRS 15	1 January 2018
IAS 7 – Amendment to IAS 7 Disclosure Initiative	1 January 2017
IAS 12 – Amendment to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IAS 40 – Amendment to IAS 40 Investment Property	1 January 2018
Annual improvements to IFRS – cycle 2014 - 2016 (issued in December 2016)	1 January 2017/ 1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

*) The European Union has decided not to apply for approval of the temporary standard.

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

4.1. USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

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

4.2. IMPAIRMENT OF ASSETS

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

4.3. REVENUE FROM INTERNATIONAL TRANSPORTATION

Given the long intervals of settlement of mutual payments between transporters in the international transportation, the Company has to estimate the amount of these expenses and revenues. The actual value confirmed by an international settlement institution may be different.

4.4. MEASUREMENT OF FINANCIAL DERIVATIVES

The Company uses financial derivatives for cash flow hedging. The measurement of derivatives in the financial statements performed by the Company using its own measurement model is based on appropriate measurement techniques using identifiable market assumptions. If these assumptions changed, the measurement of financial derivatives would be different.

4.5. INCOME TAXATION

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

5. Property, plant and equipment

Cost (CZK million)	Balance at 1 Jan 2015	Additions	Disposals	Transfers	Balance at 31 Dec 2015	Additions	Disposals	Transfers	Balance at 31 Dec 2016
Land	96	-	-	-	96	-	-	-	96
Constructions	1,462	62	(1)	-	1,523	26	(1)	5	1,553
Individual movable assets	36,577	1,052	(549)	46	37,126	1,263	(902)	56	37,543
- Machinery, equipment, and furniture and fixtures	*599*	*11*	*(7)*	*(198)*	*405*	*42*	*(5)*	*-*	*442*
*- Vehicles**	*35,784*	*1,041*	*(541)*	*244*	*36,528*	*1,221*	*(897)*	*102*	*36,954*
- Vehicles acquired under finance leases	*186*	*-*	*-*	*-*	*186*	*-*	*-*	*(46)*	*140*
- Other	*8*	*-*	*(1)*	*-*	*7*	*-*	*-*	*-*	*7*
Assets under construction	148	-	-	(48)	100	91	(3)	(54)	134
Total	**38,283**	**1,114**	**(550)**	**(2)**	**38,845**	**1,380**	**(906)**	**7**	**39,326**

Impairment (CZK million)	Balance at 1 Jan 2015	Additions	Disposals	Transfers	Depreciation	Balance at 31 Dec 2015	Additions	Disposals	Transfers	Depreciation	Balance at 31 Dec 2016
Constructions	773	35	(1)	-	-	807	37	(1)	-	-	843
Individual movable assets	24,094	959	(522)	(2)	(14)	24,515	929	(887)	-	(1)	24,556
- Machinery, equipment, and furniture and fixtures	*445*	*25*	*(7)*	*(162)*	*0*	*301*	*15*	*(5)*	*-*	*-*	*311*
*- Vehicles**	*23,607*	*927*	*(514)*	*160*	*(14)*	*24,166*	*907*	*(882)*	*18*	*(1)*	*24,208*
- Vehicles acquired under finance leases	*35*	*7*	*-*	*-*	*-*	*42*	*7*	*-*	*(18)*	*-*	*31*
- Other	*7*	*-*	*(1)*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*6*
Assets under construction	-	-	-	-	4	4	-	-	-	(1)	3
Total	**24,867**	**994**	**(523)**	**(2)**	**(10)**	**25,326**	**966**	**(888)**	**-**	**(2)**	**25,402**

Net book value (CZK million)	Balance at 1 January 2015	Balance at 31 December 2015	Balance at 31 December 2016
Land	96	96	96
Buildings	689	716	710
Individual movable assets	12,483	12,611	12,987
- Machinery, equipment, and furniture and fixture	*154*	*104*	*131*
*- - Vehicles**	*12,177*	*12,362*	*12,746*
- Vehicles acquired under finance leases	*151*	*144*	*109*
- Ostatní	*1*	*1*	*1*
Assets under construction	148	96	131
Total	**13,416**	**13,519**	**13,924**

* In connection with the change of accounting policies and the Company's presentation methods of items described in Note 2.3.1, there has been a reclassification of vehicles subject to leaseback. In the financial statements as at 31 December 2016, such are newly presented under Vehicles. Their net book value is CZK 3,483 mil. as at 1 Jan 2015, CZK 3,321 mil. as at 31 Dec 2015 and CZK 3,257 mil. as at 31 December 2016. Liabilities arising from these financial leasebacks are part of Note 15.2 "Liabilities from financial lease and leaseback". The Company liabilities from leaseback transactions are secured by the lessor against the leased assets. These assets are not classified as finance leases under IFRS, however, their legal nature is that of a lease agreement and therefore from a legal point of view they classify as leased assets.

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

Vehicles principally comprise rail vehicles (driving rail vehicles, freight cars) used for the railway freight transportation. These assets have been provisioned as equal to the difference between the carrying amount and the recoverable amount of CZK 158 mil.

The major increases in Individual movable assets in 2016 were formed by purchase of new traction vehicles of 383 series (Vectron) in amount CZK 540 mil., major and general repairs (components) of the traction vehicles in amount CZK 252 mil., revision repairs (components) of freight wagons in amount CZK 202 mil., acquisition of wheelset (components) for freight wagons in amount CZK 98 mil. and the purchase of traction vehicles of 163 series in the amount CZK 81 mil.

In the period from 1 January 2016 to 31 December 2016 the Company acquired tangible assets which were recognised in expenses in the amount of CZK 31 mil. In the period from 1 January 2015 to 31 December 2015 the amount was CZK 26 mil. These assets are low value tangible assets comprising other movable assets and sets of movable assets with an estimated useful life greater than one year not reported within fixed assets. These assets are accounted for as inventories and they are expensed.

In 2016 the Company received government grants for tangible assets in the amount of CZK 3 mil. for thermal insulation. Furthermore, in 2016 the Company received a deposit of CZK 292 mil. within the grant project to equip traction vehicles with the on-board part of the The European Train Control System (ETCS), which will be implemented in 2017 and 2018. The funds received are recorded as restricted cash within other financial assets (short-term and long-term portion). In 2015, the Company did not receive grants for tangible assets.

Till 1 January 2015 the first stage of scrapping vehicles took place, when 299 vehicles were scrapped. During 2016 other freight wagons and traction vehicles destined for scrapping were in the process of mapping of current physical condition, evidencing the parts that the company could use as spare parts for repairs and the remaining parts of vehicles intended for direct scrapping. In 2015, 14 vehicles were scrapped and in 2016 – 1,271 vehicles. The process of scrapping unnecessary fleet will continue in the upcoming years.

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

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

5.1. ASSETS PLEDGED AS COLLATERAL

The Company's property as at 31 December 2016, 31 December 2015 and as at 1 January 2015 was not pledged as security. The Company's liabilities from leaseback transactions are secured by the lessor right to the leased assets. The Company's liabilities from leaseback transactions are secured by the lessor right to the leased assets.

6. Intangible assets

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

Net book value (CZK million)	Balance at 1 Jan 2015	Balance at 31 Dec 2015	Balance at 31 Dec 2016
Software	178	225	312
Valuable rights	20	23	29
Assets under construction	128	69	21
Total	**326**	**317**	**362**

As at 31 December 2016 valuable rights include licenses for a total net book value of CZK 21 mil. The most significant items are SAP licenses in the amount of CZK 6 mil., Altworx licenses in the amount of CZK 4 mil., Microsoft EA licenses, Exchange, Sharepoint in the amount of CZK 2 mil. and licenses Intermodal logistics centre in Brno in the amount of 1 mil. CZK. In 2016, licenses were capitalized in the amount of CZK 7 mil.

In 2016, within Assets under construction, continued the development of systems within the calculation project - intergrated trains with acquisition cost of CZK 37 mil., development of BI solutions totalling CZK 22 mil., operational information systems totalling CZK 17 mil. and software IT security in the amount of CZK 16 mil., the rest of the total amount relate to other economic or operational tasks.

In the year ending 31 December 2015, the Company received grants from the Transport Operational Programme in the amount of CZK 57 mil. for financing of intangible assets. These were mainly subsidies from the Operational Program "Doprava" for IS Upgrade in relation to the TSI-TAF (telematics applications for freight trans-European conventional rail system) in the amount of CZK 56 mil. as well as a grant for employee training, specifically e-learning course and interactive whiteboards with projectors in the amount of CZK 1 mil. In 2016, the Company received no subsidies for intangible assets.

The length of amortization of intangible assets:

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

Cost (CZK million)	Balance at 1 Jan 2015	Additions	Disposals	Transfers	Balance at 31 Dec 2015	Additions	Disposals	Transfers	Balance at 31 Dec 2016
Software	408	41	-	59	508	93	-	52	653
Valuable rights	107	3	-	-	110	5	-	2	117
Assets under construction	128	-	-	(59)	69	13	-	(61)	21
Total	**643**	**44**	**-**	**-**	**687**	**111**	**-**	**(7)**	**791**

Accumulated amortisation (CZK million)	Balance at 1 Jan 2015	Additions	Disposals	Transfers	Balance at 31 Dec 2015	Additions	Disposals	Transfers	Balance at 31 Dec 2016
Software	230	46	-	7	283	58	-	-	341
Valuable rights	87	7	-	(7)	87	1	-	-	88
Total	**317**	**53**	**-**	**-**	**370**	**59**	**-**	**-**	**429**

6.1. SOFTWARE

Net book value (CZK million)	Balance at 1 Jan 2015	Balance at 31 Dec 2015	Balance at 31 Dec 2016
Operational and business tasks fall under the project PROBIS	132	168	188
SAP	36	39	48
IT Security Program	-	-	31
Other	10	18	45
Total	**178**	**225**	**312**

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

Additions to software in the year 2016 primarily include the costs of adjustments and upgrades of the current systems, namely IT Security Program in the amount of CZK 32 mil., ICAR (integrated cargo stock) in the amount of CZK 19 mil., Altworx which monitors evaluation of operating personnel in amount of CZK 17 mil., the development of SAP s in the amount of CZK 16 mil. and the DISC system (Dispatching Information System of Cargo) of CZK 16 mil.

7. Investments in subsidiaries and associates

7.1. INFORMATION ON SUBSIDIARIES

Name of the entity (CZK million)	Registered office	Investment as of 31 December 2016	Investment as of 31 December 2015	Investment as of 1 January 2015
CCD Generalvertretung GmbH	Kaiserstrasse 60, 60329 Frankfurt on Main, SRN	1	1	1
Koleje Czeskie Sp. z o.o.	Grzybowska nr 4, lok. 3, 00-131 Warsaw, Poland	260	260	260
CD Generalvertretung Wien GmbH	Rotenturmstraße 22/24, 1010 Wien, Austria	-	-	-
Generálne zastúpenie ČD Cargo, s.r.o.	Tomášikova 10/H, 82103 Bratislava	3	-	-
Terminal Brno, a.s.	K Terminálu 614/11, 61900 Brno	47	46	46
ČD-DUSS Terminál, a.s.	Lukavecká 1189, 41002 Lovosice	2	2	2
ČD Logistics, a.s.	Opletalova 1284/37, 11000 Prague 1	16	16	16
Auto Terminal Nymburk, s.r.o.	Jankovcova 1569/2c, 170 00 Prague 7	-	-	-
Total		**329**	**325**	**325**

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

Name of the entity	Registered office	Ownership percentage as of 31 Dec 2016	Ownership percentage as of 31 Dec 2015	Ownership percentage as of 1 Jan 2015
CD Generalvertretung GmbH	Mediation of freight transportation services on behalf of and for ČD Cargo, a.s. and forwarding.	100%	100%	100%
Koleje Czeskie Sp. z o.o.	Mediation of freight transportation services on behalf of and for ČD Cargo, a.s. and forwarding, operations of railway tnsport and lease of traction vehicles and wagons.	100%	100%	100%
CD Generalvertretung Wien GmbH	Mediation of freight transportation services on behalf of and for ČD Cargo, a.s. and forwarding.	100%*	100%*	100%*
Generálne zastúpenie ČD Cargo, s.r.o.	Mediation of freight transportation services on behalf of and for ČD Cargo, a.s. and forwarding.	100%	100%	100%*
Terminal Brno, a.s.	Operations of combined transport terminal in Brno.	66,93%	66,93%	66,93%
ČD-DUSS Terminál, a.s.	Operations of combined transport terminal in Lovosice.	51%	51%	51%
ČD Logistics, a.s.	Forwarding.	78%	78%	78%
Auto Terminal Nymburk, s.r.o.	Forwarding and technical activities in transport.	100%	100%	100%

* the Company is fully owned by CD Generalvertretung GmbH

7.2. INFORMATION OF JOINT VENTURES AND ASSOCIATES

Name of the entity (CZK million)	Registered office	Investment as of 31 Dec 2016	Investment as of 31 Dec 2015	Investment as of 1 Jan 2015
BOHEMIAKOMBI, spol. s r.o.	Opletalova 6, 11000 Prague 1	4	3	3
Ostravská dopravní společnost, a.s.	U Tiskárny 616/9, 70200 Ostrava - Přívoz	24	24	21
RAILLEX a.s.	Trnkovo nám. 3, 15200 Prague 5	1	1	1
Total		**29**	**28**	**25**

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

Name of the entity	Principal activities	Ownership percentage as of 31 Dec 2016	Ownership percentage as of 31 Dec 2015	Ownership percentage as of 1 Jan 2015
BOHEMIAKOMBI, spol. s r.o.	Mediation of transportation services except for the transportation by own vehicles	30%	30%	30%
Ostravská dopravní společnost, a.s.	Railway transportation and lease of locomotives and railway vehicles	20%	20%	20%
RAILLEX a.s.	Cargo handling and technical service	50%	50%	50%

7.3. SUMMARY OF FINANCIAL INFORMATION ON JOINT VENTURES AND ASSOCIATES

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

31 December 2015 (CZK million)	RAILLEX a.s.	BOHEMIAKOMBI spol. s r.o.	Ostravská dopravní společnost, a.s.
Total assets	**62**	**53**	**318**
Current assets	60	49	228
Long-term assets	2	4	90
Total liabilities	**37**	**42**	**196**
Current liabilities	35	42	194
Long-term liabilities	2	-	2
Net assets	25	11	122
The Company's share of net assets	**13**	**3**	**24**

1 January2015 (CZK million)	RAILLEX a.s.	BOHEMIAKOMBI spol. s r.o.	Ostravská dopravní společnost, a.s.
Total assets	**62**	**38**	**366**
Current assets	62	34	291
Long-term assets	0	4	75
Total liabilities	**29**	**27**	**261**
Current liabilities	27	27	261
Long-term liabilities	2	-	-
Net assets	33	11	105
The Company's share of net assets	**17**	**3**	**21**

(CZK million)	2016	2015	2014
Total income	1,504	1,398	1,643
Profit (loss) for the period	35	25	27
The Company's share of profit	**11**	**7**	**8**

8. Inventories

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Spare parts and other components for rail vehicles and locomotives	41	40	38
Spare parts for other machines, devices and equipment	85	75	66
Fuels, lubricants and other oil products	3	4	4
Work clothes, work shoes, protective devices	1	1	1
Other	16	14	12
Total cost	**146**	**134**	**121**
Write-down of inventories to their net realisable value	(4)	(4)	-
Total net book value	**142**	**130**	**121**

Following the inventory count, the value of inventories decreased by CZK 4 mil. in the year ending 31 December 2016 and 2015.

9. Trade receivables

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Short-term	1,553	1,572	1,538
Total	**1,553**	**1,572**	**1,538**

9.1. AGEING OF TRADE RECEIVABLES

	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 Dec 2016	Gross	1,471	65	16	7	4	141	233	1,704
	Allowances	-	(1)	(5)	(5)	(4)	(136)	(151)	(151)
	Net	**1,471**	**64**	**11**	**2**	**-**	**5**	**82**	**1,553**
31 Dec 2015	Gross	1,485	74	10	7	7	139	237	1,722
	Allowances	(2)	(6)	(3)	(1)	(4)	(134)	(148)	(150)
	Net	**1,483**	**68**	**7**	**6**	**3**	**5**	**89**	**1,572**
1 Jan 2015	Gross	1,441	67	13	4	11	129	224	1,665
	Allowances	-	-	-	-	(13)	(114)	(127)	(127)
	Net	**1,441**	**67**	**13**	**4**	**(2)**	**15**	**97**	**1,538**

10. Other financial assets

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Derivatives	12	-	-
Receivables for damages and losses	-	1	-
Restricted cash	258	-	-
Other financial assets	1	-	239
Other financial non-current assets	**271**	**1**	**239**
Derivatives	25	1	0
Cash pooling Company	3	4	4
Receivables for damages and losses	19	17	15
Receivables for damages and losses - allowances	(9)	-	-
Restricted cash	34	-	-
Other financial assets	18	199	90
Other financial assets - allowances	(15)	(90)	(90)
Other financial current assets	**75**	**131**	**19**
Total Other financial assets	**346**	**132**	**258**

'Restricted cash' represents an advance payment in the total amount of CZK 292 mil, provided in 2016 within the subsidy project to equip traction vehicles with the on-board part of The European Train Control System (ETCS). This item is split into non-current part of CZK 258 mil. and the current part of CZK 34 mil. The advance payment is held by Komerční Banka on the subsidy account (bank rating by Moody's at the end of the year 2016: current P-1, non-current Aa2).

As at 1 Jan 2015 other long-term financial assets included mainly loan granted to Koleje Czeskie Sp. z. o.o. amounted to CZK 235 mil. The balance of this loan CZK amounted to 114 mil. was reclassified to other short-term financial assets in 2015. In 2016, this loan was repaid in full amount.

11. Other assets

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Prepayments	1	-	-
Non-current financial assets	**1**	**-**	**-**
Prepayments made	50	75	78
Tax receivables – value-added tax	27	120	93
Tax receivables – other (excl. corporate income tax)	-	-	-
Prepaid expenses	38	29	32
Other	2	5	6
Other current financial assets	**117**	**229**	**209**
Total Other financial assets	**118**	**229**	**209**

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

12. Cash and cash equivalents

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

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Cash in hand and cash in transit	2	2	2
Cash at bank	761	862	678
Cash on the cash-pooling account	2	4	4
Total	**765**	**868**	**684**

For the calculation of cash flows for the year ended 31 December 2016, dividend income from subsidiary CD Generalvertretung GmbH in the amount of CZK 30 mil. have been recognized as non-cash income and deducted from its obligations.

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

(CZK million)	Short-term rating*	Long-term rating*	31 Dec 2016	31 Dec 2015	1 Jan 2015
Citibank	P-1	A1	5	14	23
Česká spořitelna, a.s.	P-1	A2	1	1	1
Československá obchodní banka, a.s.	P-1	A2	432	540	499
ING Bank	P-1	A1	153	64	25
Komerční banka, a.s.	P-1	A2	43	130	101
Raiffeisenbank	P-2	Baa2	1	0	1
UniCredit Bank	P-2	Baa1	81	85	0
Všeobecná úvěrová banka a.s.	P-1	A2	45	28	28
Total			**761**	**862**	**678**

* Moody's bank rating is presented at the end of 2016

13. 13. Equity

13.1. SHARE CAPITAL

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

On 2 June 2009, České dráhy, a.s., acting in the capacity of the General Meeting, adopted the resolution on the decrease of the share capital of ČD Cargo, a.s., from CZK 8,800 mil. to CZK 8,494 mil. in accordance with Section 213a of the Commercial Code. As of 31 December 2016, the Company reports the share capital of CZK 8,494 mil. in a form of 100 dematerialized shares. The share capital was fully paid.

13.2. CAPITAL FUNDS

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Share premium	197	197	197
Statutory reserve fund	116	109	82
Cash Flow hedging Reserve	17	(43)	(82)
Actuarial losses	(15)	(18)	(13)
Total	**315**	**245**	**184**

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

Cash flow hedging reserve

(CZK million)	2016	2015	2014
Balance at the beginning of the year	**(43)**	**(82)**	**(127)**
Profit/loss from revaluation	34	(30)	(63)
Reclassification to profit or loss	40	78	119
Total change in the cash flow hedging reserve	**74**	**48**	**56**
Related income tax	(14)	(9)	(11)
Balance at the year-end	**17**	**(43)**	**(82)**

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

14. Trade receivables

Year (CZK million)	Category	Before due date	Past due date (days) 1 – 30 days	31 – 90 days	91–180 days	181–365 days	365 and more	Total past due date	Total
31 Dec 2016	Short-term	1,732	44	2	-	-	-	46	**1,778**
31 Dec 2015	Short-term	2,156	14	-	-	-	-	14	**2,170**
1 Jan 2015	Short-term	1,887	120	3	-	2	-	125	**2,012**

The average maturity of invoices is 90 days.

15. Loans, borrowings and bonds

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Liabilities from leaseback	1,551	1,948	2,357
Liabilities from finance leases	59	67	87
Loan from České dráhy, a.s	450	-	-
Issued bonds	1,997	1,000	1,176
Total non-current	**4,057**	**3,015**	**3,620**
Liabilities from leaseback	398	409	393
Liabilities from finance leases	23	20	23
Loan from České dráhy, a.s	77	-	-
Issued bonds	2	1,174	1,000
Total current	**500**	**1,603**	**1,416**
Total	**4,557**	**4,618**	**5,036**

As of 17 October 2016, the Company has drawn a borrowing from České dráhy, a.s., in the total amount of CZK 540 mil. for the purpose of financing the purchase of 383 series locomotives (Vectron). The remaining part of the borrowing is as of 31 December 2016 split into long-term part in amount of CZK 450 mil. and short-term part in amount of CZK 77 mil.

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

15.1. ISSUED BONDS

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

The following issues of bonds were placed under the bond programme or under separate issuance conditions:

Administrator	Komerční banka, a.s.
Date of issue	20 June 2011
The total nominal value	CZK 1,000,000,000
The total nominal value upon exercising the option	CZK 658,300,000
Interest rate	fixed interest income
Interest rate (1-3 year); coupon	3.183 % p.a.
Interest rate (4-5 year); coupon	5 % p.a.
Issue rate	98.025 %
Payment of interest income	annually retrospectively
Date of interest payment	20 June each year
Date of the final maturity (use of the put option)	20 June 2014
Date of the final maturity	20 June 2016 - REPAID

Administrator	ČSOB, a.s.
1st tranche issue date	22 December 2011
2nd tranche issue date	12 January 2012
3rd tranche issue date	19 January 2012
1st tranche total nominal value	CZK 500,000,000
2nd tranche total nominal value	CZK 200,000,000
3rd tranche total nominal value	CZK 300,000,000
Interest rate; coupon	floating interest income; 6M PRIBOR + 1.30 % p.a.
1st tranche issue date	97.464 %
2nd tranche issue date	97.506 %
3rd tranche issue date	97.518 %
Payment of interest income	biannually retrospectively
Date of interest payment	22 June and 22 December each year
Date of the final maturity	22 December 2015 - REPAID

Administrator	Raiffeisenbank, a.s.
Issue Date	21 December 2011
Total nominal value	CZK 500,000,000
Interest rate; coupon	fixed interest yield, 3.8 % p.a.
Issue rate	99.941%
Payment of interest income	annually retrospectively
Date of interest payment	22 June and 22 December each year
Date of the final maturity	22 December 2015 - REPAID

Administrator	Unicredit Bank Czech Republic and Slovakia, a.s.
Issue Date	26 November 2015
Total nominal value	CZK 1,000,000,000
Nominal value of the bond	CZK 5,000,000
Interest rate	fixed interest income 1.40%
Issue rate	99.617 %
Payment of interest income	annually retrospectively
Date of interest payment	26 November each year
Date of the final maturity	26 November 2020

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

Administrator	Unicredit Bank Czech Republic and Slovakia, a.s.
Issue Date	29 December 2016
Released under separate issue conditions	Prospect of book-entry bonds, ISIN CZ0003515611 with a fixed interest rate of 1.26% pa, approved by the Czech National Bank under Ref.: 2016/148032/CNB/570, S-Sp-2016/00057/CNB/572 as of 23 December 2016 took effect on 24 December 2016
Trading:	Bonds admitted to trading on a regulated market of the Prague Stock Exchange
Total nominal value	CZK 500,000,000
Nominal value of the bond	CZK 500,000
Interest rate	fixed interest income 1.26%
Issue rate	100 %
Payment of interest income	annually retrospectively
Date of interest payment	29 December each year
Date of the final maturity	29 December 2023

ČD Cargo, a.s., recorded calls for a premature redemption of part of the first issue of the bonds placed through KB, a.s. with the total nominal value of CZK 341,7 mil. within the due period. This amount was redeemed as of 20 June 2014. ČD Cargo, a.s. repaid the remaining nominal value (after applying for early repayment) of bonds at KB in the amount of CZK 658.3 mil. as of 20 June 2016.

The second issue of bonds at Československá obchodní banka, in nominal value of CZK 1,000 mil. was repaid by ČD Cargo, a.s., as of 22 December 2015.

The third issue of bonds at Raiffeisenbank, a.s, in nominal value of CZK 500 mil. was repaid by ČD Cargo, a.s., as of 21 December 2016.

In 2015, the fourth issue of bonds with the aggregate nominal value of CZK 1,000 mil. was placed through the administrator UniCredit Bank Czech Republic and Slovakia, a.s.

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

In 2016, the sixth issue of bonds with the aggregate nominal value of CZK 500 mil. was placed through the administrator UniCredit Bank Czech Republic and Slovakia, a.s.

Currently, the bonds are issued in an aggregate nominal value of CZK 2,000 mil. In the financial statements as of 31 January 2016, these bonds are split, according to their maturity, into short-term and long-term part in total amount of CZK 1,999 mil.

15.2. FINANCE LEASE AND LEASEBACK LIABILITIES

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

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

(CZK million)	Minimum lease payments			Present value of min. lease payments		
	31 Dec 2016	31 Dec 2015	1 Jan 2015	31 Dec 2016	31 Dec 2015	1 Jan 2015
Less than 1 year	513	540	546	421	429	416
From 1 to 5 years	1,453	1,732	2,005	1,270	1,480	1,676
5 years and more	358	577	845	340	535	768
Total	**2,324**	**2,849**	**3,396**	**2,031**	**2,444**	**2,860**
Minus future financial costs	(293)	(405)	(536)	-	-	-
Present value of min. leasing's repayments	**2,031**	**2,444**	**2,860**	**2,031**	**2,444**	**2,860**
In the financial statement position as:						
– short-term loans				*421*	*429*	*416*
– long-term loans				*1,610*	*2,015*	*2,444*
Total				**2,031**	**2,444**	**2,860**
In the financial statement position as:						
– financial lease liabilities				*82*	*87*	*110*
– leaseback liabilities				*1,949*	*2,357*	*2,750*
Total				**2,031**	**2,444**	**2,860**

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

16. Provisions

(CZK million)	Balance at 1 Jan 2015	Set-up	Use	Release	Balance at 31 Dec 2015	Set-up	Use	Release	Reclassi-fication **	Balance at 31 Dec 2016
Provision for litigation	58	-	(15)	(1)	42	-	-	-	-	42
Provision for business risks	24	-	-	-	24	-	-	-	-	24
Provision for employee benefits	114	9	(3)	-	120	3	(6)	-	-	117
of which long-term part	73				75					72
Provision for restructuring	180	19	(55)	(4)	140	-	(17)	(13)	-	110
of which short-term part	86				73					-
Provision for loss-making transactions	526	54	-	-	580	-	(55)	-	-	525
of which long-term part	476				524					466
Other provisions*	63	90	(59)	(32)	62	104	(98)	(3)	(28)	37
Total	**965**	**172**	**(132)**	**(37)**	**968**	**107**	**(176)**	**(16)**	**(28)**	**855**
– Long-term	635				672					538
– Short-term	330				296					317

** item Other provisions includes mainly provisions for complaints, levelling and unused vacations*
*** the balance of the provision for unused vacations was in 2016 reclassified to the line Other liabilities*

The Company's management after careful consideration of all existing legal analyses and the results of negotiations in existing litigation and after evaluating all potential risks, present developments and disputes in accordance with the natural rate of prudence, decided to keep till 31 December 2016 accounting reserves to cover any expenses related to potential risks to business transactions at the same level as at the end of 2015 in the amount of CZK 24 million. The Company believes, that this transaction will be settled during 2017. Similarly, it is also in litigation in which the Company's management estimated the amount of the capital reserves to cover potential expenses for the amount of CZK 42 million.

During 2012, the management of ČD Cargo, a.s. decided to implement organizational changes drawn up on the basis of a restructuring plan whose main features were communicated within the Company. Nature of the plan, adopted in 2012 by the management of ČD Cargo, a.s., was a series of measures aimed at strengthening liquidity in the short term and medium term to create the conditions to achieve favourable operating results and ensure the stability of the Company in the coming years. The adopted measures became a prerequisite for the establishment of medium-term business plan. Future cash outflows associated with the restructuring plan were estimated at CZK 535 mil. During the year 2016, there was a drawing and specifying the amount of the provision, which as of 31 December 2016 amounted to CZK 110 mil. The restructuring plan is still valid and should be finished in 2017, in accordance with the approved business plan.

The provision for employee benefits includes the claim of employees for a financial contribution at life jubilees, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. The provision was calculated at amount of CZK 118 mil. as of 31 December 2016. In calculating the provision, the Company used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees, anticipated increase in salaries, anticipated inflation level, likelihood of death or disablement according to the data of the Czech Statistical Office. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

During 2014, the Company made a provision for loss-making transactions. The provision amount is determined by a qualified estimate of the amount of the estimated future liability arising from loss. The value is the difference between the expected discounted net revenue and discounted expected expenditure. For the calculation the yield rate of 7% was used. When discounting cost, the Company used the discount rate at the expense of long-term foreign capital. The total amount of provision as of 31 December 2015 was CZK 580 mil. At the end of 2016 and after the update, it is worth CZK 525 mil. The provision will be gradually released against expenses till 2025.

'Other provisions' consists mainly of provisons for claims and levelling. Till 2015, it also included the provision for untaken holiday. The provision for claims in freight transportation is created using a reasonable estimate of the amount of estimated future cash outflows that make up the expected value of credit notes for the complaints from customers. The value of the reserve as of 31 December 2016 amounted to CZK 18 mil., total amount as of 31 December 2015: CZK 11 mil. Provision for levelling is created using a reasonable estimate of the amount of estimated future cash outflows. Estimated costs are the result of expected summarization amounts to be charged to the subject of the Company's levelling in received deductions from foreign carriers. The value of the reserve as of 31 December 2016 amounted to CZK 4 mil., as of 31 December 2015: CZK 6 mil.

17. Other financial liabilities

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Hedging derivatives	8	16	29
Liability arising from supplier loans	128	269	270
Other	183	280	342
Other long-term financial liabilities	**319**	**565**	**641**
Hedging derivatives	12	43	95
Liability arising from supplier loans	173	198	155
Other	134	171	193
Other short-term financial liabilities	**319**	**412**	**443**
Total other financial liabilities	**638**	**977**	**1 084**

'Other' include liabilities of the Company regarding court settlement in a dispute about the cost of traction energy taken from SŽDC and settlement agreement with a court judgment in respect of compensation for damage caused by SŽDC exclusions. A more detailed overview of the relations with the SŽDC is presented in the Note 30.8.

18. Other liabilities

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Other	369	133	79
Other long-term liabilities	**369**	**133**	**79**
Received prepayments	2	3	1
Liabilities to employees	253	227	214
Social security and health insurance liabilities	122	105	101
Tax withheld to employees	35	33	29
Other	35	3	2
Other short-term liabilities	**447**	**371**	**347**
Total other liabilities	**816**	**504**	**426**

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

'Other long-term liabilities' also represent liabilities to employees of the Company arising out of collective agreements.

'Liabilities to employees' in the Company represent a liability for unpaid December salaries.

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

19. Contracts for operating lease

19.1. THE COMPANY AS A LESSEE

The Company payments, charged to expenses in the respect of the leasing of freight wagons amounted to CZK 299 mil. in 2016 (2015: CZK 304 mil.) on the basis of the Supplementary Agreement to the General Agreement on using freight wagons in international transportation.

The Company as lessee paid the amount of CZK 84 mil. in 2016 (in 2015: CZK 83 mil.) for the rental of buildings and land in the Logistics Centre in Lovosice.

19.2. THE COMPANY AS A LESSOR

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

Income from operating leases of movable assets in 2016 amounts to CZK 269 mil. (2015: CZK 282 mil).

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

19.3. CONTRACTUAL OBLIGATIONS TO EXPENDITURE

(CZK million)	Total as at 31 Dec 2016	Already paid	Liabilities for realized deliveries	Liabilities from 2017 deliveries and further
Investment to ŽKV	934	294	500	140
Other (buildings, IT)	242	-	96	146
Total	**1,176**	**294**	**596**	**286**

As of the balance sheet date, the Company concluded contracts for the purchase of property, plant and equipment and investment property in the amount of CZK 1,176 mil., of which CZK 596 mil. relates to supplies agreed for 2016 and CZK 286 mil. relates to supplies agreed for the following years. The remaining amount of CZK 294 mil. was paid as of 31 December 2016. A significant part of the obligations relating to expenses of CZK 640 mil. include investments in railway vehicles.

As of the balance sheet date, the Company concluded contracts for the purchase of property, plant and equipment and investment property in the amount of CZK 1,342 mil., of which CZK 729 mil. relates to supplies agreed for 2015 and CZK 326 mil. relates to supplies agreed for the following years. The remaining amount of CZK 286 mil. was paid as of 31 December 2015. A significant part of the obligations related to investments in railway vehicles of CZK 1,189 mil.

Another item not presented in the table above is a contractual obligation in the total amount of CZK 802 mil., related to the Company rents based on the Agreement on the lease of buildings and land in the Logistics Centre in Lovosice. The obligation will be repaid annually on an ongoing basis until 2025.

20. Contingent liabilities and contingent assets

20.1. BANK GUARANTEES ISSUED

Bank guarantees as of 31 December 2016 issued by Komerční banka, a.s, from the contractual limit of CZK 50 mil.

List of active bank guarantees provided by ČD Cargo, a.s. as of 31 December 2016

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

20.2. BANK GUARANTEES RECEIVED

List of active bank guarantees received by ČD Cargo, a.s. the date of 31 December 2016

In behalf of	Type of guarantee	Amount	Currency	Until	Reason for a bank guarantee
AVE sběrné suroviny, a.s. Cvokařská 164/3, 301 00 Plzeň, Corporate ID 006 71 151	Unicredit Bank Czech Republik and Slovakia, a.s.	31,000,000	CZK	30 June 2017	In accordance with the contract 04454-2015-O01 for the purchase of spare parts from scrapped 1000 units of railway freight wagons
Siemens, s.r.o., Praha 13, Siemensova 1, PSČ 155 00, Corporate ID 002 68 577,	Unicredit Bank Czech Republik and Slovakia, a.s.	1,997,500	EUR	28 February 2019	In accordance with the contract no. 05012-2016-O01 dated 13 April 2016 providing supplies interoperable driving railway vehicles for the needs of ČD Cargo, a.s. and operability under warranty
AVE sběrné suroviny, a.s. Cvokařská 164/3, 301 00 Plzeň, Corporate ID 006 71 151	Unicredit Bank Czech Republik and Slovakia, a.s.	17,330,000	CZK	31 August 2017	In accordance with the contract 05272-2016-O01 for the purchase of spare parts from scrapped 1000 units of railway freight wagons
AVE sběrné suroviny, a.s. Cvokařská 164/3, 301 00 Plzeň, Corporate ID 006 71 151	Unicredit Bank Czech Republik and Slovakia, a.s.	6,623,000	CZK	30 September 2017	In accordance with the contract 05272-2016-O01 for the purchase of spare parts from scrapped 1000 units of railway freight wagons
ESTATE & INVESTMENT a.s.	Raiffaisenbank, a.s.	4,500,000	CZK	30 June 2017	In accordance with the invitation to tender for the tender contract "Supply of brake blocks"

20.3. LEGAL AND OTHER DISPUTES

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

In autumn 2016, administrative proceedings were initiated by the Office for the Protection of Competition („OPC") with České dráhy, a.s., and ČD Cargo, a.s regarding a potential violation of the Law on Protection of Competition and the Treaty on the Functioning of the European Union, which OPC sees as the concerted practice and / or agreement of the parties, possibly with other competitors, consisting in the distribution market and customer orders for goods transport, in price coordination and the exchange of sensitive information, the provision of transport and forwarding services via comprehensive freight trains, including related transport and forwarding services in moving goods to the loading station on a full train and to the transfer of goods from the unloading station to the destination. This hearing should take place, according to the OPC, more than 10 years ago. The matter has not yet been decided. ČD Cargo, a.s. filed in late 2016, the Regional Court in Brno a lawsuit against an investigation on the business premises in connection with an action for protection against unlawful interference of administration associated with the proposal for preliminary injunction. The court application for interim measures granted and ordered to OPC, among others. Refrained from further handling of the documents that were provided during the local investigation. However, those proceedings at the date of preparation of these financial statements have not yet been completed. Regarding the foregoing, it is currently impossible to estimate the outcome of the proceedings.

21. Revenues from principal operations

All of the below additional information on the income statement relate to continuing operations.

(CZK million)	2016	2015
Revenue from freight transportation:	**10,421**	**10,728**
Revenue from freight transportation – local	*3,700*	*4,006*
Revenue from freight transportation – foreign	*6,721*	*6,722*
Other revenue from freight transportation:	**510**	**566**
Other revenue from freight transportation – local	*335*	*338*
Other revenue from freight transportation – foreign	*175*	*228*
Other revenue related to transportation	**168**	**191**
Total revenue from principal operations	**11,099**	**11,485**

The remaining part of revenues from freight transportation are mainly revenues from services provided at railway stations, supplementary services and rail siding agenda. Other revenues are recognized when there is processed source data for invoicing OPT information system and the data is sent to the invoice into the SAP accounting system. Source data among other things, contain information about the time of the transactions or delivery of service. Estimated receivables are billed in cases where it is not possible to complete the auditdata due to missing or unclear data necessary for billing.

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

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

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

Railway transportation companies (national transporters)

- Železničná spoločnosť´ Cargo Slovakia, a.s.
- DB Cargo AG
- Rail Cargo Austria AG
- PKP Cargo S.A.

Other companies

- Maersk Line A/S
- STVA S.A.
- CD Generalvertretung GmbH
- BLG AutoRail GmbH
- DB Cargo Logistics GmbH

22. Other operating income

(CZK million)	2016	2015
Gain on sale of property, plant and equipment and property investments	3	55
Revenues from the sale of inventories	94	7
Rental income	303	316
Compensations for deficits and damage	52	48
Contractual fines and default interest	9	17
Exchange rate gains - operational	13	221
Other	9	12
Total other operating income	**483**	**676**

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

23. Purchased consumables and services

(CZK million)	2016	2015
Traction costs	**(1,212)**	**(1,362)**
– Traction fuel (diesel)	*(403)*	*(470)*
– Traction electricity	*(809)*	*(892)*
Payment for the use of railway route	**(1,271)**	**(1,470)**
Other purchased consumables and services	**(3,057)**	**(3,162)**
– Consumed material	*(273)*	*(276)*
– Consumed other energy	*(84)*	*(87)*
– Consumed fuel	*(7)*	*(8)*
– Repairs and maintenance	*(178)*	*(284)*
– Travel costs	*(38)*	*(35)*
– Telecommunication, data and postal services	*(50)*	*(51)*
– Other rental	*(117)*	*(172)*
– Rental for rail vehicles	*(664)*	*(707)*
– Transportation charges	*(1,113)*	*(1,002)*
– Services associated with the use of buildings	*(39)*	*(42)*
– Operational cleaning of rail vehicles	*(4)*	*(2)*
– Boarder area services	*(175)*	*(185)*
– Advertising and promotion costs	*(11)*	*(13)*
– Leases	*(8)*	*(10)*
– Infrastructure capacity allocation	*(28)*	*(28)*
– Operation, maintenance and other services related to IT	*(100)*	*(89)*
– Performance of fire brigade services	*(10)*	*(10)*
– Environmental services	*(9)*	*(12)*
– Other services	*(149)*	*(149)*
Total purchased consumables and services	**(5,540)**	**(5,994)**

Traction electricity in the period from 1 January 2016 to 31 December 2016 includes traction electricity purchased from České dráhy, a.s., in the amount of CZK 809 mil. In the period from 1 January 2015 to 31 December 2015 it includes traction electricity purchased from České dráhy, a.s., in the amount of CZK 892 mil.

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

(CZK million)	2016	2015
Statutory audit of annual financial statements	(1)	(1)
Tax consultancy	(6)	(6)
Total	**(7)**	**(7)**

24. Employee Benefit Costs

(CZK million)	2016	2015
Payroll costs	(2,615)	(2,711)
Severance pay (including derecognised related provisions)	-	10
Statutory social security and health insurance	(126)	(127)
Pension insurance	(773)	(779)
Contributions to the pension insurance and capital life insurance	(138)	(141)
Benefits resulting from the collective agreement	(70)	(65)
Other employee benefit costs	(36)	(31)
Total employees benefit costs	**(3,758)**	**(3,844)**

The benefits resulting from the collective agreement mainly include meal allowances and exercisers stays. Other employee benefit costs primarily include costs for employee training and remuneration of members of statutory bodies.

25. Depreciation and amortisation

(CZK million)	2016	2015
Depreciation of property, plant and equipment	(964)	(1,007)
Amortisation of intangible assets	(60)	(53)
Total depreciation and amortisation	**(1,024)**	**(1,060)**

26. Other operating expenses

(CZK million)	2016	2015
Change in other provisions related to other operating expenses	11	(56)
Change in balance of allowances for doubtful accounts	9	(30)
Change in provisions for inventories	-	(4)
Contractual fines and default interest expenses	(20)	(13)
Taxes and fees	(7)	(7)
Exchange rate losses - operational	(14)	(251)
Insurance	(72)	(69)
Other operating expenses	(55)	(79)
Total other operating expenses	**(148)**	**(509)**

In 2016, 'Other operating expenses' include mainly costs for damages of CZK 36 mil. and membership fees of CZK 7 mil. In 2015, 'Other operating expenses' include mainly costs for damages of CZK 70 mil. and membership fees of CZK 8 mil.

27. Financial expenses

(CZK million)	2016	2015
Interest on finance lease payables and leaseback	(123)	(142)
Interest expense - bonds	(35)	(70)
Other interest expense	(28)	(31)
Unwinding of the discount of provisions	(1)	(1)
Exchange rate losses - financial	(45)	(3)
Loss from sale of securities and shares	-	(3)
Bank expenditures	(2)	(2)
Other financial expenses	(1)	(3)
Total financial expenses	**(235)**	**(255)**

28.Financial income

(CZK million)	2016	2015
Exchange rate gains - financial	45	-
Gain from sale of securities and shares	40	28
Interest received	-	1
Other financial income	3	7
Total financial income	5	-
Total financial income	**93**	**36**

29. Income taxation

29.1. INCOME TAX REPORTED IN PROFIT OR LOSS

(CZK million)	2016	2015
Current income tax for the period reported in the statement of profit or loss	(5)	-
Deferred tax recognised in the statement of profit or loss	(169)	(119)
Total income tax expense related to continuing operations	**(174)**	**(119)**

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

(CZK million)	2016	2015
Profit for the period from continuing operations before tax	970	535
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected income tax expense	(184)	(102)
Adjustments:		
Income from dividends	8	5
Other non-deductible income	10	10
Tax non-deductible expense	(3)	(32)
Income tax related to prior periods	(5)	-
Income Tax Reported in Profit or Loss	**(174)**	**(119)**

29.2. DEFERRED TAX

(CZK million)	Unutilised tax losses	Receivables	Provisions	Non-current assets	Leases	Other	Total
Balance at 1 Jan 2015	**-**	**(30)**	**(246)**	**1,001**	**328**	**(24)**	**1,029**
Deferred tax recognised in profit or loss	(98)	(2)	62	103	56	(2)	119
Deferred tax recognised in other comprehensive income	-	-	-	-	-	9	9
Balance at 31 Dec 2015	**(98)**	**(32)**	**(184)**	**1,104**	**384**	**(17)**	**1,157**
Deferred tax recognised in profit or loss	72	15	16	2	72	(8)	169
Deferred tax recognised in other comprehensive income	-	-	-	-	-	14	14
Balance at 31 Dec 2016	**(26)**	**(17)**	**(168)**	**1,106**	**456**	**(11)**	**1,340**

30. Related party transactions

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

31 Dec 2016 (CZK million)	Receivables	Payables
České dráhy a.s.	3	229
ČD - Telematika, a.s.	-	5
ČD - Informační Systémy, a.s.	-	56
DPOV, a.s.	1	83
ČD travel, s.r.o.	-	6
Dopravní vzdělávací institut, a.s.	-	2
Výzkumný Ústav Železniční, a.s.	5	-
CD Generalvertretung GmbH	31	4
CD Generalvertretung Wien GmbH	-	1
Koleje Czeskie Sp. z o.o.	17	24
Generálne zastúpenie ČD Cargo, s.r.o.	13	2
ČD Logistics, a.s.	74	1
Terminal Brno, a.s.	-	2
RAILLEX, a.s.	3	-
BOHEMIAKOMBI, spol. s r.o.	1	-
Ostravská dopravní společnost, a.s.	44	12
Total	**192**	**427**

31 Dec 2015 (CZK million)	Receivables	Payables
České dráhy a.s.	11	483
ČD - Telematika, a.s.	-	6
ČD - Informační Systémy, a.s.	-	58
DPOV, a.s.	1	30
ČD travel, s.r.o.	-	6
Dopravní vzdělávací institut, a.s.	-	2
Výzkumný Ústav Železniční, a.s.	4	1
CD Generalvertretung GmbH	22	3
CD Generalvertretung Wien GmbH	-	5
Koleje Czeskie Sp. z o.o.*	5	12
Generálne zastúpenie ČD Cargo, s.r.o.	11	-
ČD Logistics, a.s.	71	-
Terminal Brno, a.s.	-	1
RAILLEX, a.s.	4	-
BOHEMIAKOMBI, spol. s r.o.	2	-
Ostravská dopravní společnost, a.s.	35	11
Total	**166**	**618**

* receivables reclassified to the loan referred to in Note 30.5.

1 Jan 2015 (CZK million)	Receivables	Payables
České dráhy a.s.	4	204
ČD - Telematika, a.s.	-	5
ČD - Informační Systémy, a.s.	-	79
DPOV, a.s.	1	70
ČD travel, s.r.o.	-	6
Dopravní vzdělávací institut, a.s.	-	2
Výzkumný Ústav Železniční, a.s.	1	-
CD Generalvertretung GmbH	21	3
Koleje Czeskie Sp. z o.o.*	9	23
Generálne zastúpenie ČD Cargo, s.r.o.	12	-
ČD Logistics, a.s.	81	2
Terminal Brno, a.s.	-	1
RAILLEX, a.s.	5	-
BOHEMIAKOMBI, spol. s r.o.	1	-
Ostravská dopravní společnost, a.s.	24	8
Total	**159**	**403**

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

30.2. INCOME GENERATED WITH RELATED PARTIES

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

2015 (CZK million)	Sale of tangible FA	Sale of services	Other income	Financial income	Total
České dráhy a.s.	1	29	2	-	32
DPOV, a.s.	2	5	1	-	8
Výzkumný Ústav Železniční, a.s.	-	15	-	-	15
ČD Generalvertretung GmbH	-	333	-	1	334
Koleje Czeskie Sp. z o.o.	49	30	1	7	87
Generálne zastúpenie ČD Cargo, s.r.o.	-	54	-	-	54
ČD Logistics, a.s.	-	495	-	-	495
RAILLEX, a.s.	-	78	-	-	78
BOHEMIAKOMBI, spol. s r.o.	-	16	-	-	16
Ostravská dopravní společnost, a.s.	-	215	-	-	215
Total	**52**	**1,270**	**4**	**8**	**1,334**

30.3. PURCHASE FROM RELATED PARTIES

2016 (CZK million)	Assets	Material	Services	Other expenses	Fin. expenses	Total
České dráhy a.s.	110	1 324	97	2	-	1 533
ČD - Telematika, a.s.	-	3	13	-	-	16
ČD - Informační Systémy, a.s.	45	5	89	-	-	139
DPOV, a.s.	109	14	14	-	-	137
ČD travel, s.r.o.	-	-	18	-	-	18
Dopravní vzdělávací institut, a.s.	-	-	19	-	-	19
Výzkumný Ústav Železniční, a.s.	-	-	1	-	-	1
JLV, a.s.	-	-	1	-	-	1
ČD Generalvertretung GmbH	-	-	111	-	-	111
ČD Generalvertretung Wien GmbH	-	-	6	-	-	6
Koleje Czeskie Sp. z o.o.	-	-	247	-	-	247
Generálne zastúpenie ČD Cargo, s.r.o.	-	-	17	-	-	17
ČD Logistics, a.s.	-	-	11	-	-	11
ČD-DUSS Terminal, a.s.	-	-	0	-	-	-
Terminal Brno, a.s.	-	-	17	-	-	17
RAILLEX, a.s.	-	-	1	1	-	2
Ostravská dopravní společnost, a.s.	-	-	55	-	-	55
Total	**264**	**1,346**	**717**	**3**	**-**	**2,330**

In 2016, purchases from České dráhy, a.s., are mainly represented by purchases of traction energy amounting to CZK 809 mil.

2015 (CZK million)	Assets	Material	Services	Other expenses	Fin. expenses	Total
České dráhy a.s.	249	1 530	90	8	-	1 877
ČD - Telematika, a.s.	4	2	27	-	-	33
ČD - Informační Systémy, a.s.	34	4	89	-	-	127
DPOV, a.s.	73	1	16	-	-	90
ČD travel, s.r.o.	-	-	18	-	-	18
Dopravní vzdělávací institut, a.s.	-	-	17	-	-	17
Výzkumný Ústav Železniční, a.s.	1	-	-	1	-	2
JLV, a.s.	-	-	1	-	-	1
ČD Generalvertretung GmbH	-	-	72	-	1	73
ČD Generalvertretung Wien GmbH	-	-	18	-	-	18
Koleje Czeskie Sp. z o.o.	48	-	148	1	-	197
Generálne zastúpenie ČD Cargo, s.r.o.	-	-	6	-	-	6
ČD Logistics, a.s.	-	-	5	-	-	5
ČD-DUSS Terminal, a.s.	-	-	1	-	-	1
Terminal Brno, a.s.	-	-	14	-	-	14
RAILLEX, a.s.	-	-	1	-	-	1
Ostravská dopravní společnost, a.s.	-	-	50	-	1	51
Total	**409**	**1,537**	**573**	**10**	**2**	**2,531**

In 2016, purchases from České dráhy, a.s., are mainly represented by purchases of traction energy amounting to CZK 892 mil.

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

Purchases (CZK million)	Intangible assets	Property, plant and equipmentí	Intangible assets	Property, plant and equipment
	2016	2016	2015	2015
České dráhy, a.s.	-	110	-	248
ČD - Telematika a. s.	-	-	1	4
ČD - Informační Systémy, a.s.	45	-	34	-
Výzkumný Ústav Železniční, a.s.	-	-	-	1
DPOV, a.s.	-	109	-	74
Koleje Czeskie Sp. z o.o.	-	-	-	48
Total	**45**	**219**	**35**	**375**

In 2016, the purchase of 163 series locomotives in the amount of CZK 81 mil was the largest item within the 'Purchases of assets'. In 2015 it amounted to CZK 233 mil. Purchases of fixed assets from DPOV, a.s. include purchases of railway vehicles components – performance of significant periodical repairs.

30.5. LOANS TO RELATED PARTIES

As at 17 Dec 2014 the Company concluded with Koleje Czeskie Sp. z o.o. agreement of loan to cover the remaining portion of the purchase price of freight wagons Eas and Falls 11. Till 31 Dec 2015 in amount CZK 114 mil. In year 2016 the entire amount was paid.

30.6. LOANS TO RELATED PARTIES

As of 17 October 2016, the Company has benefited the borrowing from České dráhy, a.s., in the total amount of CZK 540 mil. for the purpose of financing the purchase of series 383 locomotives (Vectron). The remaining part of the borrowing is, as of 31 December 2016, split into long-term part in amount of CZK 450 mil. and short-term part in amount of CZK 77 mil. and is captured in the Note 15 'Loans, borrowings and bonds'.

30.7. BONUSES TO KEY MANAGEMENT MEMBERS

The members of key management received the following bonuses in the reporting period:

(CZK million)	2016	2015
Short-term employee benefits	17	15
Total	**17**	**15**

Following numbers of the key management members are related to the stated amount of bonuses:

(CZK million)	2016	2015
Numbers of the key management members	**9**	**9**

Members of the statutory and supervisory bodies of the Company have the possibility to use discounted fares. Management of individual entities have the possibility to use in-kind remuneration in the form of the use of Company cars for private purposes.

30.8. RELATIONSHIPS WITH SŽDC

The costs incurred in relation to Správa železniční dopravní cesty, s.o. predominantly include the fees for the allocation of capacity and use of the railway route in the years ending 31 December 2015 and 2016. The costs for the years ending 31 December 2015 and 2016 are disclosed in Note 23.

The income of the Company predominantly includes sales from intrastate vehicle transportationof CZK 13 mil.

Expenses and income of the Company resulting from the transactions conducted with SŽDC in 2016 and 2015 were as follows:

31 Dec 2016 (CZK million)	Expenses	Income
Operation of the railway route	2	-
Use of the railway route and allocated route capacity	1,294	-
Property rental	2	-
Revenues from freight transportation	0	13
Performance of firefighter emergency services	10	-
Telecommunication services	41	-
Contractual fines and default interest	20	-
Compensation for damages	25	9
Extraordinary events investigation	3	-
Repairs and maintenance	2	-
Other	9	5
Total	**1,408**	**27**

31 Dec 2015 (CZK million)	Expenses	Income
Operation of the railway route	2	-
Use of the railway route and allocated route capacity	1,495	-
Property rental	1	-
Revenues from freight transportation	0	14
Performance of firefighter emergency services	10	-
Telecommunication services	41	-
Contractual fines and default interest	16	-
Compensation for damages	36	1
Extraordinary events investigation	3	-
Repairs and maintenance	2	-
Other	4	12
Total	**1,610**	**27**

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

Receivables (CZK million)	2016	2015	2014
Revenues from freight transportation	5	1	2
Estimated receivables	4	2	4
Other	8	6	3

Payables (CZK million)	2016	2015	2014
Use of railway route and allocated capacity of the railway - freight transport	153	487	485
Property rental – expenses and income	2	-	-
Court settlement - traction energy	215	271	314
Settlement Agreement - exclusions	42	59	62
Court verdict - exclusions	23	76	132
Radio communication technology	12	10	11
Other	1	-	4
Estimated payables	159	47	17
The fee for the use of transport infrastructure	107	-	-
Compensation for damages caused by extraordinary events	22	26	4
Uncollected capacity ŽDC	12	9	3
Performance of HZS	10	10	10
Heat supply	5	2	-
Office space rental	1	-	-
Other estimated payables	2	-	-

The settlement of a liability payable to the Company in amount of CZK 42 mil., is related to the compensation for damage caused by SŽDC exclusions based on a court decision from 15 January 2014. The liability is split into short-term part within 1 year in the amount of CZK 12 mil. and long-term part in the amount of CZK 30 mil.

The settlement of a liability payable to the Company in amount of CZK 215 mil., is related to the conclusion of court agreement in a dispute about the price of consumed traction energy during 2009. The liability is split into short-term part within 1 year in the amount of CZK 63 mil. and long-term part in the amount of CZK 151 mil.

30.9. RELATIONSHIPS WITH THE ČEZ COMPANY

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

31. 12. 2016 (CZK million)	Expenses	Income
Property rental	1	-
Revenues from freight transportation	-	388
Thermal energy	8	-
Other	1	-
Total	**10**	**388**

31. 12. 2015 (CZK million)	Expenses	Income
Use of railway route and allocated capacity of the railway	1	-
Revenues from freight transportation	-	420
Thermal energy	7	-
Other	-	2
Total	**8**	**422**

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

Receivables (CZK million)	2016	2015	2014
Revenues from freight transportation	68	71	66

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

31. Financial instruments

31.1. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that it is able to continue as a going concern while optimising the debt and equity balance between liabilities and equity.

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

(CZK million)		31 Dec 2016	31 Dec 2015	1 Jan 2015
Loans, borrowings and bonds	15	4,557	4,618	5,036
Cash and bank accounts	12	763	864	680
Total net debt		**3,794**	**3,754**	**4,356**

(CZK million)		31 Dec 2016	31 Dec 2015	1 Jan 2015
Share capital	13	8,494	8,494	8,494
Capital funds	13	315	245	184
Accumulated loss		(1,206)	(1,995)	(2,384)
Total equity		**7,603**	**6,744**	**6,294**

The Company is not subject to any externally imposed capital requirements.

The Board of Directors and the Supervisory Board of the Company are regularly informed about the development of debt. Any additional debt is subject to approval by the Company's statutory bodies, i.e. the Board of Directors and the Supervisory Board.

31.2. SIGNIFICANT ACCOUNTING POLICIES

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

31.3. CATEGORIES OF FINANCIAL INSTRUMENTS

Categories of financial assets (CZK million)	Classes of financial assets		31 Dec 2016	31 Dec 2015	1 Jan 2015
Loans and receivables	Cash and cash equivalents	12	763	864	680
	Trade receivables	10	1 553	1 572	1 538
	Other financial assets	10	309	131	258
Financial assets at fair value presented in profit or loss statement	Other financial assets - derivatives used in hedge accounting	9,10	37	1	-
Total			**2 662**	**2 568**	**2 476**

Categories of financial liabilities (CZK million)	Classes of financial liabilities		31 Dec 2016	31 Dec 2015	1 Jan 2015
Financial liabilities at fair value presented in profit or loss statement	Other financial liabilities - derivatives used in hedge accounting	29	15	54	102
	Other financial liabilities – other derivatives	29	5	5	22
Financial liabilities at amortized cost	Finance lease and leaseback liabilities	29	2,031	2,444	2,860
	Issued bonds	25	1,999	2,174	2,176
	Loans	25	527	-	-
	Trade payables	28,29	1,778	2,170	2,012
	Other financial liabilities	17	618	918	960
Total			**6,973**	**7,765**	**8,132**

Financial instruments are measured at fair value (level 2). This measurement is based on inputs other than quoted prices used at level 1; this information can be obtained from the asset or liability directly (i.e. prices) or indirectly (i.e. data derived from prices), as described in Note 32.11.3.

Income from individual classes of financial assets is as follows:

Class of financial asset (CZK million)	2016	2015	Presented in profit or loss statement
Interest on cash and cash equivalents	3	7	Financial income
Total	**3**	**7**	

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

31.4. FINANCIAL RISK MANAGEMENT OBJECTIVES

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

31.5. CURRENCY RISK MANAGEMENT

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

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

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

31 Dec 2015 (CZK million)	EUR	USD	Other	Total
Financial assets	1,380	3	-	1,383
Financial liabilities	(522)	(11)	(3)	(536)
Total	**858**	**(8)**	**(3)**	**847**

1 Jan 2015 (CZK million)	EUR	USD	Other	Total
Financial assets	1,465	3	-	(1,468)
Financial liabilities	(480)	0	(3)	(483)
Total	**985**	**3**	**(3)**	**985**

31.5.1. Foreign Currency Sensitivity Analysis

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

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

The following table shows the impact that the strengthening of the Czech currency by one crown with regard to the relevant foreign currencies would have on the profit and other comprehensive income. A positive number indicates an increase in the profit and other comprehensive income:

(CZK million)	2016	2015	2014
Translation of items denominated in foreign currencies at the end of the period	(24)	(31)	(35)
Change in the fair value of derivatives at the end of the period	2	(13)	-
Total impact on the profit for the period	**(22)**	**(44)**	**(35)**
Change in the fair value of derivatives at the end of the period	102	32	55
Total impact on other comprehensive income	**102**	**32**	**55**

31.5.2. Currency Forwards and options

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

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

Foreign currency forwards

(CZK million) Sale	Average currency exchange rate	Foreign currency	Nominal value in EUR mil.	Fair value
31 Dec 2016	26,868	EUR	96	6
31 Dec 2015	26,950	EUR	24	1
1 Jan 2015	27,182	EUR	55	(31)

Foreign currency options - collar

(CZK million) Sale	Average currency exchange rate	Foreign currency	Nominal value in EUR mil.	Fair value
31 Dec 2016	26,65 - 27,05	EUR	12	0
31 Dec 2015	26,50 - 27,15	EUR	12	-1
1 Jan 2015	-	-	-	-

Open foreign currency forwards and options on purchase of foreign currency were not closed in 2014, 2015 and 2016.

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

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

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

31 Dec 2015 (CZK million)	Less than 1 mont	1 - 3 months	3 months to 1 year	1 year - 5 years	5 years and more	Total
Hedged future sales in EUR	881	162	730	-	-	973

1 Jan 2015 (CZK million)	Less than 1 mont	1 - 3 months	3 months to 1 year	1 year - 5 years	5 years and more	Total
Hedged future sales in EUR	166	305	1,054	-	-	1,525

31.6. INTEREST RATE RISK MANAGEMENT

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

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

31.6.1. Interest Rate Sensitivity Analysis

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

- changes in interest expenses from loans and lease with a variable rate,
- changes in the present value of long-term provisions resulting from the change in the discount,
- 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)	2016	2015	2014
Interest from loans and lease with variable rate for the period	-60	-46	-103
Change in the present value of long-term provisions at the end of the period	55	63	63
Change in the fair value of derivatives at the end of the period	6	10	27
Total impact on the profit for the period	**1**	**27**	**-13**
Change in the fair value of derivatives at the end of the period	6	12	21
Total impact on other comprehensive income	**6**	**12**	**21**

31.6.2. Interest rate Swaps

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

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

IRS

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

31 Dec 2015	Average contracted fixed interest rate	Principal CZK mil.	Fair value of assets (liabilities) CZK mil.
Less than 1 year	3.265%	106	(10)
1 to 5 years	3.265%	304	(13)
5 years and more	3.265%	13	-
Total			**(23)**

1 Jan 2015	Average contracted fixed interest rate	Principal CZK mil.	Fair value of assets (liabilities) CZK mil.
Less than 1 year	3.265%	103	(13)
1 to 5 years	3.265%	328	(22)
5 years and more	3.265%	95	(1)
Total			**(36)**

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.

31.6.3. Interest Rate Option

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

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

31 Dec 2015	Hedged range	Principal CZK mil.	Fair value of assets (liabilities) CZK mil.
Less than 1 year	1.13% - 3.13%	94	(2)
1 to 5 years	1.13% - 3.13%	385	(3)
Total			**(5)**

1 Jan 2015	Hedged range	Principal CZK mil.	Fair value of assets (liabilities) CZK mil.
Less than 1 year	1.13% - 3.13%	88	(3)
1 to 5 years	1.13% - 3.13%	301	(5)
5 years and more	1.13% - 3.13%	64	-
Total			**(8)**

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

Expected realization of hedged items by interest rate swaps and options:

The expected hedged cash flows from interest on variable-rate loans are presented in the Note 32.9.1. Tables with remaining contractual maturities of financial liabilities are presented in rows 'Finance lease liabilities' and 'Instruments with a variable interest rate'.

31.7. COMMODITY RISK MANAGEMENT

The Company is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically oil and electricity, is a significant cost item of the Company. The Company manages this risk using a combination of several instruments as follows:

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

31.7.1. Analysis of Sensitivity to Changes in Commodity Prices

The exposure to the change in the price of commodities is measured by the sensitivity analysis. The Company is exposed to the risk of changes in prices of commodities due to:

- change in the fair value of concluded financial derivatives,

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

(CZK million)	2016	2015	2014
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	16	8	11
Total impact on other comprehensive income	**16**	**8**	**11**

31.7.2. Commodity Derivatives

The table shows outstanding commodity contracts for the purchase of oil as of 31 December 2016:

Purchase of oil	Hedged average price (CZK/mt)	Volume of contracts (mt)	Fair value (CZK mil.)
31 Dec 2016	10,822	13,200	28
31 Dec 2015	12,713	8,400	(30)
1 Jan 2015	16,753	8,400	(34)

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

31 Dec 2015 (CZK million)	Less than 1 month	1 - 3 months	3 months to 1 month	1 year - 5 years	5 years and more	Total
Hedged future purchases of diesel (with FWD)	6	11	52	-	-	69

1 Jan 2015 (CZK million)	Less than 1 month	1 - 3 months	3 months to 1 month	1 year - 5 years	5 years and more	Total
Hedged future purchases of diesel (with FWD)	9	18	83	-	-	110

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

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

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

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

The net book value of financial assets is recognised in the financial statements on a net basis, which is net of impairment losses, represents the Company's maximum exposure to credit risk. The most significant item in 2016 is 'Bound funds' in the total amount of CZK 292 mil, presenting the advance payment provided within the subsidy project to equip traction vehicles with the on-board part of the European Train Control System (ETCS). As at 1 Jan 2015 other long-term financial assets included mainly loan to Koleje Czeskie Sp. z o.o., amounted to CZK 235 mil. The balance of this loan of CZK 114 mil. was in 2015 reclassified to other short-term financial assets. In 2016, this loan was repaid in full amount. For a detailed overview, see Note 10.

The credit quality of the receivables, that are not overdue or their value is not reduced in any way, is good and corresponds to the book value. The following table shows trade receivables of the Company's trade receivables that are not overdue and are not impaired.

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
By category			
- within the České dráhy Group	140	117	121
- other domestic buyers	968	1 026	971
- other foreign buyers	363	340	349
Total	**1,471**	**1,483**	**1,441**

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

On a daily basis, the Company assesses the available funds and cash flows and liquidity development. Pursuant to these assessments, the Company decides on an optimal use of operating financial sources, consisting primarily of overdraft loans and the cash-pool limit. In order to strengthen its financial stability, the Company secures long-term financial sources on a continuous basis. In 2016, the Company issued bonds in the aggregate volume of CZK 2,000 mil. 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 mil. with the maturity of 7 years, provided for financing newly acquired interoperable trains. The Company still has a promissory notes programme available in the aggregate amount of CZK 1,500 mil. and has contracted the possibility of drawing funds of up to CZK 400 mil. beyond the cash pooling limit from the Parent Company. During the years ending 31 December 2015 and 2016, the promissory notes programme and drawing beyond the cash pooling limit were not used by the Company.

31.9.1. Liquidity and Interest Rate Risk Tables
The following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that instruments carry the floating rate, the undiscounted amount is derived from the interest rate valid at the end of the reporting period. The contractual maturity is based on the earliest date on which the Company may be required to pay.

31 Dec 2016 (CZK million)	Less than 1 month	1 - 3 months	3 month to 1 year	1 year to 5 year	5 years and more	Total
Non-interest bearing	1,288	562	235	310	-	2,395
Non-hedging derivatives	-	-	3	2	-	5
Hedging derivatives - net	1	2	6	6	-	15
Gross outgoing cash flows	*243*	*108*	*486*	*324*	-	*1,161*
Gross incoming cash flows	*(242)*	*(106)*	*(480)*	*(318)*	-	*(1,146)*
Liabilities from finance and leaseback	46	90	377	1,453	358	2,324
Variable interest rate instruments	7	13	61	318	142	541
Fixed interest rate instruments	-	-	30	1,592	513	2,135
Total	**1,342**	**667**	**712**	**3,681**	**1,013**	**7,415**

31 Dec 2015 (CZK million)	Less than 1 month	1 - 3 months	3 month to 1 year	1 year to 5 year	5 years and more	Total
Non-interest bearing	1,006	949	584	549	-	3,088
Non-hedging derivatives	-	-	2	3	-	5
Hedging derivatives - net	4	8	29	13	-	54
Gross outgoing cash flows	*27*	*54*	*243*	*13*	-	*337*
Gross incoming cash flows	*-23*	*(46)*	*(214)*	-	-	*(283)*
Liabilities from finance and leaseback	45	90	405	1,732	577	2,849
Variable interest rate instruments	-	-	672	-	-	672
Fixed interest rate instruments	-	-	551	1,060	-	1,611
Total	**1,055**	**1,047**	**2 243**	**3,357**	**577**	**8,279**

1 Jan 2015 (CZK million)	Less than 1 month	1 - 3 months	3 month to 1 year	1 year to 5 year	5 years and more	Total
Non-interest bearing	1,233	868	276	680	-	3,057
Non-hedging derivatives	-	-	17	5	-	22
Hedging derivatives - net	10	20	48	24	-	102
Gross outgoing cash flows	166	305	1,054	24	-	1,549
Gross incoming cash flows	(156)	(285)	(1,006)	-	-	(1,447)
Liabilities from finance and leaseback	46	92	409	2,006	845	3,398
Variable interest rate instruments	-	-	1,066	673	-	1,739
Fixed interest rate instruments	-	-	20	520	-	540
Total	**1,289**	**980**	**1,836**	**3,908**	**845**	**8,858**

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

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

31 Dec 2015 (CZK million)	Less than 1 month	1 - 3 months	3 month to 1 year	1 year to 5 year	5 years and more	Total
Non-interest bearing	1,374	811	381	1	-	2,567
Hedging derivatives	-	-	-	-	-	1
Total	**1,374**	**811**	**382**	**1**	**-**	**2,568**

1 Jan 2015 (CZK million)	Less than 1 month	1 - 3 months	3 month to 1 year	1 year to 5 year	5 years and more	Total
Non-interest bearing	1,844	323	70	-	-	2,237
Fixed interest rate instruments	-	-	0	239	-	239
Total	**1,844**	**323**	**70**	**239**	**-**	**2,476**

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

31.9.2. Financing Facilities

The Company uses the following financing facilities:

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Cash pool:			
– loan facility at	600	600	600
– balance at	600	600	600
Overdraft loans:			
– loan facility at	1,200	1,200	1,200
– balance at	1,200	1,200	1,200
Promissory note programme:			
– loan facility at	1,500	1,500	1,500
– balance at	1,500	1,500	1,500

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

31.10.1. Finance Leases

In 2016, no new financial lease was implemented. In view of the planned investments, ČD Cargo, a.s. is, in the matter of convenience, anticipated to continue utilising finance leases in the future.

31.10.2. Operating Bank Loans

In funding its operating needs, ČD Cargo, a.s. has limits of overdraft loans in the maximum amount of CZK 1,200 mil. provided by four banks and the limit of possible drawings as part of the involvement of the Company in the Company cash-pooling in the amount of CZK 600 mil. The stratification of the lending to several financing entities results in the risk of the termination of the funding being sufficiently diversified.

31.10.3. Promissory Note Programme

The Company has the possibility to use the approved promissory note programme if needed. Promissory note programme is approved in the amount of CZK 1,500 mil., and the Supervisory Board of the Company should be obligatory informed about the intention of drawing over CZK 1,000 mil. Promissory note programme was currently not used in 2015 and 2016, but the promissory note framework is left as a form of short-term financing provisions, independent directly on bank sources.

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

The Company has contracted the possibility of drawing funds of up to CZK 400 mil. from the Parent Company beyond the cash pooling limit. During the years ending 31 December 2015 and 2016, this loan was not used.

31.10.5. Bonds

With a view to securing the mid-term and long-term sources of funding to increase the stability of the Company's cash flows, the relevant bodies of ČD Cargo, a.s. approved the bond programme in the aggregate amount of CZK 6 billion for 10 years which was updated in 2015 to the current legal status (effective for new placements). On the basis of this programme, the first, second (1st tranche) and third issues were gradually placed in 2011 with the aggregate nominal value of CZK 2 bil. In 2012, another two tranches as part of the second issue of bonds were placed with the total nominal value of CZK 500 mil. In 2014, it was within the ability of investors to take advantage of early redemption of bonds of the first issue of bonds and repay a total of CZK 341,7 mil. In 2015, a new issue of bonds was placed with the total nominal value of CZK 1 billion and maturing bonds of CZK 1 billion were redeemed. In 2016, there was the fifth issue of bonds in the amount of CZK 500 mil and the sixth issue of bonds in the amount of CZK 500 mil.

The sixth bond issue was carried out under separate issuance conditions and these bonds were admitted for a trade 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 mil. and also part of the third issue in the nominal amount of CZK 500 mil. were repaid in 2016.

In total, ČD Cargo, a.s. has issued bonds worth CZK 2,000 mil. as of 31 December 2016. Funding in the form of bonds increases the liquidity and financial stability of the Company. In connection with the planned investments, it is expected, that ČD Cargo, a.s. will continue to use bonds will in the matter of convenience.

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

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

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

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

31.11. FAIR VALUE OF FINANCIAL INSTRUMENTS

31.11.1. Fair Values of Financial Instruments Carried at Amortised Cost
The Company considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values, except leases and bonds.

The fair value of the lease as of 31 December 2016 amounts to CZK 2,294 mil. The fair value of leases calculated with the fixed rate is determined by the recalculation according to the current rate. This up-to-date rate is generated based on the margin of the most recent lease transactions and market interest rate applicable as of the year-end which is subsequently used to recalculate the remaining payable of fixed leases.

The fair value of bonds of ČD Cargo, a.s. as of 31 December 2016 amounts to CZK 2,005 mil. The fair value of bonds is recalculated based on the up-to date issue rate communicated by individual banks.

Financial assets (CZK million)	Level	Fair value as at 31 Dec 2016	Book value as at 31 Dec 2016	Fair value as at 31 Dec 2015	Book value as at 31 Dec 2015	Fair value as at 1 Jan 2015	Book value as at 1 Jan 2015
Financial derivatives used in hedge accounting	Level 2	37	37	1	1	-	-
Loans, other financial assets	Level 2	259	259	1	1	239	239
Total		**296**	**296**	**2**	**2**	**239**	**239**

Financial liabilities (CZK million)	Level	Fair value as at 31 Dec 2016	Book value as at 31 Dec 2016	Fair value as at 31 Dec 2015	Book value as at 31 Dec 2015	Fair value as at 1 Jan 2015	Book value as at 1 Jan 2015
Financial derivatives used in hedge accounting	Level 2	15	15	54	54	102	102
Other financial derivatives	Level 2	5	5	5	5	22	22
Bonds issued	Level 2	2,005	1,999	2,195	2,174	2,133	2,176
Liabilities from finance lease and leaseback	Level 2	2,294	2,031	2,846	2,444	3,356	2,860
Total		**4,319**	**4,050**	**5,100**	**4,677**	**5,613**	**5,160**

Cash and cash equivalents, trade receivables, other current financial assets and other short-term financial liabilities are shown in the table because their fair value is equal to the carrying value due to their short-term maturity.

31.11.2. Valuation Techniques Applied for the Purposes of Measuring Fair Value
The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices,

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

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

31.11.3. Fair Value Measurements Recognised in the Statement of Financial Position
Financial instruments measured at fair value are Companied into Levels 1 to 3 based on the degree to which the fair value is observable:

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

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

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

All financial instruments measured at fair value recognised by the Company as of 31 December 2016, and 31 December 2015 are included in Level 2.

32. Post balance sheet events

Trilateral Framework agreement, that overreaches mutual cooperation, was concluded between ArcelorMittal Ostrava a.s., which is among the key customers of ČD Cargo, a.s., and Ostravská dopravní společnost, a.s. This contract was tendered for the period 2013-2016 with the possibility of a 3-year option. ArcelorMittal Ostrava a.s., conditioned the use of the option by changing the ownership structure of Ostravská dopravní společnost, a.s., where ČD Cargo, a.s. should have a minimum of a 50% share. For this reason, as of 1 January 2017, a new company Ostravská dopravní společnost – Cargo, a.s. was incorporated and registered in the commercial register, and thus the company Ostravská dopravní společnost, a.s. was spun off. The share in ČD Cargo, a.s., and later in Ostravská dopravní společnost, a.s. increased from 20% to 50% for the price of CZK 15.2 mil. Ostravská dopravní společnost – Cargo, a.s., that is ČD Cargo, a.s., left 20% share due to the spin off. Společnost Ostravská dopravní společnost, a.s., then exercised the option and signed an amendment to the agreement with ArcelorMittal Ostrava a.s., valid until the end of 2019.

České dráhy, a.s. as the sole shareholder of ČD Cargo, a.s., acting in the capacity of the General Meeting, decided to recall František Bureš of the Supervisory Board with effect as of 21 March 2017.

České dráhy, a.s. as the sole shareholder of ČD Cargo, a.s., acting in the capacity of the General Meeting, decided on the election of Miroslav Kupec to the Supervisory Board with effect as of 22 March 2017.

České dráhy, a.s. as the sole shareholder of ČD Cargo, a.s., acting in the capacity of the General Meeting, decided to recall Ludvík Urban and Jan Hart of the Supervisory Board with effect as of 31 March 2017.

České dráhy, a.s. as the sole shareholder of ČD Cargo, a.s., acting in the capacity of the General Meeting, decided on the election of Roman Onderko and Jiří Švachula to the Supervisory Board with effect as of 1 April 2017.

33. Approval of the financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 4 April 2017.

15 Consolidated Financial Statements

Consolidated Financial Statementsfor the Year Ending 31 December 2016

Prepared under IFRS as adopted by the EU

Cargo

Consolidated Financial Statements for the Year Ended 31 December 2016

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 4 April 2017

Ing. Martin Šimek
Chief Financial Officer

Statutory body of the reporting entity:

Ivan Bednárik
Chairman of the Board of Directors

Bohumil Rampula
Member of the Board of Directors

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2016

CZK mil.		31 Dec 2016	31 Dec 2015 (adjusted*)	1 Jan 2015 (adjusted*)
Property, plant and equipment	5	14,581	14,201	14,103
Intangible assets	6	366	322	328
Investments in subsidiaries and associates	7	40	40	40
Deferred tax asset	30	21	23	-
Other financial assets	10	270	1	4
Other assets	11	1	1	53
Total non-current assets		**15,279**	**14,588**	**14,528**
Inventories	8	142	130	121
Trade receivables	9	1,656	1,695	1,633
Tax receivables	30	22	24	-
Other financial assets	10	75	17	19
Other assets	11	120	326	192
Cash and cash equivalents	12	877	962	840
Total current assets		**2,892**	**3,154**	**2,805**
TOTAL ASSETS		**18,171**	**17,742**	**17,333**
Share capital	13	8,494	8,494	8,494
Capital funds	13	343	273	202
Accumulated loss		(1,161)	(2,078)	(2,611)
Equity attributable to owners of the Company		7,676	6,689	6,085
Non-controlling interests		41	38	37
Total equity		**7,717**	**6,727**	**6,122**
Loans and borrowings	15	4,397	3,414	4,036
Deferred tax liability	30	1,340	1,157	1,038
Provisions	16	538	672	635
Other financial liabilities	17	318	565	641
Other liabilities	18	377	141	87
Total non-current payables		**6,970**	**5,949**	**6,437**
Trade payables	14	1,780	2,173	2,008
Loans and borrowings	15	577	1,675	1,524
Tax payables	30	3	-	73
Provisions	16	326	303	349
Other financial payables	17	319	412	450
Other payables	18	479	503	370
Total current payables		**3,484**	**5,066**	**4,774**
TOTAL LIABILITIES		**18,171**	**17,742**	**17,333**

*see Note 2.3.1.

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STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

CZK mil.		Year ending 31 Dec 2016	Year ending 31 Dec 2015 (adjusted*)
Revenue from principal operations	22	11,765	12,063
Other operating income	23	600	816
Purchased consumables and services	24	(5,874)	(6,352)
Employee benefit costs	25	(3,866)	(3,920)
Depreciation and amortisation	26	(1,079)	(1,126)
Other operating losses	27	(175)	(513)
Operating profit		**1,371**	**968**
Financial expenses	28	(301)	(297)
Financial gains	29	71	20
Share in the profit of associates and joint ventures	7	11	7
Profit before tax		**1,152**	**698**
Income tax expense	30	(218)	(123)
Profit for the period		**934**	**575**
Attributable to equity holders of the Parent Company		931	573
Attributable to non-controlling interests		3	2

*see Note 2.3.1.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

CZK mil.	Year ending 31 Dec 2016	Year ending 31 Dec 2015 (adjusted*)
Profit for the year	934	575
Actuarial gains / losses on liabilities related to employee benefits	3	(5)
Other comprehensive income for the year (items that are not subsequently reclassified to profit or loss)	3	(5)
Foreign currency translation reserve fund	(7)	(3)
Cash flow hedging	74	48
Relating deferred income tax	(14)	(9)
Other comprehensive income for the year (items that may be reclassified to profit or loss)	53	36
Total comprehensive income for the year	**990**	**606**
Attributable to equity holders of the Parent Company	987	604
Attributable to non-controlling interests	3	2

*see Note 2.3.1.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

CZK mil.	Share capital	Share premium	Reserve fund	Fund from cash flow hedge	Actuarial cash flow hedges	Other funds	Accumulated loss	Equity attributable to owners of the company	Non-controlling interests	Total equity
Balance at 1 Jan 2015 (adjusted*)	**8,494**	**197**	**89**	**(82)**	**(13)**	**11**	**(2,611)**	**6,085**	**37**	**6,122**
Profit for the period	-	-	-	-	-	-	573	573	2	575
Other comprehensive income for the period	-	-	-	39	(5)	(3)	-	31	-	31
Total comprehensive income for the period	-	-	-	39	(5)	(3)	573	604	2	606
Allocation to the reserve fund	-	-	40	-	-	-	(40)	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	(1)	(1)
Transactions with owners for the period	-	-	40	-	-	-	(40)	-	(1)	(1)
Balance at 31 Dec 2015 (adjusted*)	**8,494**	**197**	**129**	**(43)**	**(18)**	**8**	**(2,078)**	**6,689**	**38**	**6,727**
Profit for the period	-	-	-	-	-	-	931	931	3	934
Other comprehensive income for the period	-	-	-	60	3	(7)	-	56	-	56
Total comprehensive income for the period	-	-	-	60	3	(7)	931	987	3	990
Allocation to the reserve fund	-	-	14	-	-	-	(14)	-	-	-
Transactions with owners for the period	-	-	14	-	-	-	(14)	-	-	-
Balance at 31 Dec 2016	**8,494**	**197**	**143**	**17**	**(15)**	**1**	**(1,161)**	**7,676**	**41**	**7,717**

*see Note 2.3.1.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

CZK mil.		Year ending 31 Dec 2016	Year ending 31 Dec 2015 (adjusted*)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax		**1,152**	**698**
Financial expenses		200	262
Profit from the sale and disposal of non-current assets		(3)	(13)
Depreciation and amortisation of non-current assets	26	1,079	1,125
Changes in impairment of non-current assets		3	(9)
Changes in allowance for doubtful accounts	27	(3)	21
Decrease in provisions		(85)	(15)
Foreign exchange rate (gains) losses		1	(16)
Other		12	78
Cash flow from operating activities before changes in working capital		2,356	2,131
Change in trade receivables		95	(20)
Increase in inventories		(16)	(14)
Decrease (increase) in other assets		167	(126)
Increase (decrease) in trade payables		(287)	40
Increase (decrease) in other payables		(240)	135
Total changes in working capital		(281)	15
Cash flows from operating activities		2,075	2,146
Interest paid		(218)	(251)
Income tax paid		(42)	(117)
Net cash flow from operating activities		**1,815**	**1,778**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment		(1,691)	(988)
Proceeds from the sale of property, plant and equipment	23	4	26
Costs of acquisition of intangible assets		(116)	(105)
Interest received	29	1	8
Received subsidies for the purchase of assets		-	57
Repayments of loans from related parties		-	4
Net cash flows (used in) from investment activities		**(1,802)**	**(998)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bonds issue	15	1,000	1,000
Proceeds from loans and borrowings	15	581	65
Repayments of loans, borrowings and bonds	15	(1,679)	(1,724)
Net cash flow from financing activities		(98)	(659)
Net increase in cash and cash equivalents		(85)	121
Cash and cash equivalents at the beginning of the reporting period	12	965	844
Cash and cash equivalents at the end of the reporting period	12	880	965

*see Note 2.3.1.

1. General Information

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

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

As of 31 December 2016, the Parent Company's reported share capital of CZK 8,494,000 thousand which was fully paid in.

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

The company is the parent company of the ČD Cargo Group (the "Group"). The consolidated financial statements have been prepared as of and for the year ending 31 December 2016. The reporting period is the calendar year, from 1 January 2016 to 31 December 2016.

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

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

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

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

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

1.3. ORGANISATIONAL STRUCTURE OF THE PARENT COMPANY
The organisational structure is composed of divisions directly reporting to the Chairman of the Board of Directors or divisional directors:
- Sales Director division;
- Operations Director division;
- Finance Director division.

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

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

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

1.4.1. České dráhy Group

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

■ The Consolidated Group of České dráhy for the financial year 2016 consists of following companies:

Name of the entity	Ownership of ČD, a. s. (%)	Type of influence	Registered office	Corporate ID
ČD - Informační Systémy, a.s.	100,00	Control	Pernerova 2819/2a , 130 00 Prague 3	24829871
ČD-Telematika, a. s.	69,18	Control	Pernerova 2819/2a , 130 00 Prague 3	61459445
Výzkumný Ústav Železniční, a.s.	100,00	Control	Novodvorská 1698, 142 01 Prague 4	27257258
JLV, a. s.	38,79	Significant	Chodovská 3/228, 141 00 Prague 4	45272298
DPOV, a. s.	100,00	Control	Husova 635/1b, 751 52 Přerov	27786331
ČD Cargo, a. s.	100,00	Control	Jankovcova 1569/2c, 170 00 Prague 7	28196678
Dopravní vzdělávací institut, a.s.	100,00	Control	Husitská 42/22, 130 00 Prague 3	27378225
ČD travel, s.r.o.	51,72	Control	28.října 372/5 , 110 00 Prague 1	27364976
Smíchov Station Development, a.s.	51,00	Joint Control	U Sluncové 666/12a, 186 00 Prague 8 – Karlín	27244164
Žižkov Station Development, a.s.	51,00	Joint Control	U Sluncové 666/12a 186 00 Prague 8 – Karlín	28209915
Masaryk Station Development, a.s.	34,00	Significant	Na Florenci 2116/15, 110 00 Prague 1	27185842
RAILREKLAM spol. s r.o	51,00	Joint Control	Štětkova 1638/18, 140 00 Prague 4	17047234
CD Generalvertretung GmbH	100,00	Control	Kaiserstrasse 60, 60329 Frankfurt on Main, FRG	DE 814191687
CD - Generalvertretung Wien GmbH	100,00	Control	Rotenturmstraße 22/24, 1010 Wien, Austria	FN 291407s
Koleje Czeskie Sp. z o.o.	100,00	Control	Ul. Grzybowska nr. 4, lok. 3, 00-131 Warsaw, Poland	140769114
Generálne zastúpenie ČD Cargo, s.r.o.	100,00	Control	Tomášikova 10/H, 821 03 Bratislava.	44349793
ČD Logistics, a.s.	78,00	Control	Nové Město, Opletalova 1284/37, 110 00 Prague 1	27906931
Terminal Brno, a.s.	66,94	Control	K terminálu 614/11, 619 00 Brno	28295374
ČD-DUSS Terminál, a.s.	51,00	Control	Lukavecká 1189, 410 02 Lovosice	27316106
RAILLEX, a.s.	50,00	Joint Control	Hlubočepy, Trnkovo náměstí 3, čp. 1112, 152 00 Prague 5	27560589
BOHEMIAKOMBI, spol. s r.o.	30,00	Significant	Opletalova 6, 110 00 Prague 1	45270589
Ostravská dopravní společnost, a.s.	20,00	Significant	Přívoz, U Tiskárny 616/9, 702 00 Ostrava	60793171
Auto Terminal Nymburk, s.r.o.	100,00	Control	Jankovcova 1569/2c, PSČ 170 00 Prague 7 - Holešovice	24234656
České dráhy, a. s.	-	-	Nábřeží L.Svobody 12/1222, 110 15 Prague 1	70994226
ODP-software, spol.s r.o.	100,00	Control	Pernerova 2819/2a, 130 00 Prague 3	61683809

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

1.4.2. Key Management
The concept of key management mainly concerns the members of the Statutory and Supervisory Bodies of the individual Group companies. The listing of individual organs is presented in Note 1.5 and amount of their benefits are shown in Note 31.6.

1.4.3. Relationship with SŽDC and ČEZ Group
The sole shareholder, the company České dráhy, a.s., is fully owned by the state. In accordance with exemptions specified in paragraphs 25-27 of IAS 24, the Parent Company and the entire Group does not treat other state-owned companies as their related parties. These financial statements present only transactions with SŽDC and ČEZ Group, due to their significant impact on the Group's activities. The most significant transactions carried out with these entities include the use of infrastructure, purchase of electricity and revenues from freight transport. Detailed relationships are disclosed in Notes 31.7 and 31.8.

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

The composition of the ČD Cargo, a.s. Bodies, as of 31 December 2016 was as follows:

Board of Directors

Předseda	Ivan Bednárik
Member	Zdeněk Škvařil
Member	Bohumil Rampula

Supervisory Board

Chairman	Pavel Krtek
Member	Ludvík Urban
Member	Jan Kasal
Member	Radek Nekola
Member	Jindřich Nohal
Member	Jan Hart
Member	František Bureš

Audit Committee

Chairman	Oldřich Vojíř
Member	Miroslav Zámečník
Member	Libor Joukl

During the year 2016 no changes took place in the Company Bodies.

1.6. DEFINITION OF THE CONSOLIDATION GROUP

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

Name of the entity	Registered office	Corporate ID	Ownership percentage	Degree of influence
ČD Cargo, a. s.	Prague 7, Jankovcova 1569/2c	28196678		Parent Company
CD Generalvertretung GmbH	Kaiserstrasse 60, 60329 Frankfurt on Main, FRG	DE006635	100,00	Control
CD - Generalvertretung Wien GmbH	Rotenturmstraße 22/24, 1010 Vienna, Austria	FN291407s	100,00	Control
Koleje Czeskie Sp. z o.o.	Ul. Grzybowska nr. 4, lok. 3, 00-131 Warsaw, Poland	140769114	100,00	Control
Generálne zastúpenie ČD Cargo, s.r.o.	Tomášikova 10/H, 82103 Bratislava, Slovak Republic	44349793	100,00	Control
Auto Terminal Nymburk, s.r.o.	Jankovcova 1569/2c, 170 00 Prague 7	24234656	100,00	Control
Terminal Brno, a.s.	Brno, K terminálu 614/11, ZIP 619 00	28295374	66,93	Control
ČD-DUSS Terminál, a.s.	Lovosice, Lukavecká 1189, ZIP 410 02	27316106	51,00	Control
ČD Logistics, a.s.	Prague 1, Opletalova 1284/37, ZIP 110 00	27906931	78,00	Control
RAILLEX, a.s.	Prague 5, Trnkovo náměstí 3, ZIP 152 00	27560589	50,00	Joint Control
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6, ZIP 110 00	45270589	30,00	Significant
Ostravská dopravní společnost, a.s.	Ostrava - Přívoz, U Tiskárny 616/9, ZIP 702 00	60793171	20,00	Significant

Name of the entity	Principal activities
CD Generalvertretung GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping
Koleje Czeskie Sp. z o.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping
CD Generalvertretung Wien GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping
Generálne zastúpenie ČD Cargo, s.r.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping
Terminal Brno, a.s.	Operations of the combined transport terminal in Brno
ČD-DUSS Terminál, a.s.	Operations of the container terminal in Lovosice
ČD Logistics, a.s.	Shipping
Auto Terminal Nymburk, s.r.o.	Shipping and technical services in transportation.
RAILLEX, a.s.	Cargo handling and technical services in transportation.
BOHEMIAKOMBI, spol. s r.o.	Mediation of services in transportation except for the transportation by own vehicles.
Ostravská dopravní společnost, a.s.	Railway transportation and lease of locomotives and wagons

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

2. Significant accounting policies

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

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

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

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

2.3.1. Changes in Accounting and Reporting Method

Adjustment of Deferred Tax Presentation
In part of the Group's assets were revised because of differences arising from different accounting and tax values. Total difference between the tax and accounting value of the property is newly considered as temporary difference for one category of assets and for that reason it is now part of the deferred tax calculation. In prior accounting periods, these differences were considered as permanent differences and thus were not subject to deferred tax calculation. As a result deferred tax liability was recorded at the lower value.

Change in Presentation of Leaseback
Leaseback undertaken in prior accounting periods from 1 January 2008 till 31 December 2015 was presented in accordance with IAS 17 as finance lease. When preparing the financial statements for the year 2016, this accounting methodology was revised with reference to SIC 27 'Evaluating the substance of transactions involving the legal form of a lease' and the comparative period of the financial statements was adjusted retrospectively. By its nature mentioned leaseback arrangements cannot be considered a lease but a loan from a lender which is secured by relevant property. The adjustment represents a reduction of the carrying value of fixed assets and a corresponding reduction of 'Other liabilities' (short- and long term).

Reclassification of items in the financial statements
In 2016, the Group changed the name of an individual line item 'Other gains (losses)' in the profit and loss account as presented in the consolidated financial statements for the year 2015 into 'Financial income'. The Group reclassified some items presented in this position, especially – 'Operating foreign exchange gains' of CZK 242 mil. were reclassified to 'Other operating income' and 'Operating foreign exchange losses' of CZK 270 mil. were reclassified to 'Other operating expenses'.

CZK mil.		Previously presented	Adjustment	Reclassification	Adjusted
1. Jan 2015					
Property, plant and equipment	5	14,622	(519)[2]	-	14,103
Capital funds	13	215	-	(13)	202
Accumulated losses		(2,245)	(379)[1]	13	(2,611)
Deferred tax liability	30	659	379[1]	-	1,038
Other liabilities - long-term	18	578	(491)[2]	-	87
Other liabilities - short-term	18	398	(28)[2]	-	370
31 Dec 2015					
Property, plant and equipment	5	14,690	(489)[2]	-	14,201
Capital funds	13	291	-	(18)	273
Accumulated losses		(1,765)	(331)[1]	18	(2,078)
Deferred tax liability	30	826	331[1]	-	1,157
Other liabilities - long-term	18	601	(460)[2]	-	141
Other liabilities - short-term	18	532	(29)[2]	-	503
Year 2015					
Other operating income	23	604	-	212	816
Employee benefits costs	25	(3,978)	-	58	(3,920)
Depreciation and amortization	26	(1,155)	-	29	(1,126)
Other operating expenses	27	(185)	-	(328)	(513)
Financial expenses	28	(262)	-	(35)	(297)
Financial income	29	(48)	-	68	20
Income tax for the year	30	(171)	48[1]	-	(123)
Profit for the period		522	48[1]	5	575
Profit for the period attributable to the Parent Company		520	48[1]	5	573
Comprehensive income for the period Total		558	48[1]	-	606

1) The effect of the deferred tax adjustment
2) The effect of changes in the reporting of regressive leasing

2.4. BASIS OF CONSOLIDATION
The consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Company (its subsidiaries). The Company controls those entities, in which it has the power to govern their financial and operating policies so to obtain benefits from their activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. The total comprehensive income is allocated to owners of the Company and non-controlling interests even if the result is a negative balance of non-controlling interests.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

2.5. BUSINESS COMBINATIONS

Acquisitions of businesses 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 the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree, and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 'Income Taxes' and IAS 19 'Employee Benefits' respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 'Share-based Payments' at the acquisition date.

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

Non-controlling interests, which are current ownership interests of third parties and entitle the holder to the proportionate share of the entity's net assets in case of liquidation may be initially measured at fair value or proportionate share of non-controlling interest on the recognized identifiable net assets acquired. Valuation basis can be selected individually for each specific acquisition. Other types of non-controlling interests at fair value or, if possible, on the basis set another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The above procedure is used in all business combinations takin place on or after 1 January 2010.

2.6. REVENUE RECOGNITION

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

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

Sales of services are recognised when services are rendered to counterparties. Revenues related to transportation services are recognised in the period in which the services are provided by reference to the stage of completion of the service contract (e.g. period of validity of long-term travel documents).

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

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

Income from international freight shipments with the Parent Company are booked from OPT information system to SAP when the processing of data provided by national carriers in the data exchange in accordance with international regulations UIC for billing shares of the carriage is finished. The material volume revenues include billing of charges for the use of freight cars in international railway transport with national and local carriers.

2.7. LEASES

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

In all finance lease, entities in the Group are lessees.

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

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

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

2.7.1. Sale and Leaseback

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

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

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

2.8. FOREIGN CURRENCIES

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

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

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

For the purposes of presenting the consolidated financial statements, the monetary items denominated in foreign currencies are translated into CZK as of the balance sheet date using the exchange rate of the Czech National Bank ruling as of that date. Income and expenses are retranslated on the basis outlined above, i.e. using the fixed exchange rate. With regard to foreign subsidiaries, income and expenses denominated in foreign currencies are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in the statement of comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

2.9. BORROWING COSTS

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

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

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

2.10. GOVERNMENT GRANTS

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

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

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

2.11. EMPLOYEE BENEFIT COSTS

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

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

Provision for long-term employee benefits is shown at present value of the future cash outflows that will need to be spent on their payment. The discount rate used is a market rate of return on government bonds at the balance sheet date, as there is no developed market for high quality corporate bonds denominated in Czech crowns. Currency and terms of these bonds are consistent with the currency and the respective other long-term benefits. The value of this provision is determined annually based on calculations of independent qualified actuaries. Gains or losses arising from changes in actuarial assumptions for benefits at retirement are included in other comprehensive income, changes in provision for other benefits are included in the income statement.

2.12. TAXATION

The income tax includes current tax payable and deferred tax.

2.12.1. Current Tax Payable

The tax currently payable is based on taxable profit for the year. The taxable profit differs from the profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2.12.2. Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

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

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

2.12.3. Current Tax Payable and Deferred Tax for the Period

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

2.13. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost reduced by accumulated losses from impairment, and by accumulated depreciation with regard to property and equipment. Freehold land is not depreciated.

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

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method (with the exception of some components, which are amortized using annuity depreciation).

The main component repairs and berthing for driving rail vehicles repairs and inspection on driving rail vehicles and passenger cars are regarded in the Group. Beginning from 2015, other components of wheelsets for freight cars and radios for driving rail vehicles were also singled out.

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

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

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

Wagons and traction vehicles without components are depreciated to the estimated residual value. The estimated residual value means the estimated justifiable positive amount that the Group can acquire upon the expected disposal of assets after deducting the estimated costs associated with its disposal. The estimated residual value at the wagon and driving railway vehicles based on the scrap value that could be gain at the disposal. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

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

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

2.14. INTANGIBLE ASSETS

2.14.1. Separately Acquired Intangible Assets

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

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

2.15. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.16. INVESTMENT IN JOINT VENTURES AND ASSOCIATES
A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each venturer 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.

The results and assets and liabilities of joint ventures and associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture or an associate is initially recognised in the consolidated statement of financial position at cost and subsequently adjusted to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses.
Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture.

When a Group entity transacts with a joint venture or associate of the Group, profits and losses arising from the transactions with the joint venture or associate are reported in the Group's consolidated financial statements to the extent of the interest in the relevant associate that is not owned by the Group.

If the purchase price is higher than the share in the equity of joint ventures and affiliates it is accounted for by impairment provision, which reduces the value of the purchase price. The provision is calculated as the difference between the acquisition price and the share in the equity of the company.

2.17. INVENTORIES
Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined using the weighted arithmetic average method. The net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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

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

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

2.19. FINANCIAL INSTRUMENTS
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

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

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

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

Debt and equity instruments are classified as financial liabilities or as equity in accordance with the content of the contractual agreement.

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

2.19.1. Effective Interest Method
The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income / expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts / expenditures (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, other net carrying amount on initial recognition.

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

2.19.2. Held-to-maturity Investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

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

The Group holds equity investments that are not traded on an active market, classified as financial assets available for sale and carried at cost less any impairment losses as their fair value cannot be reliably determined.

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

2.19.4. Loans and Receivables
Loans and receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

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

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

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

As of the balance sheet date, assets are impaired depending on the anticipated recoverability of receivables based on an individual assessment of a receivable.

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

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

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

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

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

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

2.19.8. Financial Liabilities at Fair Value through Profit and Loss
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL recognised in profit or loss.

In this category, the Group reports derivatives.

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

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

2.19.10. Derecognition of Financial Instruments
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

2.19.11. Derivative Financial Instruments
The Group enters into a variety of derivative financial instruments to manage its exposure to currency and commodity risks.

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

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

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

2.19.13. Cash Flow Hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

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

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

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

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

2.19.15. Financial Derivatives Held for Trading
All derivative transactions that the Group concludes are agreed on economic terms for hedging purposes, but some of them are not classified as hedging instruments for formal reasons.

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

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

3. Adoption of new and revised international financial reporting standards

3.1. STANDARDS AND INTERPRETATION EFFECTIVE FOR ANNUAL PERIOD ENDED 31 DECEMBER 2016

During the year ending 31 December 2016, the following standards, revised standards and interpretations took effect:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 10, IFRS 12 and IAS 28 – Amendment to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception	1 January 2016
IFRS 11 – Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IAS 1 – Amendment to IAS 1 Disclosure Initiative	1 January 2016
IAS 16, IAS 38 – Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 16, IAS 41 – Amendments to IAS 16 and IAS 41 – Bearer Plants	1 January 2016
IAS 19 – Amendments to IAS 19 Defined Benefit Plans: Employee Contributions	1 July 2014
IAS 27 – Amendment to IAS 27 – Equity Method in Separate Financial Statements	1 January 2016
Improvements to IFRSs – cycle 2010 – 2012 (published in December 2013)	1 July 2014
Improvements to IFRSs – cycle 2012 – 2014 (published in September 2014)	1 January 2016

*) in EU effective for period beginning from 1 February 2015

The improvements and interpretation referred to above have no impact on recognition and presentation.

3.2. STANDARDS AND INTERPRETATIONS EARLY ADOPTED

The Group used no standards or interpretations before their effective dates.

3.3. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

At the balance sheet date, the following standards and interpretations were issued but not yet effective and they were not early-adopted by the Group.

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 9 – Financial Instruments (2014)	1 January 2018
IFRS 14 – Regulatory Deferral Accounts	1 January 2016*)
IFRS 15 – Revenue from Contracts with Customers	1 January 2018
IFRS 16 - Leasing	1 January 2019
IFRS 2- Amendment to IFRS 2 Share-based Payment	January 2018
IFRS 4 – Amendment to IFRS 4 using IFRS 9 Financial instruments togethe with IFRS 4 Insurance Contracts	1 January 2018
IFRS 10, IAS 28 – Amendment to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined
IFRS 15 – Amendment to IFRS 15 – Clarification of IFRS 15	1 January 2018
IAS 7 – Amendment to IAS 7 Disclosure Initiative	1 January 2017
IAS 12 – Amendment to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IAS 40 – Amendment to IAS 40 Investment Property	1 January 2018
Annual improvements to IFRS – cycle 2014 - 2016 (issued in December 2016)	1 Jan 2017/ 1Jan 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

*) the European Commission has decided not to apply for approval of temporary standards

Management of the Parent Company anticipates that the adoption of most of these standards, revised standards and interpretations will have no material impact on the Group in the following periods. IFRS 9 and IFRS 15 are expected to have impact on expanded disclosure requirements. Earlier adoption is not considered in respect of any of the above standards.

With respect to IFRS 16, the Parent Company anticipates the need to disclose a significant number of concluded lease agreements in the balance sheet. IFRS 16 is effective for annual period beginning on 1 January 2019 but may be early adopted provided that IFRS 15 Revenue from contracts with customers has already been adopted or will be adopted at the same date. This standard has not yet undergone the approval process of the EU. The Group is currently assessing the impact of the new standard and assumes that it will be adopted when becomes effective, ie. on 1 January 2019. The current analysis of the effects shows that the value of the Group's assets and liabilities will increase by several hundred million CZK as a result of implementation of IFRS 16. The Group's financial results is also expected to be affected by tens of millions.

3.4. STANDARDS AND INTERPRETATIONS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED BY THE EUROPEAN UNION

At the balance sheet date, some of the standards and interpretations disclosed in the prior note have not been adopted by the European Union:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 14 – Regulatory Deferral Accounts	1. January 2016*)
IFRS 16 – Leasing	1. January 2019
IFRS 2- Amendment to IFRS 2 Share-based Payment	1. January 2018
IFRS 4 – Amendment to IFRS 4 using IFRS 9 Financial instruments together with IFRS 4 Insurance Contracts	1. January 2018
IFRS 10, IAS 28 – Amendment to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined
IFRS 15 – Amendment to IFRS 15 – Clarification of IFRS 15	1. January 2018
IAS 7 – Amendment to IAS 7 Disclosure Initiative	1. January 2017
IAS 12 – Amendment to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	1. January 2017
IAS 40 – Amendment to IAS 40 Investment Property	1. January 2018
Annual improvements to IFRS – cycle 2014 - 2016 (issued in December 2016)	1. Jan 2017/ 1.Jan 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1. January 2018

*) the European Commission has decided not to apply for approval of temporary standards

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

4.1. USEFUL LIFE PROPERTY, PLANT AND EQUIPMENT

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

4.2. IMPAIRMENT OF ASSETS

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

4.3. REVENUE AND EXPENSES FROM INTERNATIONAL TRANSPORTATION

Given the long intervals of settlement of mutual payments between transporters in the international transportation, the Parent Company has to estimate the amount of these expenses and revenues. The actual value confirmed by an international settlement institution may be different.

4.4. MEASUREMENT OF FINANCIAL DERIVATIVES

The Group uses financial derivatives for cash flow hedging. The measurement of derivatives in the financial statements performed by the Company using its own measurement model is based on appropriate measurement techniques using identifiable market assumptions. If these assumptions changed, the measurement of financial derivatives would be different.

4.5. INCOME TAXATION

The Group records significant deferred tax assets (see Note 30). The determination of the recoverable value of these assets depends on the estimate of their future realisation.

5. Property, plant and equipment

Cost (CZK mil.)	Balance at 1 Jan 2015	Additions	Disposals	Transfers	Exchange differences	Balance at 31 Dec 15	Additions	Disposals	Transfersy	Exchange differences	Balance at 31 Dec 16
Land	131	-	-	-	-	131	-	-	-	-	131
Structures	1,510	63	(1)	-	-	1,572	33	(1)	-	-	1,604
Individual movable assets	38,111	1,043	(584)	92	(20)	38,642	1,299	(939)	56	(27)	39,031
- Machinery, equipment, and furniture and fixtures	*604*	*10*	*(9)*	*(197)*	*-*	*408*	*42*	*(5)*	*-*	*-*	*445*
*- Vehicles**	*37,310*	*1,032*	*(574)*	*289*	*(20)*	*38,037*	*1,255*	*(934)*	*102*	*(27)*	*38,433*
- Vehicles acquired under finance leases	*188*	*1*	*-*	*-*	*-*	*189*	*1*	*-*	*(46)*	*-*	*144*
- Other	*9*	*-*	*(1)*	*-*	*-*	*8*	*1*	*-*	*-*	*-*	*9*
Assets under construction	208	-	-	(92)	-	116	111	(38)	(54)	-	135
Prepayments	-	85	-	-	-	85	37	-	-	(3)	119
Total	**39,960**	**1,191**	**(585)**	**-**	**(20)**	**40,546**	**1,480**	**(978)**	**2**	**(30)**	**41,020**

Depreciation and Impairment (CZK mil.)	Balance at 1 Jan 2015	Additions	Disposals	Transfers	Exchange differences	Impair-ment	Balance 31 Dec 15	Additions	Disposals	Transfers	Exchange differences	Impair-ment	Balance at 31 Dec16
Structures	782	38	(1)	-	-	-	819	40	(1)	-	-	-	858
Individual movable assets	25,075	1014	(550)	(2)	-	(15)	25,522	975	(918)	-	-	(1)	25,578
- Machinery, equipment, and furniture and fixtures	*448*	*25*	*(8)*	*(162)*	*-*	*-*	*303*	*16*	*(5)*	*-*	*-*	*-*	*314*
*- Vehicles**	*24,582*	*982*	*(541)*	*160*	*-*	*(15)*	*25,168*	*952*	*(913)*	*18*	*-*	*(1)*	*25,224*
- Vehicles acquired under finance leases	*37*	*7*	*-*	*-*	*-*	*-*	*44*	*7*	*-*	*(18)*	*-*	*-*	*33*
- Other	*8*	*-*	*(1)*	*-*	*-*	*-*	*7*	*-*	*-*	*-*	*-*	*-*	*7*
Assets under construction	-	-	-	-	-	4	4	-	-	-	-	(1)	3
Total	**25,857**	**1,052**	**(551)**	**(2)**	**-**	**(11)**	**26,345**	**1,015**	**(919)**	**-**	**-**	**(2)**	**26,439**

Net book value (CZK mil.)	Balance at 1 Jan 2015	Balance at 31 Dec 2015	Balance at 31 Dec 2016
Land	131	131	131
Structures	728	753	746
Individual movable assets	13,036	13,120	13,453
- Machinery, equipment, and furniture and fixtures	*156*	*105*	*131*
*- Vehicles**	*12,728*	*12,869*	*13,209*
- Vehicles acquired under finance leases	*151*	*145*	*111*
- Other	*1*	*1*	*2*
Assets under construction	208	112	132
Prepayments	-	85	119
Total	**14,103**	**14,201**	**14,581**

*In connection with the change of accounting policies and the Group's presentation methods of items described in Note 2.3.1, there has been a reclassification of vehicles subject to leaseback. In the financial statements as at 31 December 2016, such are newly presented under Vehicles. Their net book value is CZK 3,775 mil. as at 1 January 2015, CZK 3,613 mil. as at 31 December 2015, and CZK 3,525 mil. as at 31 December 2016. Liabilities arising from these financial leasebacks are part of Note 15.2 "Liabilities from financial lease and leaseback". The Groups' liabilities from leaseback transactions are secured by the lessor against the leased assets. These assets are not classified as finance leases under IFRS, however, their legal nature is that of a lease agreement and therefore from a legal point of view they classify as leased assets.

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

Vehicles principally comprise rail vehicles (driving rail vehicles, freight cars) used for the railway freight transport. These assets have been provisioned as equal to the difference between the carrying amount and the recoverable amount of CZK 158 mil.

The major increases in Individual movable assets in 2016 were formed by purchase of new traction vehicles of 383 series (Vectron) in amount CZK 540 mil., major and general repairs (components) of the traction vehicles in amount CZK 252 mil., revision repairs (components) of freight wagons in amount CZK 202 mil., acquisition of wheelset (components) for freight wagons in amount CZK 98 mil. and the purchase of traction vehicles of 163 series in the amount CZK 81 mil. In March 2016 a subsidiary, Koleje Czeskie acquired 29 wagons worth CZK 20 mil.

In the period from 1. January 2016 to 31 December 2016 the Parent Company acquired tangible assets which were recognised in expenses in the amount of CZK 31 mil. In the period from 1. January 2015 to 31 December 2015 the amount was CZK 26 mil. These assets are low value tangible assets comprising other movable assets and sets of movable assets with an estimated useful life greater than one year not reported within fixed assets. These assets are accounted for as inventories and they are expensed.

In 2016 the Parent Company received grants for tangible assets in the amount of CZK 3 mil. for thermal insulation. Furthermore, in 2016 the Parent Company received a deposit of CZK 292 mil. within the grant project to equip traction vehicles with the on-board part of the The European Train Control System (ETCS), which will be implemented in 2017 and 2018. The funds received are recorded as restricted cash within other financial assets (short-term and long-term portion). In 2015, the Company did not receive grants for tangible assets.

Till 1 January 2015 the first stage of scrapping vehicles in the Parent Company took place, when 299 vehicles were scrapped. During 2016 other freight wagons and traction vehicles destined for scrapping were in the process of mapping of current physical condition, evidencing the parts that the Group could use as spare parts for repairs and the remaining parts of vehicles intended for direct scrapping. In 2015, 14 vehicles were scrapped and in 2016 – 1,271 vehicles. The process of scrapping unnecessary fleet will continue in the upcoming years.

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

	Number of years
Buildings	20 – 50
Structures	20 – 50
Locomotives (without components)	20 – 25
Wagons (without components)	30
Machinery and equipment	8 – 20

5.1. ASSETS PLEDGED AS COLLATERAL

The Group's property was used as collateral in the case of Koleje Czeskie for 3 locomotives acquired on loan in the value of CZK 45 mil. as at 31 December 2016 and 31 December 2015. The Group's liabilities from leaseback transactions are secured by the lessor right to the leased assets.

6. Intangible assets

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

Net book value (CZK mil.)	Balance at 1 Jan 15	Balance at 31 Dec 15	Balance at 31 Dec 16
Software	178	229	317
Valuable rights	20	24	28
Assets under construction	130	69	21
Total	**328**	**322**	**366**

As at 31 December 2016 the valuable rights include licenses for a total net book value of CZK 21 mil. The most significant items are SAP licenses in the amount of CZK 6 mil., Altworx licenses in the amount of CZK 4 mil., Microsoft EA licenses, Exchange, Sharepoint in the amount of CZK 2 mil. and licenses Intermodal logistics centre in Brno in the amount of 1 mil. CZK. In 2016, licenses were capitalized in the amount of CZK 7 mil.

In 2016, within Assets under construction, the development of systems within the calculation project - freight trains with acquisition cost of CZK 37 mil., development of BI solutions totalling CZK 22 mil., operational information systems totalling CZK 17 mil. and software IT security in the amount of CZK 16 mil., the rest of the total amount relate to other economic or operational tasks.

In the year ending 31 December 2015, the Parent Company received grants from the Transport Operational Programme in the amount of CZK 57 mil. for financing of intangible assets. These were mainly subsidies from the Operational Program Doprava for IS Upgrade in relation to the TSI-TAF (telematic applications for freight trans-European conventional rail system) in the amount of CZK 56 mil. as well as a grant for employee training, specifically e-learning course and interactive whiteboards with projectors in the amount of CZK 1 mil. In 2016, the Group received no subsidies for intangible assets.

The length of amortization of intangible assets:

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

Cost (CZK mil.)	Balance at 1 Jan 15	Additions	Disposals	Transfers	Revaluation	Balance at 31 Dec 15	Additions	Disposals	Transfers	Revaluation	Balance at 31 Dec 16
Software	410	44	(1)	61	-	514	96	-	52	-	662
Valuable rights	107	4	-	-	-	111	4	(1)	2	-	116
Assets under construction	130	-	-	(61)	-	69	14	(1)	(61)	-	21
Total	**647**	**48**	**(1)**	**-**	**-**	**694**	**114**	**(2)**	**(7)**	**-**	**799**

Accumulated amortisation (CZK mil.)	Balance at 1 Jan 15	Additions	Disposals	Transfers	Revaluation	Balance at 31 Dec 15	Additions	Disposals	Transfers	Revaluation	Balance at 31 Dec 16
Software	232	47	(1)	7	-	285	60	-	-	-	345
Valuable rights	87	7	-	(7)	-	87	1	-	-	-	88
Total	**319**	**54**	**(1)**	**-**	**-**	**372**	**61**	**-**	**-**	**-**	**433**

6.1. SOFTWARE

Net book value (CZK mil.)	Balance at 1 Jan 15	Balance at 31 Dec 15	Balance at 31 Dec 16
Operational and business tasks under the project PROBIS	132	168	188
SAP	36	39	48
IT Security Program	-	-	31
Other	10	22	50
Total	**178**	**229**	**317**

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

Additions to software in the year 2016 primarily include the costs of adjustments and upgrades of the current systems, namely IT Security Program in the amount of CZK 32 mil., ICAR (integrated cargo stock) in the amount of CZK 19 mil., Altworx which monitors evaluation of operating personnel in amount of CZK 17 mil., the development of SAP s in the amount of CZK 16 mil. and the DISC system (Dispatching Information System of Cargo) of CZK 16 mil.

7. Investments in associates

7.1. INFORMATION ON ASSOCIATES

Name of the entity	Registered office
BOHEMIAKOMBI, spol. s r.o.	Opletalova 6, 110 00 Prague 1
Ostravská dopravní společnost, a.s.	U Tiskárny 616/9, 702 00 Ostrava - Přívoz
RAILLEX a.s.	Trnkovo nám. 3, 152 00 Prague 5

Name of the entity	Principal activities	Investment as at 31 Dec 2016	Investment as at 31 Dec 2015	Investment as at 1 Jan 2015
BOHEMIAKOMBI, spol. s r.o.	Mediation of transportation services except for the transportation by own vehicles	30%	30%	30%
Ostravská dopravní společnost, a.s.	Railway transportation and lease of locomotives and railway vehicles	20%	20%	20%
RAILLEX a.s.	Cargo handling and technical services in transportation	50%	50%	50%

7.2. SUMMARY OF FINANCIAL INFORMATION ON ASSOCIATES

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

31 Dec 2015 (CZK mil.)	RAILLEX a.s.	BOHEMIAKOMBI spol. s r.o.	Ostravská dopravní společnost, a.s.
Total assets	**62**	**53**	**318**
Short-term assets	60	49	228
Long-term assets	2	4	90
Total liabilities	**37**	**42**	**196**
Short-term liabilities	35	42	194
Long-term liabilities	2	-	2
Net assets	25	11	122
Share of net assets	**13**	**3**	**24**

1 Jan 2015 (CZK mil.)	RAILLEX a.s.	BOHEMIAKOMBI spol. s r.o.	Ostravská dopravní společnost, a.s.
Total assets	**62**	**38**	**366**
Short-term assets	62	34	291
Long-term assets	-	4	75
Total liabilities	**29**	**27**	**261**
Short-term liabilities	27	27	261
Long-term liabilities	2	-	-
Net assets	33	11	105
Share of net assets	**16**	**3**	**21**

(CZK mil.)	2016	2015	2014
Total income	1,504	1,398	1,643
Profit for the period	35	25	27
Share of the profit for the period	**11**	**7**	**8**

8. Inventories

(CZK mil.)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Spare parts and other components for rail vehicles and locomotives	41	40	38
Other machinery, tools and equipment and their spare parts	85	75	66
Fuels, lubricants and other oil products	3	4	4
Work clothes, work shoes, protective devices	1	1	1
Other	16	14	12
Total cost	**146**	**134**	**121**
Write-down of inventories to their net realisable value	(4)	(4)	-
Total net book value	**142**	**130**	**121**

Following the inventory count, the value of inventories decreased by CZK 4 mil. in the year ending 31 December 2016 and 2015.

9. Trade receivables

(CZK mil.)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Short-term	1,656	1,695	1,633
Total	**1,656**	**1,695**	**1,633**

9.1. AGEING OF TRADE RECEIVABLES

(CZK mil.)	Category	Before due date	Past due (days)					Total Past due	Total
			1 - 30 days	31 - 90	91- 180	181 -365	over 365		
31 Dec 2016	Gross	1,561	74	18	7	4	154	257	1,818
	Allowances	-	(1)	(5)	(5)	(4)	(147)	(162)	(162)
	Net	**1,561**	**73**	**13**	**2**	**-**	**7**	**95**	**1,656**
31 Dec 2015	Gross	1,584	87	11	9	11	152	270	1,854
	Allowances	-	(1)	(3)	(3)	(6)	(146)	(159)	(159)
	Net	**1,584**	**86**	**8**	**6**	**5**	**6**	**111**	**1,695**
1 Jan 2015	Gross	1,526	86	24	10	14	131	265	1,791
	Allowances	(21)	-	(3)	(1)	(16)	(117)	(137)	(158)
	Net	**1,505**	**86**	**21**	**9**	**(2)**	**14**	**128**	**1,633**

10. Other financial assets

(CZK mil.)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Derivatives	12	-	-
Receivables from damages and losses	-	1	-
Restricted cash	258	-	-
Other financial assets	-	-	4
Other non-current financial assets	**270**	**1**	**4**
Derivatives	25	1	-
Group cash pooling	3	4	4
Receivables from damages and losses	19	17	15
Receivables from damages and losses - allowances	(9)	-	-
Restricted cash	34	-	-
Other financial assets	18	85	90
Other financial assets - allowances	(15)	(90)	(90)
Other current financial assets	**75**	**17**	**19**
Total	**345**	**18**	**23**

'Restricted cash' represents an advance payment in the total amount of CZK 292 mil, provided in 2016 within the subsidy project to equip traction vehicles with the on-board part of the The European Train Control System (ETCS). This item is split into non-current part of CZK 258 mil. and the current part of CZK 34 mil. The advance payment is held by Komerční Banka on the subsidy account (bank rating by Moody's at the end of the year 2016: current P-1, non-current Aa2).

11. Other assets

(CZK mil.)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Prepayments	1	1	53
Total non-current	**1**	**1**	**53**
Prepayments	50	76	49
Tax receivables VAT	27	122	103
Tax receivables (excl. corporate income tax)	2	94	1
Prepaid expenses	39	30	33
Other	2	4	6
Total current	120	326	192
Total	**121**	**327**	**245**

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

12. Cash and cash equivalents

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

(CZK mil.)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Cash on hand and cash in transit	2	2	2
Cash at bank	875	960	838
Cash on the cash-pooling account	3	3	4
Total	**880**	**965**	**844**

13. Equity

13.1. SHARE CAPITAL

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

On 2 June 2009, České dráhy, a.s., acting in the capacity of the General Meeting, adopted the resolution on the decrease of the share capital of ČD Cargo, a.s., from CZK 8,800 mil. to CZK 8,494 mil. in accordance with Section 213a of the Commercial Code. As of 31 December 2016, the Company reports the share capital of CZK 8,494 mil. in a form of 100 dematerialized shares. The share capital was fully paid.

13.2. CAPITAL FUNDS

(CZK mil.)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Share premium	197	197	197
Statutory reserve fund	143	129	89
Cash flow hedging reserve	17	(43)	(82)
Actuarial gains (losses)	(15)	(18)	(13)
Foreign currency translation fund	1	8	11
Total	**343**	**273**	**202**

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

13.2.1. Cash flow hedging reserve

(CZK mil.)	2016	2015	2014
Balance at the beginning of year	**(43)**	**(82)**	**(127)**
Profit /loss from revaluation	34	(30)	(63)
Reclassifications to profit or loss upon settlement	40	78	119
Total change in the cash flow hedging reserve	**74**	**48**	**56**
Related income tax	(14)	(9)	(11)
Balance at the end of the year	**17**	**(43)**	**(82)**

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

14. Trade payables

Year	Category	Due	Past due (days)					Total past due	Total
(CZK mil.)			1 - 30 days	31 – 90	91- 180	181 -365	over 365		
31 Dec 2016	Short-term	1,733	41	5	-	-	1	47	1,780
31 Dec 2015	Short-term	2,150	20	2	-	-	1	23	2,173
1 Jan 2015	Short-term	1,861	129	7	4	6	1	147	2,008

The average maturity of invoices is 90 days.

15. Loans, borrowings and bonds

(CZK mil.)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Liabilities from leaseback	1,877	2,320	2,731
Liabilities from finance leases	59	67	87
Issued bonds	1,997	1,000	1,176
Borrowing from České dráhy, a.s.	450	-	-
Other received long-term loans and borrowings	14	27	42
Total long-term	**4,397**	**3,414**	**4,036**
Liabilities from leaseback	460	467	440
Liabilities from finance leases	25	21	24
Issued bonds	2	1,174	1,000
Borrowing from České dráhy, a.s.	77	-	-
Other received short-term loans and borrowings	13	13	60
Total short-term	**577**	**1,675**	**1,524**
Total	**4 974**	**5 089**	**5 560**

As of 17 October 2016, the Parent Company has drawn a borrowing from České dráhy, a.s., in the total amount of CZK 540 mil. for the purpose of financing the purchase of 383 series locomotives (Vectron). The remaining part of the borrowing is as of 31 December 2016 split into long-term part in amount of CZK 450 mil. and short-term part in amount of CZK 77 mil.

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

The Parent Company or subsidiaries breached no loan covenants in the reporting period.

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15.1. ISSUED BONDS

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

The following issues of bonds were placed under the bond programme or under separate issuance conditions:

Administrator	Komerční banka, a.s.
Date of issue	20 Jun 2011
Total nominal value	CZK 1,000,000,000
Total nominal value after exercising the option	CZK 658,300,000
Interest rate	fixed interest income
Interest rate (year 1-3); coupon	3.183 % p.a.
Interest rate (year 4-5); coupon	5 % p.a.
Issue rate	98.025 %
Payment of interest income	annually retrospectively
Date of interest payment	20 Jun each year
Date of the final maturity (use of the put option)	20 Jun 2014
Date of the final maturity	20 Jun 2016 - REPAID

Administrator	ČSOB, a.s.
Date of issue 1. tranche	22 Dec 2011
Date of issue 2. tranche	12 Jan 2012
Date of issue 3. tranche	19 Jan 2012
Total nominal value 1. tranche	CZK 500,000,000
Total nominal value 2. tranche	CZK 200,000,000
Total nominal value 3. tranche	CZK 300,000,000
Interest rate; coupon	floating interest income, 6M PRIBOR + 1.30 % p.a.
Issue rate 1. tranche	97.464 %
Issue rate 2. tranche	97.506 %
Issue rate 3. tranche	97.518 %
Payment of interest income	biannually retrospectively
Date of interest payment	22 Jun and 22 Dec each year
Date of the final maturity	22 Dec 2015 - REPAID

Administrator	Raiffeisenbank, a.s.
Date of issue	21 Dec 2011
Total nominal value	CZK 500,000,000
Interest rate; coupon	fixed interest income, 3.8 % p.a.
Issue rate	99.941%
Payment of interest income	annually retrospectively
Date of interest payment	21 Dec each year
Date of the final maturity	21 Dec 2016 – REPAID

Administrator	Unicredit Bank Czech Republic and Slovakia, a.s.
Date of issue	26 Nov 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 November each year
Date of the final maturity	26 Nov 2020

Administrator	Raiffeisenbank, a.s.
Date of issue	17 Jun 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 Jun each year
Date of the final maturity	17 Jun 2021

Administrator	Unicredit Bank Czech Republic and Slovakia, a.s.
Date of issue	29 Dec 2016
Released under separate issuance conditions	Prospect of book-entry bonds, ISIN CZ0003515611 with a fixed interest rate of 1.26% pa, approved by the Czech National Bank under Ref .: 2016/148032/CNB/570, S-Sp-2016/00057/CNB/572 as of 23 December 2016 took effect on 24 December 2016
Trading:	Bonds admitted to trading on a regulated market of the Prague Stock Exchange
Total nominal value	CZK 500,000,000
Nominal value of the bond	CZK 500,000
Interest rate	fixed interest income 1.26%
Issue rate	100 %
Payment of interest income	annually retrospectively
Date of interest payment	29 Dec each year
Date of the final maturity	29 Dec 2023

ČD Cargo, a.s., recorded calls for a premature redemption of part of the first issue of the bonds placed through KB, a.s. with the total nominal value of CZK 341,7 mil. within the due period. This amount was redeemed as of 20 June 2014. ČD Cargo, a.s. repaid the remaining nominal value (after applying for early repayment) of bonds at KB in the amount of CZK 658.3 mil. as of 20 June 2016.

The second issue of bonds at Československá obchodní banka, in nominal value of CZK 1,000 mil. was repaid by ČD Cargo, a.s., as of 22 December 2015.

The third issue of bonds at Raiffeisenbank, a.s, in nominal value of CZK 500 mil. was repaid by ČD Cargo, a.s., as of 21 December 2016.

In 2015, the fourth issue of bonds with the aggregate nominal value of CZK 1,000 mil. was placed through the administrator UniCredit Bank Czech Republic and Slovakia, a.s.

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

In 2016, the sixth issue of bonds with the aggregate nominal value of CZK 500 mil. was placed through the administrator UniCredit Bank Czech Republic and Slovakia, a.s.

Currently, the bonds are issued in an aggregate nominal value of CZK 2,000 mil. In the financial statements as of 31 January 2016, these bonds are split, according to their maturity, into short-term and long-term part in total amount of CZK 1,999 mil.

15.2. FINANCE LEASE AND LEASEBACK LIABILITIES

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

The value of finance lease and leaseback liability is as follows:

(CZK mil.)	Minimum lease payments			Present value of minimum lease payments		
	31 Dec 2016	**31 Dec 2015**	**1 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**	**1 Jan 2015**
Less than 1 year	587	610	606	485	488	464
From 1 to 5 years	1,792	2,116	2,410	1,595	1,842	2,050
5 years and more	359	587	845	341	545	768
Total	**2,738**	**3,313**	**3,861**	**2,421**	**2,875**	**3,282**
Less future finance expenses	(317)	(438)	(579)			
Present value of minimum lease payments	**2,421**	**2,875**	**3,282**	**2,421**	**2,875**	**3,282**
In the statement of financial position as:						
– short-term loans				*485*	*488*	*464*
– long-term loans				*1,936*	*2,387*	*2,818*
Total				**2,421**	**2,875**	**3,282**
In the statement of financial position as:						
– finance lease liabilities				*84*	*88*	*111*
– leaseback liabilities				*2,337*	*2,787*	*3,171*
Total				**2,421**	**2,875**	**3,282**

Finance lease and leaseback liabilities are presented within Financial Instruments in the Note 32.3. and in the Note 32.11.1.

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16. Provisions

(CZK mil.)	Balance Jan 2015	Creation	Charge	Cancellation	Balance 31 Dec 2015	Creation	Charge	Cancellation	Transfers**	Balance 31 Dec 2016
Provision for legal disputes	60	-	(16)	(1)	43	-	(1)	-	-	42
Provisions for business risks	24	-	-	-	24	-	-	-	-	24
Provisions for employee benefits	114	10	(4)	-	120	4	(6)	-	-	118
Of which long-term part	73				75					72
Provisions for restructuring	180	19	(55)	(4)	140	-	(17)	(13)	-	110
Of which long-term part	86				73					-
Provision for loss-making transactions	526	54	-	-	580	-	(55)	-	-	525
Of which long-term part	476				524					466
Other provisions*	80	93	(70)	(35)	68	114	(102)	(4)	(31)	45
Total provisions	**984**	**176**	**(145)**	**(40)**	**975**	**118**	**(181)**	**(17)**	**(31)**	**864**
– Long-term	635				672					538
– Short-term	349				303					326

** other provisions include provisions for complaints, levelling and unused vacations*

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

The Group's management after careful consideration of all existing legal analyses and the results of negotiations in existing litigation and after evaluating all potential risks, present developments and disputes in accordance with the natural rate of prudence, decided to keep till 31 December 2016 accounting reserves to cover any expenses related to potential risks to business transactions at the same level as at the end of 2015 in the amount of CZK 24 million. The Parent Company believes, that this transaction will be settled during 2017. Similarly, it is also in litigation in which the Group's management estimated the amount of the capital reserves to cover potential expenses for the amount of CZK 42 million.

During 2012, the management of ČD Cargo, a.s. decided to implement organizational changes drawn up on the basis of a restructuring plan whose main features were communicated within the Parent Company. Nature of the plan, adopted in 2012 by the management of ČD Cargo, a.s., was a series of measures aimed at strengthening liquidity in the short term and medium term to create the conditions to achieve favourable operating results and ensure the stability of the Parent Company in the coming years. The adopted measures became a prerequisite for the establishment of medium-term business plan. Future cash outflows associated with the restructuring plan were estimated at CZK 535 mil. During the year 2016, there was a drawing and specifying the amount of the provision, which as of 31 December 2016 amounted to CZK 110 mil. The restructuring plan is still valid and should be finished in 2017, in accordance with the approved business plan.

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate important birthdays, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. The provision was calculated at amount of CZK 118 mil. as of 31 December 2016. In calculating the provision, the Parent Company used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees, anticipated increase in salaries, anticipated inflation level, likelihood of death or disablement according to the data of the Czech Statistical Office. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

During 2014, the Parent Company made a provision for loss-making transactions. The provision amount is determined by a qualified estimate of the amount of the estimated future liability arising from loss. The value is the difference between the expected discounted net revenue and discounted expected expenditure. For the calculation the yield rate of 7% was used. When discounting costs, the Group used the discount rate at the expense of long-term foreign capital. The total amount of provision as of 31 December 2015 was CZK 580 mil. At the end of 2016 and after the update, it is worth CZK 525 mil. The provision will be gradually released against expenses till 2025.

'Other provisions' consists mainly of provision for claims and levelling. By 2015, it also included the provision for untaken holiday. The provision for claims in freight transportation is created using a reasonable estimate of the amount of estimated future cash outflows that make up the expected value of credit notes for the complaints from customers. The value of the reserve as of 31 December 2016 amounted to CZK 18 mil., total amount as of 31 December 2015: CZK 11 mil. Provision for levelling is created using a reasonable estimate of the amount of estimated future cash outflows. Estimated costs are the result of expected summarization amounts to be charged to the subject of the Group's levelling in received deductions from foreign carriers. The value of the reserve as of 31 December 2016 amounted to CZK 4 mil., as of 31 December 2015: CZK 6 mil.

17. Other financial liabilities

(CZK mil.)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Hedging derivatives	8	16	29
Liability arising from supplier loans	128	269	270
Other	182	280	342
Total long-term other financial liabilities	**318**	**565**	**641**
Hedging derivatives	12	43	95
Liability arising from supplier loans	173	197	155
Other	134	172	200
Total short-term other financial liabilities	**319**	**412**	**450**
Total other financial liabilities	**637**	**977**	**1,091**

'Other' mainly include liabilities of the Parent Company regarding court settlement in a dispute about the cost of traction energy taken from SŽDC and settlement agreement with a court judgment in respect of compensation for damage caused by SŽDC exclusions. A more detailed overview of the relations with the SŽDC is presented in the Note 31.7.

18. Other liabilities

(CZK mil.)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Other	377	141	87
Other long-term liabilities	**377**	**141**	**87**
Received prepayments	2	3	2
Liabilities to employees	258	237	223
Social security and health insurance liabilities	124	106	102
Tax withheld to employees	38	38	32
Tax liabilities - VAT	9	105	7
Other	48	14	4
Other short-term liabilities	**479**	**503**	**370**
Total other liabilities	**856**	**644**	**457**

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

'Other long-term liabilities' also represent liabilities to employees of the Parent Company arising out of collective agreements.

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

'Liabilities' to employees in the Group represent a liability for unpaid December salaries.

19. Contracts for operating lease

19.1. THE COMPANY AS A LESSEE

The Group payments, charged to expenses in the respect of the leasing of freight wagons amounted to CZK 299 mil. in 2016 (2015: CZK 304 mil.) on the basis of the Supplementary Agreement to the General Agreement on using freight wagons in international transportation.

Group as lessee paid the amount of CZK 84 mil. in 2016 (in 2015: CZK 83 mil.) for the rental of buildings and land in the Logistics Center in Lovosice.

19.2. THE COMPANY AS A LESSOR

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

Income from operating leases of movable assets in 2016 amounts to CZK 434 mil. (2015: CZK 462 mil.)

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

19.3. CONTRACTUAL OBLIGATIONS TO EXPENDITURE

(CZK mil.)	Total of contracts as at 31 Dec 2016	Already paid	Liability for realised deliveries	Liability from 2017 deliveries and further
Investments in rail vehicles	934	294	500	140
Other (buildings, IT)	242	-	96	146
Total	**1,176**	**294**	**596**	**286**

As of the balance sheet date, the Company concluded contracts for the purchase of property, plant and equipment and investment property in the amount of CZK 1,176 mil., of which CZK 596 mil. relates to supplies agreed for 2016 and CZK 286 mil. relates to supplies agreed for the following years. The remaining amount of CZK 294 mil. was paid as of 31 December 2016. A significant part of the obligations relating to expenses of CZK 640 mil. include investments in railway vehicles.

As of the balance sheet date, the Company concluded contracts for the purchase of property, plant and equipment and investment property in the amount of CZK 1,342 mil., of which CZK 729 mil. relates to supplies agreed for 2015 and CZK 326 mil. relates to supplies agreed for the following years. The remaining amount of CZK 286 mil. was paid as of 31 December 2015. A significant part of the obligations related to investments in railway vehicles of CZK 1,189 mil.

Another item not presented in the table above is a contractual obligation in the total amount of CZK 802 mil., related to the Parent Company rents based on the Agreement on the lease of buildings and land in the Logistics Center in Lovosice. The obligation will be repaid annually on an ongoing basis until 2025.

20. Contingent liabilities and contingent assets

20.1. BANK GUARANTEES ISSUED

Bank guarantees as of 31 December 2016 issued by Komerční banka, a.s, from the contractual limit of CZK 50 mil.

List of active bank guarantees received by ČD Cargo, a.s. the date of 31 December 2016

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

20.2. BANK GUARANTEES RECEIVED

List of active bank guarantees received by ČD Cargo, a.s. the date of 31 December 2016

In behalf of	Type of guarantee	Amount	Currency	Until	Reason for a bank guarantee
AVE sběrné suroviny, a.s. Cvokařská 164/3, 301 00 Plzeň, Corporate ID 006 71 151	Unicredit Bank Czech Republik and Slovakia, a.s.	31,000,000	CZK	30 June 2017	In accordance with the contract 04454-2015-O01 for the purchase of spare parts from scrapped 1000 units of railway freight wagons
Siemens, s.r.o., Praha 13, Siemensova 1, PSČ 155 00, Corporate ID 002 68 577	Unicredit Bank Czech Republik and Slovakia, a.s.	1,997,500	EUR	28 February 2019	In accordance with the contract no. 05012-2016-O01 dated 13 April 2016 providing supplies interoperable driving railway vehicles for the needs of ČD Cargo, a.s. and operability under warranty
AVE sběrné suroviny, a.s. Cvokařská 164/3, 301 00 Plzeň, Corporate ID 006 71 151	Unicredit Bank Czech Republik and Slovakia, a.s.	17,330,000	CZK	31 August 2017	In accordance with the contract 05272-2016-O01 for the purchase of spare parts from scrapped 1000 units of railway freight wagons
AVE sběrné suroviny, a.s. Cvokařská 164/3, 301 00 Plzeň, Corporate ID 006 71 151	Unicredit Bank Czech Republik and Slovakia, a.s.	6,623,000	CZK	30 September 2017	In accordance with the contract 05272-2016-O01 for the purchase of spare parts from scrapped 1000 units of railway freight wagons
ESTATE & INVESTMENT a.s.	Raiffaisenbank, a.s.	4,500,000	CZK	30 June 2017	In accordance with the invitation to tender for the tender contract "Supply of brake blocks"

20.3. LEGAL AND OTHER DISPUTES

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

In autumn 2016, administrative proceedings were initiated by the Office for the Protection of Competition („OPC") with České dráhy, a.s., and ČD Cargo, a.s regarding a potential violation of the Law on Protection of Competition and the Treaty on the Functioning of the European Union, which OPC sees as the concerted practice and / or agreement of the parties, possibly with other competitors, consisting in the distribution market and customer orders for goods transport, in price coordination and the exchange of sensitive information, the provision of transport and forwarding services via comprehensive freight trains, including related transport and forwarding services in moving goods to the loading station on a full train and to the transfer of goods from the unloading station to the destination. This hearing should take place by the OPC more than 10 years ago. The matter has not yet been decided. ČD Cargo, a.s. filed in late 2016, the Regional Court in Brno a lawsuit against an investigation on the business premises in connection with an action for protection against unlawful interference of administration associated with the proposal for preliminary injunction. The court application for interim measures granted and ordered to OPC, among others. Refrained from further handling of the documents that were provided during the local investigation. However, those proceedings at the date of preparation of these consolidated financial statements have not yet been completed. Regarding the foregoing, it is currently impossible to estimate the outcome of the proceedings.

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 broad variety of commodities within transportation segment, these are: iron and engineering products, brown and black coal, building, food and agricultural products, chemicals and liquid fuels, wood and paper products, automotive, and also combined transportation and shipping of other consignments including extraordinary ones. 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. On the contrary, 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 so called handling train. With the use of the long-range train wagons are then sent to marshalling station, that is the closest to recipient, and then delivered to him using again the handling train.

Within the segment of complementary services for transportation, are offered additional services for the handling of goods, 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 the ČD Cargo Group, as well as for external customers, which is performed in different repair centres of rail vehicles.

Additional information on the breakdown required under IFRS 8 – 'Operating Segments' is in the case of geographical areas presented in the Note 22. Revenue from principal activities is divided into domestic and foreign sales. In the case of product analysis, information about the Group is presented in Notes 22. 'Sales from principal activities', 29. (Financial income) and 23. (Other operating income). Other information is not monitored by the Group.

2016 (CZK mil.)	Transportation	Additional services	Elimination	Total
Revenue from principal activities	**10,627**	**2,417**	**(1,279)**	**11,765**
Revenues from transportation	10,586	1,732	(1,249)	11,069
Other revenues from ordinary activities	41	685	(30)	696
Purchased consumables and services	**(5,112)**	**(2,210)**	**1,448**	**(5,874)**
Traction costs	(1,243)	-	-	(1,243)
Payment for the use of the railway route	(1,339)	-	-	(1,339)
Other purchased consumables and services	(2,530)	(2,210)	1,448	(3,292)
Personnel costs	**(3,480)**	**(386)**	**-**	**(3,866)**
Payroll costs including insurance	(3,255)	(359)	-	(3,614)
Other social costs	(29)	(10)	-	(39)
Benefits arising from the collective agreement	(196)	(17)	-	(213)
Revenues from lease	4	604	(169)	439
Other operating revenues	18	143	-	161
Other operating expenses	(159)	(10)	(6)	(175)
Depreciation	(964)	(114)	(1)	(1,079)
Interest expense	(182)	(17)	2	(197)
Other financial costs	(84)	(5)	(15)	(104)
Other financial income	82	32	(32)	82
EBT	**750**	**454**	**(52)**	**1,152**
DPPO	(130)	(88)	-	(218)
EAT	**620**	**366**	**(52)**	**934**
Attributable to owners of the Parent Company				931
Attributable to non-controlling interests				3

2015 (CZK mil.)	Transport	Additional services	Elimination	Total
Revenue from principal activities	**10,766**	**2,367**	**(1,070)**	**12,063**
Revenues from transportation	10,727	1,607	(1,059)	11,275
Other revenues from ordinary activities	39	760	(11)	788
Purchased consumables and services	**(5,576)**	**(1,960)**	**1,184**	**(6,352)**
Traction costs	(1,365)	(1)	-	(1,366)
Payment for the use of the railway route	(1,503)	-	-	(1,503)
Other purchased consumables and services	(2,708)	(1,959)	1,184	(3,483)
Personnel costs	**(3,571)**	**(349)**	**-**	**(3,920)**
Payroll costs including insurance	(3,351)	(324)	-	(3,675)
Other social costs	(27)	(10)	-	(37)
Benefits arising from the collective agreement	(193)	(15)	-	(208)
Revenues from lease	11	579	(115)	475
Other operating revenues	212	168	(39)	341
Other operating expenses	(495)	(37)	19	(513)
Depreciation	(1,011)	(115)	-	(1,126)
Interest expense	(240)	(29)	7	(262)
Other financial costs	(35)	(4)	4	(35)
Other financial income	27	38	(38)	27
EBT	**88**	**658**	**(48)**	**698**
Corporate income tax	(13)	(141)	31	(123)
EAT	**75**	**517**	**(17)**	**575**
Attributable to owners of the Parent Company				573
Attributable to non-controlling interests				2

22. Revenue from principal operations

(CZK mil.)	2016	2015
Revenue from freight transportation:	**11,070**	**11,275**
– Revenue from freight transportation – local	*4,155*	*4,402*
– Revenue from freight transportation – foreign	*6,915*	*6,873*
Other revenue from freight transportation:	**503**	**558**
– Other revenue from freight transportation – local	*329*	*330*
– Other revenue from freight transportation – foreign	*174*	*228*
Other revenue related to transportation	**192**	**230**
Total revenue from principal operations	**11,765**	**12,063**

The remaining part of revenues from freight transportation are mainly revenues from services performed in railway stations, supplementary services and rail siding agenda. Other revenues are recognized when there is processed source data for invoicing OPT information system and the data is sent to the invoice into the SAP accounting system. Source data among other things, contain information about the time of the transactions or delivery service. Estimated receivables are billed in cases where it is not possible to complete the audit data due to missing or unclear data necessary for billing.

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

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

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

Railway transportation companies (national transporters)

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

Other companies

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

23. Other operating income

(CZK mil.)	2016	2015
Gain on sale of property, plant and equipment and property investments	3	13
Revenues from the sale of inventories	94	7
Rental income	407	475
Compensations for deficits and damage	52	48
Contractual fines and default interest	9	17
Exchange rate gains - operational	28	242
Other	7	14
Total other operating income	**600**	**816**

Other operating income predominantly includes income from contractual penalties and default interest. Rental income includes income from short-term and occasional renting of trucks and traction vehicles.

24. Purchased consumables and services

(CZK mil.)	2016	2015
Traction costs	**(1,212)**	**(1,362)**
– Traction fuel (diesel)	*(403)*	*(470)*
– Traction electricity	*(809)*	*(892)*
Payment for the use of railway route	**(1,271)**	**(1,470)**
Other purchased consumables and services	**(3,391)**	**(3,520)**
– Consumed material	*(277)*	*(279)*
– Consumed other energy	*(117)*	*(94)*
– Consumed fuel	*(10)*	*(10)*
– Repairs and maintenance	*(184)*	*(288)*
– Travel costs	*(40)*	*(36)*
– Telecommunication, data and postal services	*(52)*	*(52)*
– Other rental	*(155)*	*(211)*
– Rental for rail vehicles	*(597)*	*(645)*
– Transportation charges	*(1,406)*	*(1,330)*
– Services associated with the use of buildings	*(39)*	*(42)*
– Operational cleaning of rail vehicles	*(4)*	*(2)*
– Boarder area services	*(173)*	*(185)*
– Advertising and promotion costs	*(11)*	*(13)*
– Leases	*(8)*	*(9)*
– Infrastructure capacity allocation	*(72)*	*(34)*
– Operation, maintenance and other services related to IT	*(103)*	*(91)*
– Performance of fire brigade services	*(10)*	*(10)*
– Environmental services	*(9)*	*(12)*
– Other services	*(124)*	*(177)*
Total purchased consumables and services	**(5,874)**	**(6,352)**

Traction electricity in the period from 1 January 2016 to 31 December 2016 includes traction electricity purchased from České dráhy, a.s., in the amount of CZK 809 mil. In the period from 1 January 2015 to 31 December 2015 it includes traction electricity purchased from České dráhy, a.s., in the amount of CZK 892 mil.

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

(CZK mil.)	2016	2015
Statutory audit of annual financial statements	(3)	(3)
Tax consultancy	(6)	(6)
Total	**(9)**	**(9)**

25. Employee benefit costs

(CZK mil.)	2016	2015
Payroll costs	(2,701)	(2,768)
Severance pay (including derecognised related provisions)	-	10
Statutory social security and health insurance	(128)	(128)
Pension insurance	(786)	(788)
Contributions to the pension insurance and capital life insurance	(141)	(144)
Benefits resulting from the collective agreement	(71)	(65)
Other employee benefit costs	(39)	(37)
Total employee benefit costs	**(3,866)**	**(3,920)**

26. Depreciation and amortisation

(CZK mil.)	2016	2015
Depreciation of property, plant and equipment	(1,018)	(1,072)
Amortisation of intangible assets	(61)	(54)
Total depreciation and amortisation	**(1,079)**	**(1,126)**

27. Other operating expenses

(CZK mil.)	2016	2015
Change in other provisions related to other operating expenses	15	(54)
Change in balance of allowances for doubtful receivables	3	(14)
Change in provisions for inventories	-	(4)
Contractual fines and default interest expenses	(20)	(13)
Taxes and fees	(8)	(8)
Exchange rate losses - operational	(30)	(270)
Insurance	(75)	(71)
Other operating expenses	(60)	(79)
Total other operating expenses	**(175)**	**(513)**

In 2016, 'Other operating expenses' include mainly costs for damages of CZK 36 mil. and membership fees of CZK 7 mil.

In 2015, 'Other operating expenses' include mainly costs for damages of CZK 70 mil. and membership fees of CZK 8 mil.

28. Financial expenses

(CZK mil.)	2016	2015
Interest on bank overdrafts and loans	-	(3)
Interest on finance lease payables and leaseback	(137)	(157)
Interest expense - bonds	(35)	(70)
Other interest expense	(28)	(32)
Unwinding of the discount of provisions	(1)	(1)
Exchange rate losses - financial	(82)	(32)
Loss from sale of securities and shares	-	(3)
Bank expenditures	(3)	(3)
Other financial expenses	(15)	4
Total financial expenses	**(301)**	**(297)**

29. Financial income

(CZK mil.)	2016	2015
Exchange rate gains - financial	66	30
Gain from sale of securities and shares	-	1
Interest received	1	1
Other financial income	4	(12)
Total financial income	**71**	**20**

30. Income taxation

30.1. INCOME TAX REPORTED IN PROFIT OR LOSS

(CZK mil.)	2016	2015
Current income tax for the period reported in the statement of profit or loss	(48)	(35)
Deferred tax recognised in the statement of profit or loss	(170)	(88)
Total tax charge	**(218)**	**(123)**

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

(CZK mil.)	2016	2015
Profit for the period from continuing operations before tax	1,152	698
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected income tax expense	(219)	(133)
Adjustments:		
Effect of the different income tax rate in other countries	(6)	(6)
Other non-taxable income	15	18
Adjustment of tax in Koleje Czeskie	-	30
Tax non-deductible expense	(3)	(32)
Income tax related to prior periods	(5)	-
Income Tax Reported in Profit or Loss	**(218)**	**(123)**

30.2. INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

(CZK mil.)	2016	2015
Remeasurement of financial instruments recognised as cash flow hedging	(14)	(9)
Total income tax recognised in other comprehensive income	**(14)**	**(9)**

30.3. DEFERRED TAX

(CZK mil.)	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Derivatives	Other	Total
Balance at 1 Jan 2015	**-**	**999**	**(250)**	**341**	**(30)**	**(19)**	**(3)**	**1,038**
Deferred tax recognised in profit or loss	(98)	100	61	27	(5)	-	3	88
Deferred tax recognised in other comprehensive income	-	-	-	-	-	9	-	9
Revaluation	-	-	-	-	-	-	(1)	(1)
Balance at 31 Dec 2015	**(98)**	**1,099**	**(189)**	**368**	**(35)**	**(10)**	**(1)**	**1,134**
Deferred tax recognised in profit or loss	71	-	14	74	16	-	(5)	170
Deferred tax recognised in other comprehensive income	-	-	-	-	-	14	-	14
Revaluation	-	-	-	-	-	-	1	1
Balance at 31 Dec 2015	**(27)**	**1,099**	**(175)**	**442**	**(19)**	**4**	**(5)**	**1,319**

31. Related party transactions

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

31 Dec 2016 (CZK mil.)	Receivables	Payables
České dráhy, a.s.	3	229
ČD - Telematika, a.s.	-	5
ČD - Informační Systémy, a.s.	-	56
DPOV, a.s.	1	83
ČD travel, s.r.o.	-	6
Dopravní vzdělávací institut, a.s.	-	2
Výzkumný Ústav Železniční, a.s.	5	-
Total	**9**	**381**

31 Dec 2015 (CZK mil.)	Receivables	Payables
České dráhy, a.s.	11	483
ČD - Telematika, a.s.	-	6
ČD - Informační Systémy, a.s.	-	58
DPOV, a.s.	1	30
ČD travel, s.r.o.	-	6
Dopravní vzdělávací institut, a.s.	-	2
Výzkumný Ústav Železniční, a.s.	4	1
Total	**16**	**586**

1 Jan 2015 (CZK mil.)	Receivables	Payables
České dráhy, a.s.	4	204
ČD - Telematika, a.s.	-	5
ČD - Informační Systémy, a.s.	-	79
DPOV, a.s.	1	70
ČD travel, s.r.o.	-	6
Dopravní vzdělávací institut, a.s.	-	2
Výzkumný Ústav Železniční, a.s.	1	-
Total	**6**	**366**

Related party transactions were conducted on an arm's length basis reflecting the amount of purchased goods and relationships between parties.

Outstanding balances are not collateralised and are paid in cash. No guarantees were received or provided.

31.2. INCOME GENERATED WITH RELATED PARTIES

2016 (CZK mil.)	Sale of tangible FA	Sale of services	Other income	Total
České dráhy, a.s.	-	18	3	21
ČD - Telematika, a.s.	-	1	-	1
DPOV, a.s.	-	4	2	6
Výzkumný Ústav Železniční, a.s.	-	21	-	21
Total	**-**	**44**	**5**	**49**

2015 (CZK mil.)	Sale of tangible FA	Sale of services	Other income	Total
České dráhy, a.s.	1	29	2	32
DPOV, a.s.	2	5	1	8
Výzkumný Ústav Železniční, a.s.	-	15	-	15
Total	**3**	**49**	**3**	**55**

31.3. PURCHASE FROM RELATED PARTIES

2016 (CZK mil.)	Assets	Material	Services	Other expenses	Total
České dráhy, a.s.	110	1,324	97	2	1,533
ČD - Telematika, a.s.	-	3	13	-	16
ČD - Informační Systémy, a.s.	45	5	89	-	139
DPOV, a.s.	109	14	14	-	137
ČD travel, s.r.o.	-	-	18	-	18
Dopravní vzdělávací institut, a.s.	-	-	19	-	19
Výzkumný Ústav Železniční, a.s.	-	-	1	-	1
JLV, a.s.	-	-	1	-	1
Total	**264**	**1,346**	**252**	**2**	**1,864**

In 2016, purchases from České dráhy, a.s., are mainly represented by purchases of traction energy amounting to CZK 809 mil.

2015 (CZK mil.)	Assets	Material	Services	Other expenses	Total
České dráhy, a.s.	249	1,530	90	8	1,877
ČD - Telematika, a.s.	4	2	27	-	33
ČD - Informační Systémy, a.s.	34	4	89	-	127
DPOV, a.s.	73	1	16	-	90
ČD travel, s.r.o.	-	-	18	-	18
Dopravní vzdělávací institut, a.s.	-	-	17	-	17
Výzkumný Ústav Železniční, a.s.	1	-	-	1	2
JLV, a.s.	-	-	1	-	1
Total	**361**	**1,537**	**258**	**9**	**2,165**

In 2016, purchases from České dráhy, a.s., are mainly represented by purchases of traction energy amounting to CZK 892 mil.

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

Purchases (CZK mil.)	Intangible assets	Property, plant and equipment	Intangible assets	Property, plant and equipment
	2016	2016	2015	2015
České dráhy, a.s.	-	110	-	248
ČD - Telematika a. s.	-	-	1	4
ČD - Informační Systémy, a.s.	45	-	33	-
Výzkumný Ústav Železniční, a.s.	-	-	-	1
DPOV, a.s.	-	109	-	74
Total	**45**	**219**	**34**	**327**

In 2016, the purchase of series 163 locomotives at the amount of CZK 81 mil was the largest item within the 'Purchases of assets'. In 2015 it amounted to CZK 233 mil. Purchases of fixed assets from DPOV, a.s. include purchases of railway vehicles components – performance of significant periodical repairs.

31.5. LOANS TO RELATED PARTIES

As of 17 October 2016, the Parent Company has benefited the borrowing from České dráhy, a.s., in the total amount of CZK 540 mil. for the purpose of financing the purchase of series 383 locomotives (Vectron). The remaining part of the borrowing is, as of 31 December 2016, split into long-term part in amount of CZK 450 mil. and short-term part in amount of CZK 77 mil. and is captured in the Note 15 'Loans, borrowings and bonds'.

31.6. BONUSES TO KEY MANAGEMENT MEMBERS

The members of key management received the following bonuses in the reporting period:

(CZK mil.)	2016	2015
Short-term employee benefits	39	35
Post-employment benefits	11	1
Total	**50**	**36**

Following numbers of the key management members are related to the stated amount of bonuses:

	2016	2015
Numbers of the key management members	**39**	**39**

Members of the statutory and supervisory bodies of the Parent Company have the possibility to use discounted fares. Management of individual entities of the ČD Cargo Group have the possibility to use in-kind remuneration in the form of the use of Group cars for private purposes.

31.7. RELATIONSHIPS WITH SŽDC

The costs incurred in relation to Správa železniční dopravní cesty, s.o. predominantly include the fees for the allocation of capacity and use of the railway route in the years ending 31 December 2015 and 2016. The costs for the years ending 31 December 2015 and 2016 are disclosed in Note 24.

The income of the Company predominantly includes sales from intrastate vehicle transportationof CZK 13 mil.

Expenses and income of the Group resulting from the transactions conducted with SŽDC in 2016 and 2015 were as follows:

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

31 Dec 2015 (CZK mil.)	Expenses	Income
Operation of the railway route	2	-
Use of the railway route and allocated route capacity	1,495	-
Property rental	1	-
Revenues from freight transportation	-	14
Performance of firefighter emergency services	10	-
Telecommunication services	41	-
Contractual fines and default interest	16	-
Compensation for damages	36	1
Extraordinary events investigation	3	-
Repairs and maintenance	2	-
Other	4	12
Total	**1,610**	**27**

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

Receivables (CZK mil.)	2016	2015	2014
Revenues from freight transportation	5	1	2
Estimated receivables	4	2	4
Other	8	6	3

Payables (CZK mil.)	2016	2015	2014
Use of railway route and allocated capacity of the railway - freight transport	153	487	485
Property rental – expenses and income	2	-	-
Court settlement - traction energy	215	271	314
Settlement Agreement - exclusions	42	59	62
Court verdict - exclusions	23	76	132
Radio communication technology	12	10	11
Other	1	-	4
Estimated payables	159	47	17
The fee for the use of transport infrastructure	107	-	-
Compensation for damages caused by extraordinary events	22	26	4
Uncollected capacity ŽDC	12	9	3
Performance of HZS	10	10	10
Heat supply	5	2	-
Office space rental	1	-	-
Other estimated payables	2	-	-

The settlement of a liability payable to the Parent Company in amount of CZK 42 mil., is related to the compensation for damage caused by SŽDC exclusions based on a court decision from 15 January 2014. The liability is split into short-term part within 1 year in the amount of CZK 12 mil. and long-term part in the amount of CZK 30 mil.

The settlement of a liability payable to the Parent Company in amount of CZK 215 mil., is related to the conclusion of court agreement in a dispute about the price of consumed traction energy during 2009. The liability is split into short-term part within 1 year in the amount of CZK 63 mil. and long-term part in the amount of CZK 151 mil.

31.8. RELATIONSHIPS WITH THE ČEZ GROUP

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

31 Dec 2016 (CZK mil.)	Expenses	Income
Property rental	1	-
Revenues from freight transportation	-	388
Thermal energy	8	-
Other	1	-
Total	**10**	**388**

31 Dec 2015 (CZK mil.)	Expenses	Income
Use of railway route and allocated capacity of the railway	1	-
Revenues from freight transportation	-	420
Thermal energy	7	-
Other	-	2
Total	**8**	**422**

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

Receivables (CZK mil.)	2016	2015	2014
Revenues from freight transportation	68	71	66

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

32. Financial instruments

32.1. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it is able to continue as a going concern while optimising the debt and equity balance between liabilities and equity.

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

(CZK mil.)		31 Dec 2016	31 Dec 2015	1 Jan 2015
Loans, borrowings and bonds	15	4,974	5,089	5,560
Cash and bank accounts	12	877	962	840
Total net debt		**4,097**	**4,127**	**4,720**

(CZK mil.)		31 Dec 2016	31 Dec 2015	1 Jan 2015
Share capital	13	8,494	8 494	8,494
Capital funds	13	343	273	202
Accumulated loss		(1,161)	-2 078	(2,611)
Total equity		**7,676**	**6 689**	**6,085**

The Group is not subject to any externally imposed capital requirements.

The Board of Directors and the Supervisory Board of the Parent Company are regularly informed about the development of debt. Any additional debt is subject to approval by the Parent Company's statutory bodies, i.e. the Board of Directors and the Supervisory Board.

32.2. SIGNIFICANT ACCOUNTING POLICIES

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

32.3. CATEGORIES OF FINANCIAL INSTRUMENTS

Categories of financial assets (CZK mil.)	Classes of financial assets	31 Dec 2016	31 Dec 2015	1 Jan 2015
Loans and receivables	Cash and cash equivalents	877	962	840
	Trade receivables	1,656	1,695	1,633
	Other financial assets	308	17	23
Financial assets at fair value presented in profit or loss statement	Other financial assets - derivatives used in hedge accounting	37	1	-
Total		**2,878**	**2,675**	**2,496**

Categories of financial liabilities (CZK mil.)	Classes of financial liabilities	31 Dec 2016	31 Dec 2015	1 Jan 2015
Financial liabilities at fair value presented in profit or loss statement	Other financial liabilities - derivatives used in hedge accounting	15	54	102
	Other financial liabilities – other derivatives	5	5	22
Financial liabilities at amortized cost	Finance lease and leaseback liabilities	2,421	2,875	3,282
	Issued bonds	1,999	2,174	2,176
	Loans	554	40	102
	Trade payables	1,780	2,173	2,008
	Other financial liabilities	617	918	967
Total		**7,391**	**8,239**	**8,659**

Financial instruments are measured at fair value (level 2). This measurement is based on inputs other than quoted prices used at level 1; this information can be obtained from the asset or liability directly (i.e. prices) or indirectly (i.e. data derived from prices), as described in Note 32.11.3.

Income from individual classes of financial assets is as follows:

Class of financial asset (CZK mil.)	2016	2015	Presented in profit or loss statement
Interest on cash and cash equivalents	1	1	Financial income
Total	**1**	**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.

32.4. FINANCIAL RISK MANAGEMENT OBJECTIVES

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

32.5. CURRENCY RISK MANAGEMENT

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

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

31 Dec 2016 (CZK mil.)	EUR	USD	Other	Total
Financial assets	1,913	3	1	1,917
Financial liabilities	(1,532)	(10)	(14)	(1,556)
Total	**381**	**(7)**	**(13)**	**361**

31 Dec 2015 (CZK mil.)	EUR	USD	Other	Total
Financial assets	1,431	3	9	1,443
Financial liabilities	(991)	-11	(8)	(1,010)
Total	**440**	**-8**	**1**	**433**

1 Jan 2015 (CZK mil.)	EUR	USD	Other	Total
Financial assets	1,344	3	4	1,351
Financial liabilities	(999)	--	(7)	(1,006)
Total	**345**	**3**	**(3)**	**345**

32.5.1. Foreign Currency Sensitivity Analysis

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

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

The following table shows the impact that the strengthening of the Czech currency by one crown with regard to the relevant foreign currencies would have on the profit and other comprehensive income. A positive number indicates an increase in the profit and other comprehensive income:

(CZK mil.)	2016	2015	2014
Translation of items denominated in foreign currencies at the end of the period	(12)	16	(12)
Change in the fair value of derivatives at the end of the period	2	(13)	-
Total impact on the profit for the period	**(10)**	**3**	**(12)**
Change in the fair value of derivatives at the end of the period	102	32	55
Total impact on other comprehensive income	**102**	**32**	**55**

32.5.2. Currency Forwards and options

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

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

Foreign currency forwards

(CZK mil.) Sale	Average currency exchange rate	Foreign currency	Nominal value in EUR mil.	Fair value
31 Dec 2016	26.868	EUR	96	6
31 Dec 2015	26.950	EUR	24	1
1 Jan 2015	27.182	EUR	55	(31)

Foreign currency options – collar

(CZK mil.) Sale	Average currency exchange rate	Foreign currency	Nominal value in EUR mil.	Fair value
31 Dec 2016	26.65 – 27.05	EUR	12	-
31 Dec 2015	26.50 – 27.15	EUR	12	(1)
1 Jan 2015	-	-	-	-

Open foreign currency forwards and options on purchase of foreign currency were not closed in 2014, 2015 and 2016.

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

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

31 Dec 2016 (CZK mil.)	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	162	324	1,459	973	-	2,918

31 Dec 2015 (CZK mil.)	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	81	162	730	-	-	973

1 Jan 2015 (CZK mil.)	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	166	305	1,054	-	-	1,525

32.6. INTEREST RATE RISK MANAGEMENT

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

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

32.6.1. Interest Rate Sensitivity Analysis

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

- changes in interest expenses from loans and lease with a variable rate,
- changes in the present value of long-term provisions resulting from the change in the discount,
- 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 mil.)	2016	2015	2014
Interest from loans and lease with variable rate for the period	(60)	(47)	(103)
Change in the present value of long-term provisions at the end of the period	55	63	63
Change in the fair value of derivatives at the end of the period	6	11	27
Total impact on the profit for the period	**1**	**27**	**(13)**
Change in the fair value of derivatives at the end of the period	6	12	21
Total impact on other comprehensive income	**6**	**12**	**21**

32.6.2. Interest rate Swaps

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

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

IRS

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

31 Dec 2015	Average contracted fixed interest rate	Principal CZK mil.	Fair value of assets (liabilities) CZK mil.
Less than 1 year	3.27%	106	(10)
1 to 5 years	3.27%	304	(13)
5 years and more	3.27%	13	(1)
Total			**(24)**

1 Jan 2015	Average contracted fixed interest rate	Principal CZK mil.	Fair value of assets (liabilities) CZK mil.
Less than 1 year	3.27%	103	(13)
1 to 5 years	3.27%	328	(22)
5 years and more	3.27%	95	(1)
Total			**(36)**

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.

32.6.3. Interest Rate Options

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

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

31 Dec 2015	Hedged range	Principal CZK mil.	Fair value of assets (liabilities) CZK mil.
Less than 1 year	1.13% - 3.13%	94	(2)
1 to 5 years	1.13% - 3.13%	385	(3)
Total			**(5)**

1 Dec 2015	Hedged range	Principal CZK mil.	Fair value of assets (liabilities) CZK mil.
Less than 1 year	1.13% - 3.13%	88	(3)
1 to 5 years	1.13% - 3.13%	301	(5)
5 years and more	1.13% - 3.13%	64	-
Total			**(8)**

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

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

32.7. COMMODITY RISK MANAGEMENT

The Group is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically oil and electricity, is a significant cost item of the Group. The Group manages this risk using a combination of several instruments as follows:

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

32.7.1. Analysis of Sensitivity to Changes in Commodity Prices

The exposure to the change in the price of commodities is measured by the sensitivity analysis. The Group is exposed to the risk of changes in prices of commodities due to:

- change in the fair value of concluded financial derivatives.

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

(CZK mil.)	2016	2015	2014
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	16	8	11
Total impact on other comprehensive income	**16**	**8**	**11**

32.7.2. Commodity Derivatives

The table shows outstanding commodity contracts for the purchase of oil as of 31 December 2016:

Purchase of oil	Hedged average price (CZK/mt)	Volume of contracts (mt)	Fair value (CZK mil.)
31 Dec 2016	10,822	13,200	28
31 Dec 2015	12,713	8,400	(30)
1 Jan 2015	16,751	8,400	(34)

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 2016 (CZK mil.)	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	9	18	81	62	-	170

31 Dec 2015 (CZK mil.)	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 (with FWD)	6	11	52	-	-	69

1 Jan 2015 (CZK mil.)	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 (with FWD)	9	18	83	-	-	110

32.8. CREDIT RISK MANAGEMENT

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

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

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

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

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

The credit quality of the receivables, that are not overdue or their value is not reduced in any way, is good and corresponds to the book value. The following table shows trade receivables of the Group's trade receivables that are not overdue and are not impaired.

(CZK mil.)	31 Dec 2016	31 Dec 2015	1 Jan 2015
By category			
- within the České dráhy Group	6	16	7
- other domestic buyers	1,064	1,125	1,072
- other foreign buyers	491	443	426
Total	**1,561**	**1,584**	**1,505**

32.9. LIQUIDITY RISK MANAGEMENT

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

On a daily basis, the Group assesses the available funds and cash flows and liquidity development. Pursuant to these assessments, the Group decides on an optimal use of operating financial sources, consisting primarily of overdraft loans and the cash-pool limit. In order to strengthen its financial stability, the Group secures long-term financial sources on a continuous basis. In 2016, the Company issued bonds in the aggregate volume of CZK 2,000 mil. 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 mil. with the maturity of 7 years, provided for financing newly acquired interoperable trains. The Group still has a promissory notes programme available in the aggregate amount of CZK 1,500 mil. and has contracted the possibility of drawing funds of up to CZK 400 mil. beyond the cash pooling limit from the parent company. During the years ending 31 December 2015 and 2016, the promissory notes programme and drawing beyond the cash pooling limit were not used by the Group.

32.9.1. Liquidity and Interest Rate Risk Tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that instruments carry the floating rate, the undiscounted amount is derived from the interest rate valid at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

31 Dec 2016 (CZK mil.)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	5 years and more	Total
Non-interest bearing	1,261	590	235	310	-	2,396
Non-hedging derivatives	-	-	3	2	-	5
Hedging derivatives - net	1	2	6	6	-	15
Gross outgoing cash flows	*243*	*108*	*486*	*324*	-	*1,161*
Gross incoming cash flows	*(242)*	*(106)*	*(480)*	*(318)*	-	*(1,146)*
Liabilities from finance and leaseback	52	103	432	1,792	359	2,738
Variable interest rate instruments	7	14	61	333	142	557
Fixed interest rate instruments	1	2	41	1,592	513	2,149
Total	**1,322**	**711**	**778**	**4,035**	**1,014**	**7,860**

31 Dec 2015 (CZK mil.)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	5 years and more	Total
Non-interest bearing	870	973	699	549	-	3,091
Non-hedging derivatives	0	0	2	3	-	5
Hedging derivatives - net	4	8	29	13	-	54
Gross outgoing cash flows	*27*	*54*	*243*	*13*	*-*	*337*
Gross incoming cash flows	*(23)*	*(46)*	*(214)*	*-*	*-*	*(283)*
Liabilities from finance and leaseback	51	102	458	2,124	580	3,315
Variable interest rate instruments	-	-	672	-	-	672
Fixed interest rate instruments	1	2	561	1,089	-	1,653
Total	**926**	**1,085**	**2,421**	**3,778**	**580**	**8,790**

1 Jan 2015 (CZK mil.)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	5 years and more	Total
Non-interest bearing	1,198	890	276	612	-	2,976
Non-hedging derivatives	-	-	17	5	-	22
Hedging derivatives - net	10	20	48	24	-	102
Gross outgoing cash flows	*166*	*305*	*1,054*	*24*	*-*	*1,549*
Gross incoming cash flows	*(156)*	*(285)*	*(1,006)*	*-*	*-*	*(1,447)*
Liabilities from finance and leaseback	51	102	453	2,410	845	3,861
Variable interest rate instruments	49	3	1,078	690	-	1,820
Fixed interest rate instruments	-	-	20	566	-	586
Total	**1,308**	**1,015**	**1,892**	**4,307**	**845**	**9,367**

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

31 Dec 2016 (CZK mil.)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	5 years and more	Total
Non-interest bearing	2,180	366	37	259	-	2,842
Hedging derivatives	2	3	20	11	-	36
Total	**2,182**	**369**	**57**	**270**	**-**	**2,878**

31 Dec 2015 (CZK mil.)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	5 years and more	Total
Non-interest bearing	1,438	847	388	1	-	2,674
Hedging derivatives	-	-	1	-	-	1
Total	**1,438**	**847**	**389**	**1**	**-**	**2,675**

1 Jan 2015 (CZK mil.)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year to 5 years	5 years and more	Total
Non-interest bearing	2,051	371	70	-	-	2,492
Fixed interest rate instruments	-	-	-	4	-	4
Total	**2,051**	**371**	**70**	**4**	**-**	**2,496**

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.

32.9.2. Financing Facilities

The Group uses the following financing facilities:

(CZK mil.)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Cash pool:			
– loan facility at	*600*	*600*	*600*
– balance at	*600*	*600*	*600*
Overdraft loans:			
– loan facility at	*1,210*	*1,210*	*1,210*
– balance at	*1,210*	*1,210*	*1,210*
Promissory note programme:			
– loan facility at	*1,500*	*1,500*	*1,500*
– balance at	*1,500*	*1,500*	*1,500*

32.10. STRATEGY FOR THE GROUP'S FINANCING IN SUBSEQUENT YEARS

32.10.1. Finance Leases

In 2016, no new financial lease was implemented. In view of the planned investments, the Parent Company is, in the matter of convenience, anticipated to continue utilising finance leases in the future. Koleje Czeskie, the subsidiary, has financed the leaseback of 29 wagons worth CZK 20 mil. in March 2016.

32.10.2. Operating Bank Loans

In funding its operating needs, the Parent Company has limits of overdraft loans in the maximum amount of CZK 1,210 mil. provided by four banks and the limit of possible drawings as part of the involvement of the Company in the group cash-pooling in the amount of CZK 600 mil. The stratification of the lending to several financing entities results in the risk of the termination of the funding being sufficiently diversified.

32.10.3. Promissory Note Programme
The Group has the possibility to use the approved promissory note programme if needed. Promissory note programme is approved in the amount of CZK 1,500 mil., and the Supervisory Board of the Group should be obligatory informed about the intention of drawing over CZK 1,000 mil. Promissory note programme was currently not used in 2015 and 2016, but the promissory note framework is left as a form of short-term financing provisions, independent directly on bank sources.

32.10.4. Possibility of a Loan Being Provided by České dráhy, a.s.
The Group has contracted the possibility of drawing funds of up to CZK 400 mil. from the parent company beyond the cash pooling limit. During the years ending 31 December 2015 and 2016, this loan was not used.

32.10.5. Bonds
With a view to securing the mid-term and long-term sources of funding to increase the stability of the Group's cash flows, the relevant bodies of the Parent Company approved the bond programme in the aggregate amount of CZK 6 billion for 10 years which was updated in 2015 to the current legal status (effective for new placements). On the basis of this programme, the first, second (1st tranche) and third issues were gradually placed in 2011 with the aggregate nominal value of CZK 2 bil. In 2012, another two tranches as part of the second issue of bonds were placed with the total nominal value of CZK 500 mil. In 2014, it was within the ability of investors to take advantage of early redemption of bonds of the first issue of bonds and repay a total of CZK 341,7 mil. In 2015, a new issue of bonds was placed with the total nominal value of CZK 1 billion and maturing bonds of CZK 1 billion were redeemed. In 2016, there was the fifth isssue of bonds in the amount of CZK 500 mil and the sixth issue of bonds in the amount of CZK 500 mil.

The sixth bond issue was carried out under separate issuance conditions and these bonds were admitted for a trade 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 mil. and also part of the third issue in the nominal amount of CZK 500 mil. were repaid in 2016.

In total, the Parent Company has issued bonds worth CZK 2,000 mil. as of 31 December 2016. Funding in the form of bonds increases the liquidity and financial stability of the Group In connection with the planned investments, it is expected, that ČD Cargo, a.s. will continue to use bonds will in the matter of convenience.

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

32.10.7. Other Loans
In 2016, there was the loan agreement for the amount of CZK 540 mil. (EUR 19,975 mil.) concluded with the parent company, with a maturity of 7 years, for the purpose of financing the purchase of 5 Siemens Vectron locomotives.

32.10.8. Summary
The structure of funding above creates a desired framework that allows the Parent Company to maintain financial stability with the possibility of flexibly using individual forms as deemed appropriate or necessary.

Based on the planned funding structure, the Parent 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.).

32.11. FAIR VALUE OF FINANCIAL INSTRUMENTS

32.11.1. Fair Values of Financial Instruments Carried at Amortised Cost
The Group considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values, except leases and bonds.

The fair value of the lease as of 31 December 2016 amounts to CZK 2,684 mil. The fair value of leases calculated with the fixed rate is determined by the recalculation according to the current rate. This up-to-date rate is generated based on the margin of the most recent lease transactions and market interest rate applicable as of the year-end which is subsequently used to recalculate the remaining payable of fixed leases.

The fair value of bonds of the Parent Company as of 31 December 2016 amounts to CZK 2,005 mil. The fair value of bonds is recalculated based on the up-to date issue rate communicated by individual banks.

Financial assets (CZK mil.)	Level	Fair value as at 31 Dec 2016	Book value as at 31 Dec 2016	Fair value as at 31 Dec 2015	Book value as at 31 Dec 2015	Fair value as at 1 Jan 2015	Book value as at 1 Jan 2015
Financial derivatives used in hedge accounting	Level 2	37	37	1	1	-	-
Loans, other financial assets	Level 2	258	258	1	1	4	4
Total		**295**	**295**	**2**	**2**	**4**	**4**

Financial liabilitiess (CZK mil.)	Level	Fair value as at 31 Dec 2016	Book value as at 31 Dec 2016	Fair value as at 31 Dec 2015	Book value as at 31 Dec 2015	Fair value as at 1 Jan 2015	Book value as at 1 Jan 2015
Financial derivatives used in hedge accounting	Level 2	15	15	54	54	102	102
Other financial derivatives	Level 2	5	5	5	5	22	22
Bonds issued	Level 2	2,005	1,999	2,195	2,174	2,133	2,176
Liabilities from finance lease and leaseback	Level 2	2,684	2,421	3,276	2,875	3,778	3,282
Total		**4,709**	**4,440**	**5,530**	**5,108**	**6,035**	**5,582**

Cash and cash equivalents, trade receivables, other current financial assets and other short-term financial liabilities are shown in the table because their fair value is equal to the carrying value due to their short-term maturity.

32.11.2. Valuation Techniques Applied for the Purposes of Measuring Fair Value
The fair values of financial assets and financial liabilities are determined as follows:
- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices,
- the fair values of other financial assets and financial liabilities (except for financial derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions, dealer quotes for similar instruments and an appropriate yield curve with the corresponding duration as appropriate,
- the fair values of financial derivatives are calculated using quoted prices. If these prices are not available, linear derivatives are measured using discounted cash flows by means of quoted foreign exchange currency rates, quoted prices of commodities and an appropriate yield curve corresponding to the validity of contracts. An option valuation model is used for derivatives that include an option.

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

All financial instruments measured at fair value recognised by the Group as of 31 December 2016, and 31 December 2015 are included in Level 2.

33. Post balance sheet events

Trilateral Framework agreement, that overreaches mutual cooperation, was concluded between ArcelorMittal Ostrava a.s., which is among the key customers of ČD Cargo, a.s., and Ostravská dopravní společnost, a.s. This contract was tendered for the period 2013-2016 with the possibility of a 3-year option. ArcelorMittal Ostrava a.s., conditioned the use of the option by changing the ownership structure of Ostravská dopravní společnost, a.s., where ČD Cargo, a.s. should have a minimum of a 50% share. For this reason, as of 1 January 2017, a new company Ostravská dopravní společnost – Cargo, a.s. was incorporated and registered in the commercial register, and thus the company Ostravská dopravní společnost, a.s. was spun off. The share in ČD Cargo, a.s., and later in Ostravská dopravní společnost, a.s. increased from 20% to 50% for the price of CZK 15.2 mil. Ostravská dopravní společnost – Cargo, a.s., that is ČD Cargo, a.s., left 20% share due to the spin off. Společnost Ostravská dopravní společnost, a.s., then exercised the option and signed an amendment to the agreement with ArcelorMittal Ostrava a.s., valid until the end of 2019.

České dráhy, a.s. as the sole shareholder of ČD Cargo, a.s., acting in the capacity of the General Meeting, decided to recall František Bureš of the Supervisory Board with effect as of 21 March 2017.

České dráhy, a.s. as the sole shareholder of ČD Cargo, a.s., acting in the capacity of the General Meeting, decided on the election of Miroslav Kupec to the Supervisory Board with effect as of 22 March 2017.

České dráhy, a.s. as the sole shareholder of ČD Cargo, a.s., acting in the capacity of the General Meeting, decided to recall Ludvík Urban and Jan Hart of the Supervisory Board with effect as of 31 March 2017.

České dráhy, a.s. as the sole shareholder of ČD Cargo, a.s., acting in the capacity of the General Meeting, decided on the election of Roman Onderko and Jiří Švachula to the Supervisory Board with effect as of 1 April 2017.

34. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 4 April 2017.

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Summary of Significant Accounting Policies According to Czech Accounting Standards

Financial statements provided for in the chapter "Financial Position (According to Czech Accounting Standards)" are compiled according to the undermentioned procedures and accounting policies.

In preparing these statements were respected general accounting principles, specifically the requirement of fair and true presentation of assets, liabilities, equity, expenses and income and economic result, the historical cost valuation basis with certain exceptions as described in chapter 4, the accruals principle, the prudence concept and the going concern assumption.

1. Tangible Fixed Assets

Fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 40 thousand (tangible assets except for land, buildings and constructions). Land, buildings and constructions are treated as fixed assets irrespective of their cost valuation.

With respect to assets defined by Act No. 16/1993 Coll., on Road Tax, as amended, assets also include assets with an acquisition cost lower than CZK 40 thousand. This also applies to all railway vehicles (primarily after the termination of the lease).

Land acquired prior to 1992 and invested as part of the non-cash investment is stated at a value prescribed by the regulation issued by the Finance Ministry ruling at the date of acquisition of assets. Land acquired after the formation of the Company is valued at acquisition cost.

Other tangible fixed assets are stated at acquisition cost.

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

Tangible assets with an acquisition cost greater than CZK 500 but less than CZK 40 thousand are expensed in the period of acquisition and are maintained only in the underlying operational records. The cost of fixed asset improvements exceeding CZK 40 thousand for the period increases the acquisition cost of the related fixed asset.

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

The liabilities related to finance or operating lease agreements are not recorded on the balance sheet according to the applicable accounting regulations.

Costs incurred with regard to finance and operating leases are charged to the profit and loss account in the period to which they relate on an accruals basis.

Depreciation and amortisation is calculated on a straight line basis over the estimated useful economic lives of the fixed assets. Railway vehicles are depreciated to the estimated residual value. The estimated useful economic lives for the major categories of assets are as follows:

	Depreciation method	Number of years / %
Buildings	Straight line	20-50 / 5-2 %
Structures	Straight line	20-50 / 5-2 %
Locomotives (part of locomotives without components)	Straight line	20-25 / 5-4 %
Wagons (part of wagons without components)	Straight line	30 / 3,33%
Machinery and equipment	Straight line	8 - 20 / 12,5 – 5 %

The useful lives of wagons that were modernized were set at 20 years from the modernization date. At the balance sheet date, the Company recognizes provisions against fixed assets on the basis of an assessment of the fair values of individual items or groups of assets.

Assets held under finance leases are depreciated by the lessor. Technical improvements on leasehold tangible fixed assets are depreciated on a straight line basis over the lease term or the estimated useful life.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the net book value of the asset at the sale date and is recognized through the profit and loss account.

1.1. Components
Components are repairs that correspond to the definition of the inspection of fault occurrence as set out in Regulation No. 500/2002 Coll., Section 56a (2), and comply with the definitions of components (according to Section 56a [2] of Regulation No. 500/2002 Coll., the component is an inspection of fault occurrence for which the valuation amount is significant in proportion to the amount of the valuation of total assets or a set of assets and the useful life of which significantly differs from the useful life of assets or a set of assets).

At ČD Cargo, components are considered to include major and general repairs of traction vehicles and inspection repairs of wagons and passenger train units. Since 2015, wheel sets of wagons and radio stations of traction vehicles have been treated as new components.

Components Depreciation
In accordance with Section 56a (3) or (5) of Regulation No. 500/2002 Coll., the Company depreciates the component over the use separately from other components and from the remaining part of assets or a set of assets.

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

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

In modernising wagons (extending their useful lives to 20 years), which also involves activities relating to inspection repairs, these activities are separated and recorded as a new component with regard to the relevant wagons. This component is subsequently depreciated in line with the accounting policy disclosed above.

In accordance with the Act on Income Taxes, the inspections for defects in wagons are treated as one-off costs and are not depreciated for tax purposes. In regard to traction vehicles, these inspections and radio stations are treated as technical improvements and are depreciated for tax purposes together with the remaining part of assets.

The costs relating to technical inspections for defects in wagons are recognised as common expenses of the relevant reporting period.

Components in passenger train units are depreciated over five years.

1.2. Valuation Difference on Fixed Assets

The valuation difference on acquired assets is composed of a positive or negative difference between the valuation of the business or part thereof acquired and the sum of the carrying values of individual components of assets of the selling, investing or dissolving entity net of assumed liabilities. A positive difference on acquired assets is amortised to expenses on a straight line basis over 180 months from the acquisition of the business or part thereof or from the effective date of transformation.

2. Intangible Fixed Assets

Intangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 60 thousand on an individual basis.

Intangible fixed assets are carried at cost. Intangible assets with an acquisition cost lower than CZK 60 thousand are expensed upon acquisition and classified in the underlying operating records.

Amortisation of intangible fixed assets is recorded on a straight line basis over their estimated useful lives as follows:

	Amortisation method	Number of years / %
Research and development	Straight line	3 / 33,3 %
Software	Straight line	5-8 /12, 5-30 %
Valuable rights	Straight line	6 / 16,7 %
Other intangible fixed assets	Straight line	6 / 16,7 %

2.1. Patents and Trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight line basis over their estimated useful lives.

3. Non-current Financial Assets

Non-current financial assets principally consist of loans with maturity exceeding one year, equity investments, securities and equity investments available for sale, and debt securities with maturity over one year held to maturity.

Upon acquisition, securities and equity investments are carried at cost. The cost of securities or equity investments includes the direct costs of acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges.

At the date of acquisition of the securities and equity investments, the Company categorises these non-current financial assets based on their underlying characteristics as equity investments in subsidiaries and associates or debt securities held to maturity, or securities and equity investments available for sale.

Investments in enterprises in which the Company has the power to govern the financial and operating policies so as to obtain benefits from their operations are treated as "Equity investment in subsidiaries".

Investments in enterprises in which the Company is in a position to exercise significant influence over their financial and operating policies so as to obtain benefits from their operations are treated as "Equity investments in associates".

Equity investments in subsidiaries and associates have been recorded at the value established using the equity method of accounting. The equity investment is recognised at cost upon acquisition and subsequently revalued at the balance sheet date to reflect the value equivalent to the Company's proportion of a subsidiary/associate's equity.

Other non-current financial assets have been valued at cost net of provisions, if any.

4. Derivative Financial Transactions

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

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

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

Derivative financial instruments are carried at fair value at the balance sheet date. In determining the fair value, the Company used a reasonable estimate.

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

Fair value changes with regard to trading derivatives are recognised as an expense or income from derivative transactions as appropriate.

Accounting policies by type of the hedging relationship are used for hedging derivatives. The Company uses the cash flow hedge method.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a legally enforceable contract, a forecasted future transaction, groups of assets, groups of liabilities, legally enforceable contracts, or forecasted future transactions with similar characteristics where the same type and category of risk is the subject of the hedge.

Gains or losses arising over the term of the hedge from changes in fair values of hedging derivatives contracted under cash flow hedging that are attributable to the hedged risks are retained on the balance sheet. The gains or losses are taken to income or expenses in the same period in which the income or expenses associated with the hedged item are recognised. In circumstances where this takes places before the maturity of the derivative, this derivative is internally classified as a fair value hedge derivative. Gains or losses arising from changes in fair values of hedging derivatives contracted under cash flow hedging that are attributable to unhedged risks are recorded as expenses or income from derivative transactions at the measurement date.

5. Inventory

Purchased inventory is valued at acquisition cost which also includes costs attributable to the acquisition, such as transportation costs, customs duties, and other related indirect costs.

Inventory produced internally is valued at the internal costs of production including direct costs and an element of overhead costs.

Inventory is issued out of stock at costs determined using the weighted arithmetic average method.

Inventory identified during the stock count and previously unrecorded in the accounting records, inventory originating from excess material from the disposal or repairs of fixed assets, or any possible donations are stated at replacement cost.

At the balance sheet date, provisions are made against inventory on the basis of stock taking results. The level of provisions against inventory is determined as equal to the difference between the acquisition cost and the estimated realisable costs which is equal to the value of scrap in most situations.

6. Receivables

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

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

As of the balance sheet date, tax-deductible provisions are recognised against receivables in accordance with Act No. 593/1992 Coll., the Provisioning Act, and tax non-deductible provisions against receivables depending on the periods past their due dates as follows:

- An additionally recognised full provision against receivables past their due dates by more than 721 days;
- An additionally recognised 50% provision against receivables past their due dates between 361 and 720 days; and
- An additionally recognised 20% provision against receivables past their due dates between 180 and 360 days

The above policy does not apply to receivables from the entities from within the České dráhy Group. In addition to the above defined rules, tax non-deductible provisions are recognised on the basis of an individual assessment of the recoverability of receivables.

7. Trade Payables

Upon origination, payables are stated at their nominal value. Payables acquired through assignment are carried at cost.

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

8. Loans

Loans are stated at their nominal value. The portion of long-term loans maturing within one year from the balance sheet date is included in short-term loans. Borrowing costs arising from loans attributable to the acquisition, construction, or production of fixed assets and accrued until the inclusion of assets are capitalised as part of the cost of such assets. All other borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

9. Equity

As of the Company's formation date on 1 December 2007, the investment in the Company consisted of the part of business of České dráhy (set of tangible and intangible assets, and staff components of business activities used for the railway freight transportation) in values revalued by an expert. The value of these assets listed in the Deed of Foundation as of the Company's formation date was reported as the Company's share capital and share premium.

Gains or losses from the revaluation of assets and liabilities predominantly include the fair value of hedging derivatives and the value of revaluation of non-current financial assets using the equity method of accounting.

The Company created a social fund. Its creation and use are stipulated by internal guidelines of the Company.

10. Reserves

Reserves are intended to cover future obligations or expenditures, the nature of which is clearly defined and which are likely to be incurred but which are uncertain as to the amount or the date on which they will arise.

The reserve for a potential impact of legal disputes is recognised based on an estimate of the anticipated results of ongoing legal disputes.

The reserve for outstanding vacation days is established on the basis of a reasonable estimate as equal to the estimated future cash outflows triggered by the use of vacation days that remained outstanding at the year-end.

The reserve for business risks is established on the basis of a reasonable estimate as equal to the estimated future cash outflows.

The reserve for complaints in freight transportation is created using a reasonable estimate of the amount of anticipated future cash outflows.

The reserve for employee benefits includes the claim of employees for a financial contribution at life jubilees, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. In calculating the employee benefits reserve, the Company used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents such as: anticipated fluctuation of employees, anticipated increase in salaries, anticipated inflation level, likelihood of death or disablement according to the data of the Czech Statistical Office. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds. A change in the amount of the reserve due to the change in these parameters will be reported in profit and loss account line G "Change in reserves and provisions relating to operating activities and complex deferred expenses".

The reserve for restructuring is recognised as equal to the estimated future cash outflows pursuant to the restructuring plan.

Reserves for loss-making transactions are established on the basis of a reasonable estimate as equal to an estimated future liability arising from the loss. The amount includes the difference between the discounted net anticipated incomes and discounted anticipated expenses.

11. Foreign Currency Translation

Transactions denominated in foreign currencies are recorded at the fixed Exchange rate announced by the Czech National Bank on the first day of each month. Payments are recorded at the rate prevailing on the payment date. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the exchange rate of the Czech National Bank ruling as of that date.

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

12. Finance Lease

A finance lease is the acquisition of a tangible fixed asset such that, over or after the contractual lease term, ownership title to the asset transfers from the lessor to the lessee; pending the transfer of title the lessee makes lease payments to the lessor for the asset that are charged to expenses.

The initial lump-sum payment related to assets acquired under finance leases is amortised and expensed over the lease period.

13. Contractual Fines and Default Interest

In accordance with Czech legislation ruling at the balance sheet date, contractual fines and interest on late payments of receivables and payables are recorded when the receivable originates or the payable is incurred.

14. Taxation

14.1. Depreciation of Fixed Assets for Tax Purposes
Depreciation of fixed assets is calculated using the straight line method for tax purposes.

14.2. Current Tax Payables
Management of the Company has recognised a tax payable and a tax charge based on its tax calculation which follows from its understanding of the interpretation of Czech tax legislation valid at the financial statements date and believes that the amount of tax is correct in compliance with the effective Czech tax regulations. Since various interpretations of tax laws and regulations by third parties, including state administrative bodies, exist, the income tax payable reported in the Company's financial statements may change based on the ultimate opinion of the tax authorities.

14.3. Deferred Tax

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

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

15. Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

16. Government Grants

Grants received to offset costs are recognised as other operating and financial income over the period necessary to match them with the related costs. Grants received to acquire tangible and intangible fixed assets and technical improvements and grants towards interest expenses added to the cost are deducted in reporting their cost or internal cost.

17. Revenues and Expenses

Revenue from transportation is recognised in the period in which the transportation services were provided.

Expenses and revenue arising from these activities are recognised in the profit or loss in the period to which they relate on an accrual basis.

18. Use of Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

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Events after the Balance Sheet Date

A tripartite framework agreement overreaching multi-year collaboration was signed with ArcelorMittal Ostrava a.s., one of the ČD Cargo, a.s. key customers and Ostravská dopravní společnost, a.s.. This agreement was tendered for the period 2013 – 2016 with the possibility of a 3-year option. ArcelorMittal Ostrava a.s. has change the ownership structure of the Company Ostravská dopravní společnost, a.s., where ČD Cargo, a.s would have a minimum 50% stake a condition for the use of the option. Therefore, Ostravská dopravní společnost – Cargo, a.s., has been established on 1 January 2017, by registration to the commercial register. Because of a spin-off from Ostravská dopravní společnost, a.s., ČD Cargo, a.s. increased its share from 20% to 50% at a price of CZK 15.2 mil

ČD Cargo, a.s. kept 20% share in the spinned-off company Ostravská dopravní společnost – Cargo, a.s. Ostravská dopravní společnost, a.s., used the option and signed an amendment to agreement with ArcelorMittal Ostrava a.s., valid until the end of 2019.

At the General Meeting the Company České dráhy, a.s., as a sole shareholder of ČD Cargo, a.s., decided to recall Frantisek Bures, MBA, LL.M, from the function of the Member of a Supervisory Board effective from 21 March 2017.

At the General Meeting the Company České dráhy, a.s., as a sole shareholder of ČD Cargo, a.s., decided to elect Miroslav Kupec as a Member of the Supervisory Board effective from 22 March 2017.

At the General Meeting the Company České dráhy, a.s., as a sole shareholder of ČD Cargo, a.s., decided to recall Ludvik Urban and Jan Hart, LL.M, from their functions as the Members of a Supervisory Board effective from 31 March 2017.

At the General Meeting the Company České dráhy, a.s., as a sole shareholder of ČD Cargo, a.s., decided to elect Roman Onderka, MBA and Jiří Svachula as Members of the Supervisory Board effective from 1 April 2017.

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Related Party Transactions Report

The report on relations between the related parties prepared by the Statutory Body of the Company pursuant to the provisions of Section 82 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives, as amended.

The statutory body of ČD Cargo, a.s., with its registered office at Jankovcova 1569/2c, Prague 7 – Holešovice, 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 2016 to 31 December 2016 in compliance with Section 82 of Act No. 90/2012 Coll., Act on Business Corporations and Cooperatives, as amended.

The report is attached to the annual report and the statutory body ensures its inclusion in the collection 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, 110 15
Corporate ID: 709 94 226
Recorded at the Commercial Register held at the Municipal Court in Prague, Section B, File 8039.

Pavel Krtek, Chairman of the Board of Directors from 1 January 2016 to 31 December 2016 (member from 21 February 2014, appointed Chairman from 10 November 2014)
Ludvík Urban, Vice-chairman of the Board of Directors from 1 January 2016 to 31 December 2016 (member and appointed from 10 November 2014)
Michal Štěpán, member of the Board of Directors from 1 January 2016 to 31 December 2016 (member from 21 February 2014)
František Bureš, member of the Board of Directors from 1 January 2016 to 7 December 2016 (member from 16 October 2014)
Roman Štěrba, member of the Board of Directors from 1 January 2016 to 7 December 2016 (member from 10 November 2014)
Miroslav Kupec, member of the Board of Directors from 7 December 2016 to 31 December 2016 (member from 7 December 2016)
Martin Bělčík, member of the Board of Directors from 7 December 2016 to 31 December 2016 (member form 7 December 2016)
(hereinafter the "Controlling Entity")

2) Controlled Entity:

Entity: **ČD Cargo, a. s.**
With its registered office in: Prague 7 - Holešovice, Jankovcova 1569/2c, 170 00
Corporate ID: 281 96 678
Zapsaná v OR u Městského soudu v Praze, oddíl B, vložka 12844

Ivan Bednárik, Chairman of the Board of Directors from 1 January 2016 to 31. 12. 2016 (member form1 November 2014, appointed from 3 November 2014)
Bohumil Rampula, member of the Board of Directors from 1 January 2016 to 31 December 2016 (member from 1 November 2014)
Zdeněk Škvařil, member of the Board of Directors from 1 January 2016 to 31. 12. 2016 (member from 1 November 2014)
(hereinafter the "Controlled Entity")

3) Entities Controlled by the Same Controlling Entity as the Controlled Entity

- ČD – Telematika a.s., Corporate ID: 61459445, with its registered office at Pernerova 2819/2a, Prague 3, 130 00, recorded at the Municipal Court in Prague, File B, Insert 8938
- ČD - Informační Systémy, a.s., Corporate ID: 24829871, with its registered office at Pernerova 2819/2a, Prague 3, Žižkov, 130 00, recorded at the Municipal Court in Prague, File B, Insert 17064
- ČD Reality a.s., Corporate ID: 27195872, with its registered office at Václavkova 169/1, Prague 6, Dejvice, 160 00, recorded at the Municipal Court in Prague, File B, Insert 9656
- ČD travel, s.r.o., Corporate ID: 27364976 with its registered office at 28. října 372/5, Prague 1 – Staré Město, 110 00, Corporate ID: 27364976, recorded at the Municipal Court in Prague, File C, Insert 108644
- Dopravní vzdělávací institut, a.s., Corporate ID: 27378225, with its registered office at Husitská 42/22, Prague 3-Žižkov, 130 00 (hereinafter "DVI"), recorded at the Municipal Court in Prague, File B, Insert 10168
- DPOV, a.s., Corporate ID: 27786331, with its registered office at Husova 635/1b, Přerov, 751 52, recorded at the Regional Court in Ostrava, File B, Insert 3147
- RailReal a.s., Corporate ID: 26416581, with its registered office at Olšanská 1a, Prague 3 – Žižkov, 130 00, recorded at the Municipal Court in Prague, File B, Insert 6888
- RAILREKLAM, spol. s r.o., Corporate ID: 17047234, with its registered office at Štětkova 1638/18, Prague 4 – Nusle, 140 00, recorded at the Municipal Court in Prague, File C, Insert 2041
- Smíchov Station Development, a.s., Corporate ID: 27244164, with its registered office at U Sluncové 666/12a, Karlín, Prague 8, 180 00, recorded at the Municipal Court in Prague, File B, Insert 9949
- Výzkumný Ústav Železniční, a.s., Corporate ID: 27257258, with its registered office at Novodvorská 1698, Prague 4 – Braník, 142 01, recorded at the Municipal Court in Prague, File B, Insert 10025
- Žižkov Station Development, a.s., Corporate ID: 28209915, with its registered office at U Sluncové 666/12a, Karlín, Prague 8, 180 00, recorded at the Municipal Court in Prague, File B, Insert 13233

(The Controlled Entity, the Controlling Entity and other entities controlled by theControlling Entity are hereinafter referred to as "related entities".).

The structure of mutual relations between related entities can be described as follows: the Controlling Entity exercises its shareholder rights based on the applicable Articles of Association (in joint stock companies) or Deeds of Association (in limited liability companies). Specifically with regard to the Controlled Entity, the Controlling Entity is its sole shareholder and exercises its shareholder rights through decisions made as part of the general meeting of the Controlled Entity and the Controlled Entity implements these decisions in its conditions. In the ČD Group, the Controlled Entity provides the freight railway transportation of goods with a set of related services. Through the Controlled Entity, the Controlling Entity is able to indirectly exercise its influence on the subsidiaries of the Controlled Entity. Related parties enter into standard business and obligations relations.

Through the Controlled Entity, the Controlling Entity also can indirectly exercise its influence in the subsidiaries of the Controlled Entity.

Article II.

List of activities in the reporting period at the initiative or in the interest of the Controlling Entity or related parties regarding the assets exceeding 10% of the equity of the Controlled Entity

Given that 10% of the equity totalling CZK 7,603 million of the Controlled Entity as identified from the most recent financial statements amounts to CZK 760,3 million, only contractual relationship between ČD Cargo, a.s. and České dráhy, a.s. of conditions of the electricity consumption of electric traction and reimbursement was noted in the year ending 31 December 2016. Under this contract purchase in total annual value of CZK 809.04 million was made.

Article III.

Contracts and Agreements Effective between Related Entities

During the relevant reporting period (year ending 31 December 2016), 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 contract	Lease	Other	Total
ČD-Informační Systémy, a.s.	39	-	-	26	65
České dráhy a.s.	11	3	48	172	234
ČD – Telematika, a.s.	1	-	-	4	5
ČD Reality, a.s.	-	-	-	-	-
ČD travel, s.r.o.	-	-	-	2	2
Dopravní vzdělávací institut, a.s.	-	-	-	3	3
DPOV, a.s.	4	-	1	9	14
RailReal a.s.	-	-	-	-	-
RAILREKLAM, spol. s r.o.	2	-	-	-	2
Smíchov Station Development, a.s.	-	-	-	-	-
Výzkumný Ústav Železniční, a.s.	1	1	-	2	4
JLV, a.s.	-	-	-	1	1
Žižkov Station Development, a.s.	-	-	-	-	-
TOTAL	58	4	49	219	330

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, however the conclusion of such contract is allowed and not ruled out by the legal regulation.

In the reporting period, mutual sales and purchases between related parties included business transactions arising from both contracts concluded in the reporting period (i.e. year ending 31 December 2016) 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 partner entity	Sales of ČD Cargo, a.s. (in CZK million)	Purchases of ČD Cargo, a.s. (in CZK million)
České dráhy a.s.	21	1,533
ČD Telematika, a.s.	1	16
Výzkumný Ústav Železniční, a.s.	21	1
DPOV, a.s.	6	137
ČD - Informační Systémy, a. s.	-	139
Dopravní vzdělávací institut, a.s.	-	19
ČD travel, s.r.o.	-	18
Smíchov Station Development, a.s.	-	-
Žižkov Station Development, a.s.	-	-
RailReal, a.s.	-	-
RAILREKLAM spol. s r.o.	-	0,3
JLV, a.s.	-	1
TOTAL	49	1,864

The Board of Directors declares that it identified relations between the relevant related parties according to the current list of related parties and described these relations in the Report on Relations.

Article IV.

Assessment as to whether the Controlled Entity incurred detriment and method of its settlement

The Controlled Entity incurred no detriment in the reporting period from 1 January 2016 to 31 December 2016:

- 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;
- 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 2016

- In the reporting period from 1 January 2016 to 31 December 2016, 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; and,
- 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 2016 to 31 December 2016, no legal acts were realised by the Controlled Entity in the interest of other related entities other than common legal acts.

Article V.

Measures between Related Entities

During the reporting period from 1 January 2016 to 31 December 2016, no measures were taken by the Controlled Entity in the interest or at the initiative of another related entity other than common measures implemented by the Controlling Entity as the shareholder in relation to the Controlled Entity. All contracted consideration, provided or received by the Controlled Entity (which prepared this report), was offset by contracted payments. These payments were contracted with volumes, places and times similar to common practice, at arm's length, and no advantages or disadvantages were provided. The Controlled Entity incurred no detriment from the concluded contracts, other legal acts or measures between the related entities pursuant to Section 71 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives, as amended.

Article VI.

Confidentiality of Information

Confidential information in the ČD Group includes information and facts that are part of the trade secrets of the related entities and information described as confidential by any related entity. Confidential information further comprises all trade relation information that could, in itself or in connection with other information or facts, cause detriment to any of the related entities. To avoid causing detriment to the Controlled Entity, the report of the Statutory Body of the Controlled Entity does not include a detailed breakdown of the above-mentioned items.

Article VII.

Conclusion

This report was prepared by the Statutory Body of the Controlled Entity, ČD Cargo, a.s. will be filed in the Collection of Documents maintained by the Register of Companies held by the Municipal Court in Prague.

In Prague on 31. March 2017

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

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List of Used Abbreviations

AEO	Authorised Economic Operator
BOZP	Occupational health and safety (OHS)
ČD	České dráhy, a.s.
ČDC	ČD Cargo, a.s.
DKV	Rail vehicle yard
Eas, Zaes, Falls, Roos, Ua Sggrrs, Laaps	Business series of freight wagons
EMS	Environmental Management System
GŘ	General Directorate
GVD	Train diagram
HZS	Fire brigade
ICT	Information and communication technologies
IFRS	International Financial Reporting Standards
ISR	European central system for the monitoring of movements of freight wagons and consignments
IT	Information technologies
ISO	International Organization for Standardization
KV	Rail vehicle
MU	Extraordinary event
OHSAS	Occupational Health and Safety Assessment Series
OKV	Rail vehicle repair plant
OSŽ	Union of Railway Workers (odborové sdružení železničářů)
PJ	Operating unit
PROBIS	Operational and business information system
QMS	Quality Management System
SOKV	Rail vehicle repair service centres
SŽDC	Railway Infrastructure Administration, state organisation
UIC	International Union of Railways
ÚDIV	Central forming of trains
ŽDP	Rail Transport Company
ŽKV	Railway vehicles
ŽP	The environment
Žst.	Railway stations

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Identification and Contact Information

Business name: ČD Cargo, a.s.

Registered office: Prague 7, Holešovice, Jankovcova 1569/2c, 170 00

Corporate ID: 281 96 678

Tax ID: CZ 281 96 678

Registry court: Prague

File number: File B, Insert 12844

Phone: +420 9722 42 100

Fax: +420 9722 42 101

Data box: 8tscdpq

Email: press@cdcargo.cz

http: www.cdcargo.cz

Customer info line:

Phone: +420 972 242 255

Fax: +420 972 242 103

Email: info@cdcargo.cz

Cargo