



Annual Report 2015

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TABLE OF CONTENTS

| | | |
|-----------|--|------------|
| 1 | Mission, Vision and Goals | 4 |
| 2 | Company Profile | 5 |
| 3 | Basic Economic Indicators | 6 |
| 4 | Major Events in 2015 | 8 |
| 5 | Opening Statement of the Chairman of the Board of Directors | 10 |
| 6 | Statutory Bodies and Management of the Company | 12 |
| 7 | Organisational Structure of ČD Cargo, a.s. as of 31 December 2015 | 16 |
| 8 | Report of the Board of Directors on the Business Activities of ČD Cargo, a.s. and the Balance of its Assets | 18 |
| 9 | Financial Position | 32 |
| 10 | Anticipated Development, Objectives and Intended Activities | 37 |
| 11 | Share Capital | 38 |
| 12 | Report of the Supervisory Board and Audit Committee | 39 |
| 13 | Report of the Audit Committee | 45 |
| 14 | Separate Financial Statements (CAS) | 47 |
| 15 | Separate Financial Statements (IFRS) | 78 |
| 16 | Consolidated Financial Statement (IFRS) | 109 |
| 17 | Related Party Transactions Report | 143 |
| 18 | List of Used Abbreviations | 147 |
| 19 | Identification and Contact Information | 148 |

1

Mission, Vision and Goals

The strategic vision of ČD Cargo, a.s., (hereinafter also referred to as the "Company") is to follow its rich history and to maintain its leading position in railway freight transportation in the Czech Republic. The Company aims to strengthen its position among the five largest railway transportation companies by intensifying its impact in the region of Central Europe. With respect to its position, the Company must strive for a clear and long-term definition of transport policy both in the Czech Republic and in the EU in order to achieve a balance between the rules and conditions for railway transport and road transport, including the rules for fair charges.

In order to fulfil its vision, the Company will have to meet a number of partial but very important goals in the near future. These primarily include the ability to provide comprehensive transportation services of

the highest quality, fully compliant with market requirements and the requirements of individual customers. In terms of customer needs, the Company must strengthen its flexibility by extending its services in both domestic and foreign markets, which will subsequently lead to strengthening its position in the field of international transportation. The Company's expansion may be achieved using the potential of foreign companies with the Company's own equity interest. This is one of the reasons why ČD Cargo, a.s., plans to extend its fleet of traction vehicles by purchasing new interoperable locomotives to be operated on the European railway network.

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.

2

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 of complete trains; and
- Transportation of individual wagon loads.

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

- Local;
- Export;
- Import; and
- 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;
- Food and agricultural products;
- Combined transportation;
- Automotive products; and
- 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; and
- Others.

3

Basic Economic Indicators

| Indicators | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 *) | Index 15/14 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|
| Structure of assets and liabilities (CZK million) | | | | | | | | | |
| Total assets | 14 706 | 14 331 | 14 693 | 14 932 | 15 664 | 15 652 | 15 672 | 15 987 | 1,03 |
| Fixed assets | 11 303 | 11 254 | 11 547 | 12 253 | 12 957 | 13 045 | 12 424 | 12 282 | 1,00 |
| Equity | 7 238 | 6 983 | 6 444 | 6 049 | 8 009 | 7 967 | 8 230 | 8 282 | 1,04 |
| Structure of profit/loss (CZK million) | | | | | | | | | |
| Operating profit or loss | 368 | 893 | 563 | -1 408 | 314 | -125 | 8 | 593 | 0,41 |
| Profit or loss before tax | 235 | 725 | 601 | -2 047 | 11 | -418 | -378 | 474 | 0,32 |
| Structure of revenues (CZK million) | | | | | | | | | |
| Total revenues | 12 519 | 13 389 | 15 199 | 15 405 | 15 042 | 14 984 | 15 003 | 17 800 | 0,94 |
| Sales of own products and services | 11 800 | 11 973 | 12 559 | 13 928 | 14 404 | 14 121 | 13 272 | 17 109 | 0,99 |
| Financial indicators | | | | | | | | | |
| Turnover of assets (total revenues/total assets) | 0,85 | 0,93 | 1,03 | 1,03 | 0,96 | 0,96 | 0,96 | 1,11 | 0,91 |
| Indebtedness (liabilities/total assets) | 0,51 | 0,51 | 0,56 | 0,59 | 0,49 | 0,49 | 0,47 | 0,48 | 0,99 |
| Liquidity (current financial assets/current liabilities) | 0,21 | 0,18 | 0,12 | 0,05 | 0,03 | 0,07 | 0,05 | 0,05 | 1,19 |
| Employees | | | | | | | | | |
| Average headcount recalculated to FTE (number of employees) | 7 249 | 7 396 | 7 998 | 8 910 | 9 207 | 9 573 | 10 378 | 11 394 | 0,98 |
| Total revenue per employee (CZK/employee) | 1 726 946 | 1 810 251 | 1 900 405 | 1 728 954 | 1 633 736 | 1 565 198 | 1 445 675 | 1 562 209 | 0,95 |
| Added value per employee (CZK/employee) | 723 116 | 724 054 | 681 197 | 612 600 | 678 452 | 598 224 | 542 148 | 561 505 | 1,00 |

*) Figures relate to the 2008 calendar year; they do not correspond with the accounting values reported for the reporting period ended 31 December 2008.



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Major Events in 2015

January

- 10th anniversary of the incorporation of CD Generalvertretung GmbH, with its registered office in Frankfurt am Main;
- 19 January – on behalf of the Company, the Chairman of the Board of Directors, Ivan Bednárik, received the Best Supplier award from ArcelorMittal Ostrava;
- 21 January – the first train carrying white phosphorus from Kazakhstan arrived at Fosfa's sidetrack in Břeclav. ČD Cargo, a.s., was fully in charge of the transport of these containers;
- 31 January – the first test train carrying containers with Dacia cars from Ciumesti in Romania to Hamburg crossed the Czech territory.

February

- Interactive e-learning courses for train drivers were launched;
- 2 February – the 200th train transporting Mattoni mineral waters was dispatched from Kyselka to Prostějov;
- 4 February – special ČD Cargo, a.s., cars for the renovation of Prague's central train station were dispatched for the first time. These transports continued throughout the year.

March

- 4 March – the first gravel loading onto a Dumpcar (Ua) train took place in Žďárec u Skutče. The gravel was designated for construction work on doubling the tracks between the Stěblová and Opatovice nad Labem – Pohřebačka stations;
- 18 March – a Vectron 193.220 locomotive, provided by Lokotrain, was tested with a ČD Cargo train between the Břeclav and Bratislava stations;
- 27 March – the final assessment of ČD Cargo, a.s.'s management took place, in the context of having gained the SQAS certificate (Safety & Quality Assessment System) in the field of transporting dangerous cargo;
- 28-30 March ČD Cargo, a.s., transported the Twindexx Express Bombardier unit, designated for operation in Switzerland, to the Testing Railway Circuit in Cerhenice.

April

- The Koleje Czeskie subsidiary launched a new period of its activity: a gradual increase in the number of transports was carried out using its own licence;
- 16 April – ČD Cargo, a.s., became the main partner of the Czech Logistics Day, which took place on the premises of the CTPark Prague North – a new specialised discussion forum dealing with the Czech logistics development strategy;
- 16 April – ČD Cargo terminated its activities in the Xrail organisation;
- 21-24 April – ČD Cargo, a.s., participated in the TransRussia fair in Moscow.

May

- 5-8 May – ČD Cargo, a.s., participated in the Transport Logistic Fair in Munich;
- 1-8 May – sand was unloaded in Prague for the beach volleyball World Series Open Category Tournament;
- 19 May – another edition of the Legiovlak project was launched with a major contribution from ČD Cargo, a.s.;
- 22 May – re-certification based on the ISO 9001, ISO 14001 and OHSAS 18001 standards was completed.

June

- 16-18 June – the Czech Raildays fair, an international railway and handling technology fair, took place in Ostrava with the participation of ČD Cargo, a.s.

July

- 1 July – the “04 Version” of the Contractual Transport Conditions of ČD Cargo, a.s., became effective, responding to the need for due documentation of consignments that are subject to excise tax;
- 20 July – following the beginning of the traffic closure between the Hanušovice and Lipová Lázně stations, there was a change in the operation system of Jesenicko from Krnov on the privileged traffic corridor leading across Polish territory.

September

- 1 September – beginning of the traffic closure at the Lichkov – Międzyzylesie border crossing. Freight train transport was rerouted, using the otherwise unused Meziměstí – Mieroszów crossing;
- 12-15 September – transport of a transformer from Čelákovice to Dobrá u Frýdku-Místku to the switching station in Nošovice;
- 20 September – the transport of sugar beet to the sugar refinery in Hrušovany nad Jevišovkou was launched.

October

- 12-15 October – a meeting of the NATO partner logistics experts' permanent group took place in Pardubice, involving a demonstration of the loading and fastening of military technology and ČD Cargo accompanying cars. NATO experts acknowledged the professional approach of ČD Cargo, a.s.
- 21 October – the ČD Cargo 363.528 locomotive first arrived in Curtici, Romania, carrying a train loaded with cars.
- October 22 – the 12th annual business conference for customers of ČD Cargo was held in Hotel Galant in Mikulov

November

- In late November 2015, new ČD Cargo, a.s., bonds were issued with a five-year maturity and a total value of CZK 1 billion.

December

- Completion of the purchase of 23 163-series locomotives from ČD, a.s., Some of these locomotives will be operated in Poland;
- 1 December – a new department, the Customer Centre, was formed;
- 51st week of the transport of two BVP armoured vehicles from Polička to the Bremenhaven port, which was followed by sea transport to the US Air Force base in Eglin, Florida. ČD Cargo, a.s., was fully in charge of the land transport, including the loading;
- 31 December – the last regular ČD Cargo, a.s., train departed from the Praha-Žižkov loading station, carrying a container terminal of the Rail Cargo Operator – CSKD. This company has moved its activities to Mělník.

5

Opening Statement of the Chairman of the Board of Directors

Ladies and Gentlemen, dear Shareholders and Business Partners,

Allow me to present to you the annual report of ČD Cargo, a.s., for the year ending 31 December 2015, which gives us a unique opportunity to look back on the past reporting period, to assess and conclude it.

It is therefore natural to ask what the year 2015 was like for ČD Cargo, a.s. Despite all the problems and negative forecasts, I am proud to say the year was definitely a successful one. Not only based on the Company's economic results, but also with regard to other circumstances that helped us achieve these results.

The year 2015 was my first full year as Chairman of the Board of Directors, however the foundations for the successes the Company achieved this year had already been laid in late 2014. We were facing a number of challenges, which is no surprise given the free market environment of railway freight transportation. However, we managed to react adequately to the decrease in transports from previous years, and we may therefore refer to 2015 as a year of stabilisation, not only with regard to the Company's transport performance, but also to its economic results. The increased discount on the railroad charge for individual car consignments from the end of last year also provides an opportunity to further develop this segment in the future, thus benefiting from the fact that our Company is the only railroad carrier that is able to offer this service in the entire Czech Republic.

The Company has managed to assert itself amidst extraordinarily tough competition on the home market, and the few losses that resulted primarily from the varying development in individual market segments were balanced out by the Central European rail market. The results of this expansion were mainly tangible towards the end of the year, and if this trend continues, we may expect an even greater contribution of cross-border transits in the economic results of ČD Cargo, a.s., next year. We intend to profit, in particular, from the potential represented by foreign companies in which we hold an equity interest.

Expanding into foreign countries, however, will require modernising and diversifying our fleet of traction vehicles with interoperable locomotives that can be used anywhere on the European railroad network. This is why in the past reporting period, after many years, we opened a tender for

new locomotives, with the requirement that they be operable not only in the neighbouring states, but also in more distant countries.

In the past year, we also focused on new market segments that promise new business opportunities, such as car transport, combined transport including both conventional naval container transport and the developing transport of swap bodies, road semitrailers and bulk cargo.

When assessing the Company's economic results, we must also take into account the other side of the coin, namely the costs. We took great efforts to optimise our operating activities and succeeded in achieving a more efficient use of our operating resources and available capacities, which helped reduce the total costs. We also managed to make the necessary savings by optimising the repairs and maintenance of vehicles and by ensuring transparent competition between our suppliers. Thanks to all these steps, we managed to stabilise our company on a staff level and conclude a collective agreement for the year 2016.

Our current and potential customers have remained our main focus. We broadened our portfolio to cover the entire logistics chain with comprehensive and competitive services. We have also established a customer centre, which is another step in improving the quality of our services and providing our customers with good access to information.

When speaking of the past year as a successful one, I must take this opportunity to thank all our customers and business partners, as ČD Cargo, a.s., would not have achieved its results without them. We must live up to this trust. I am firmly convinced that ČD Cargo, a.s., will remain a reliable partner, able to provide high-quality and comprehensible services, and that the upcoming year will be at least as successful as the past.



Ivan Bednárík
Chairman of the Board of Directors

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Chairman of the Board of Directors

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Ivan Bednárík
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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 of 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: 40

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: 59

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: 58

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.



.....
Board of Directors and Management



Ivan Bednárík

Zdeněk Škvařil

Bohumil Rampula
.....

Supervisory Board

1. Pavel Krtek

Chairman of the Supervisory Board (since 16 March 2014), age: 45

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

Member of the Supervisory Board (since 12 March 2014), age: 45

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: 64

Jan Kasal graduated from the Technical University in Prague. From 1975, he worked at Žďárské strojírný 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: 51

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: 62

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: 41

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 CNB'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: 42

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.

Changes in the Composition of the Supervisory Board

On 3 February 2015, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting appointed Jan Hartl a member of the Company's Supervisory Board with immediate effect.

On 28 April 2015, České dráhy, a.s., as the sole shareholder of the Company and acting in the capacity of the general meeting appointed František Bureš a member of the Company's Supervisory Board with immediate effect.

Audit Committee

1. Oldřich Vojtěch

Chairman of the Audit Committee (member since 15 December 2009, Chairman since 18 February 2010), age: 54

On 16 December 2014, he was re-appointed for another term.

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

2. Libor Joukl

Member of the Audit Committee (since 15 December 2009), age: 49

On 16 December 2014, he was re-appointed for another term.

Libor Joukl graduated from the Brno University of Technology. In 1989, he joined ŽDAS 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. Příbyslav. Since 2002 he has been a member of the Town Council of Příbyslav. 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

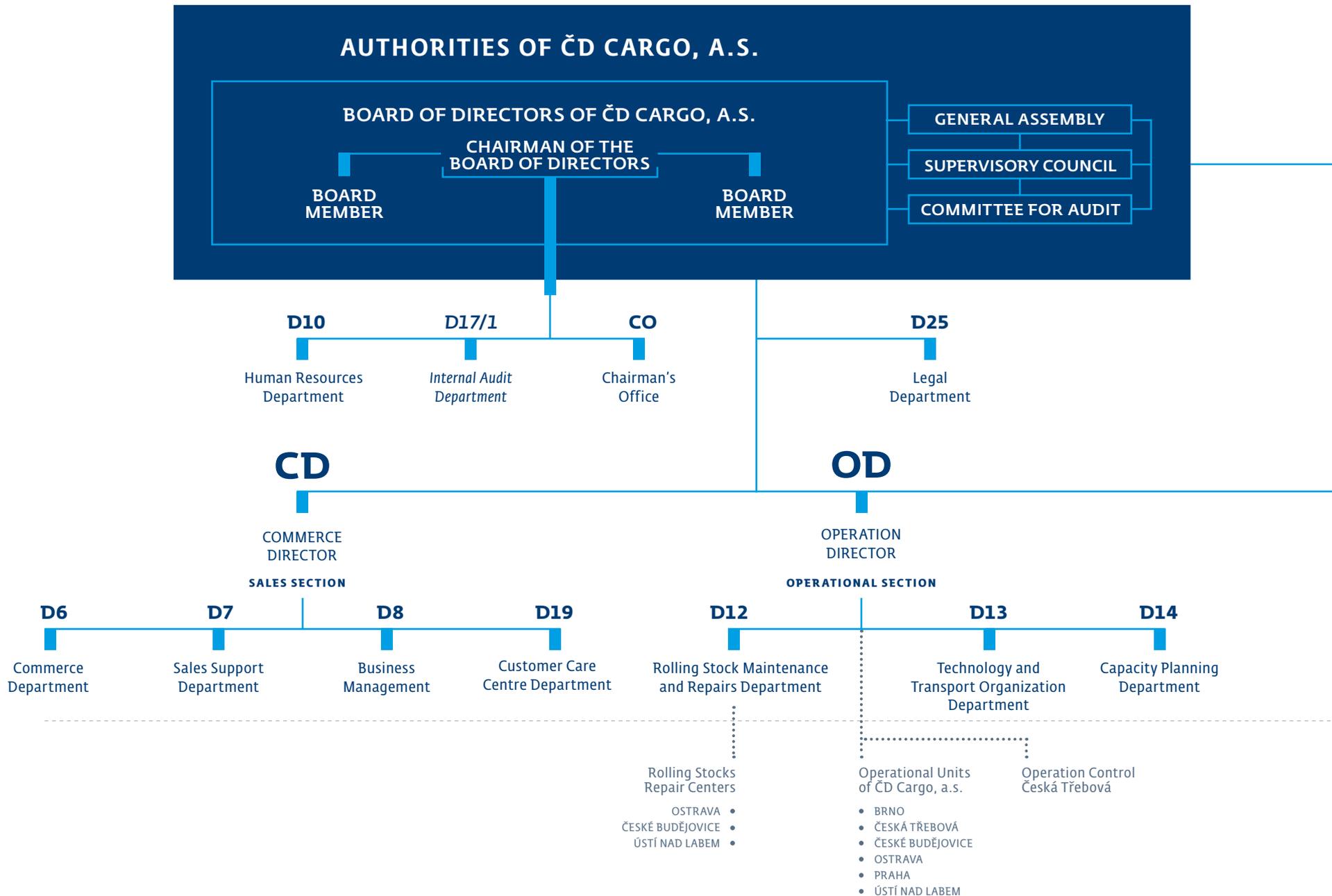
Member of the Audit Committee (since 15 December 2009), age: 53

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.

7

Organisational Structure of ČD Cargo, a.s., as of 31 December 2015



Joint ventures, capital interests

RAILLEX, a.s.

BOHEMIAKOMBI, spol. s r.o.

Ostravská dopravní společnost, a.s.

BCC s.c.r.l.

Subsidiaries

CD Generalvertretung GmbH (based in Frankfurt am Main)

KOLEJE CZESKIE SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ (based in Warsaw)

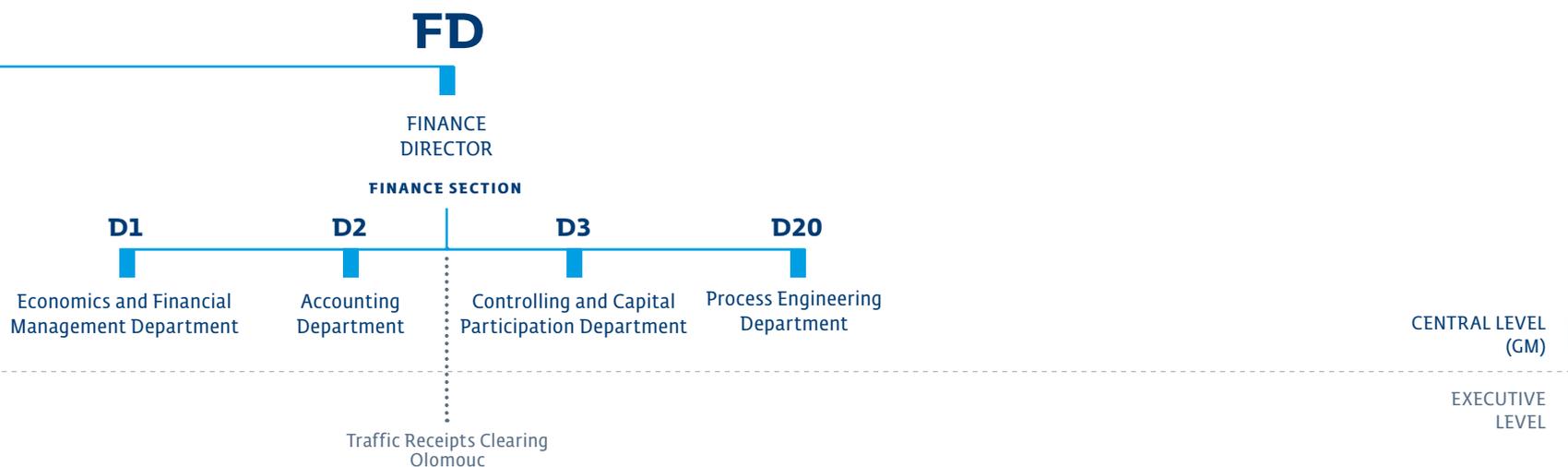
Terminal Brno, a.s.

ČD Logistics, a.s. (based in Praha)

ČD-DUSS Terminál, a.s. (based in Lovosice)

Auto Terminal Nymburk, s.r.o.

Generálne zastúpenie ČD Cargo, s.r.o. (based in Bratislava)



8

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 Transport Operations

FREIGHT TRANSPORT

In 2015, ČD Cargo trains transported 66.4 million tonnes of goods, which is 2.2 million tonnes less than in the previous year, representing a 3.3% year-on-year decrease. The revenues of ČD Cargo, a.s., for these transports amounted to CZK 9.3 billion, which is approximately CZK 472 million less than in 2014. Overall, the year-on-year decrease is approx. 5%. The comparison of both values clearly shows that in 2015, ČD Cargo, a.s., had to face severe competition, which had a natural impact on the Company's unit prices of transport.

There are two main reasons for the above-described decreases: the loss of container transports to North-Sea ports to METRANS and the drop in the transports of individual wagon loads. In the first case, the loss was due to the fact that METRANS Rail took over a large part of the transports; the loss of individual wagon loads was caused by low oil prices, which led to a higher competitive ability of road transport and a low demand for the transport of commodities transported by individual wagon loads, such as scrap iron, for example. Different road and railroad charge conditions also account for a large portion of the decrease in transports in this sector.

However, a comparison of the transport performance data shows that the year was certainly not a bad one for the Company. In 2015, ČD Cargo achieved a transport performance of 11.1 billion tkm, as compared to 11.6 tkm in 2014, which is a 4.5% decrease. Taking into account the significant change brought about by the loss of the METRANS transports, the results of ČD Cargo, a.s., must be considered positive, because the sum for all commodities, less combined transport, represents an increase of almost 4%.

The development in the iron and engineering products commodities was negatively impacted by several factors. Unfortunately, a large part of transit transports of metallurgical goods from Poland to Austria and Italy was lost. These were taken over by the carrier RCA, which had an advantageous position since part of the metallurgical production was moved from the Czech Republic to Poland. These transports had previously been performed by ČD Cargo, a.s., as individual consignments; now

they are collected in Poland and then transported to their destinations at once. The transit of metallurgical products from Slovakia to Germany also dropped. As a result of the low price of iron ore from Ukraine, its transports from Bosnia to the steelworks in Ostrava and in Poland significantly decreased. A number of metallurgical product transports from the Czech Republic to Poland were also lost due to PKP Cargo's unwise pricing policy on individual wagon loads. However, leaving aside the bad news, there were also several positive developments: a number of new transports were gained, albeit with lower volumes. An example is the transport of wire rolls from Salzgütter in Germany, or rolled sheet metal from Hungary to Nýřany, etc.

The transports of gravel to traffic closures on Faccs and Dumpcar cars helped achieve the ambitious goals set forth in the construction materials commodity plan. The transports of waste soil from Karlovy Vary and Nýřsko to Dívčice in Innofreight containers also had a positive impact. There was also an increase in the transport of concrete products from GOLDBECK Skovice to Germany, in the transport of sand for glass production from Libuň to Řetenice, and the transport of cement from Prachovice to Germany. Concerning this commodity, the Company has also been successful in competing with private carriers, as we did not lose any significant transports in this field in 2015.

The results in the first half of the year for the brown coal commodity were mostly influenced by climatic conditions (a warm winter) and by the cancelled transport of coal from Profen to the Opatovice power plant. The fact that the Ledvice power plant did not function at full performance capacity had a positive impact, as it meant a larger amount of transports to the Mělník power plant. The autumn results were negatively influenced in particular by several traffic closures, which led to our cars travelling longer distances. Also transports from Turoszów were limited due to a closure at PPS Frýdlant. The Company is proud of its new win – transports of coal to Lovochemie, which had previously been carried out by Strabag. While we managed to exceed the goal for brown coal by over 10% preliminarily, the situation in hard coal and coke was much less successful. The transports from OKD to AMO and the import of coal from Poland, namely its transit through the Czech Republic, are of key importance to us. Factors that had a negative impact on sales included a significant shortening of transport routes as well as major fluctuations in transport volumes due to an unstable situation in the coal market. In the past year, we strengthened our cooperation with our subsidiary Koleje Czeskie, in particular as regards hard coal transports.

Chemical products and liquid fuels: the development for this commodity was positive despite a number of unfavourable factors. The results in the first half-year were impacted by the fact that the transport of fuels from Slovnaft Bratislava to Poland, and its subsequent import into the Czech Republic, was not carried out. However, the Company managed to regain a considerable amount of transports from AWT. There was an increase in the transports of airplane fuels to the Prague Airport and in the imports of fertilizers from Slovakia, where the Company is successfully defeating its competition. Towards the year's end, transports were influenced by an accident in Litvínov, which changed the flows of goods. However, this accident had a positive impact for ČD Cargo, a.s.

Concerning the wood and paper products commodity, the Company managed to reverse the negative trend from the beginning of the year only in part. The low price of oil together with decreased logging and export of wood from the Czech Republic were the main causes of not meeting the goals set forth in the plan for this commodity. Towards the end of the year, we succeeded in transporting windthrow wood from the Jeseníky Mountains, which is subsequently further transported, primarily to Germany. The Company managed to meet its goals set forth in the plan for the food and agricultural products commodity, despite the fact that the corn market was nearly stopped: no export took place as better prices were awaited. Still, several transports were carried out to end customers, with no transport companies involved. Malt transports were also partially reduced, especially within the country, and there was also a seasonal decrease in mineral water transport. On the other hand, the beet campaign brought very positive results: the Company ensured the transports of over 100 thousand tonnes of beet from Southern and Central Moravia to the sugar refinery in Hrušovany nad Jevišovkou.

Compared to last year, sales increased in the "Other" commodity. There was an increase in the transports for Česká pošta. A number of military transports were carried out, for example to Hungary and Poland, or Spain and France. Uranium concentrate was also transported from DIAMA Dolní Rožínka, and several transports of transformers also took place. The transports of measurement trains for SŽDC remained at a stable level.

A large, yet expected year-on-year drop occurred in combined transport. This was mainly due to the transports to North German ports having been taken over by METRANS Rail. The decrease in transports from North German ports also had a negative impact on all other operators, as the usual pre-Christmas boom of transports from China did not take

place in its usual extent. Since July, there has also been a decrease in the number of trains from Rostock to Brno; currently there are only 3 pairs per week. It also took some time for the Company to cope with the consequences of the German train drivers' strike concerning the transports for Kombiverkehr through the ČD DUS Terminal in Lovosice. However, we must also mention a number of positive developments – the Company gained COSCO transports to Pardubice, transports of DACIA cars in containers, and the phosphorus train transports have also been increasing.

The automotive commodity brought positive news: we considerably exceeded the goals set, despite the problems caused by the closure of PPS Frýdlant and Lichkov, which led to trains transporting Škoda cars being diverted through PPS Meziměstí. The export of Škoda cars saw a major increase; to provide an example, transports were launched from Mladá Boleslav to Curtici, using a ČD Cargo 363.5 locomotive along the whole route.

OPERATIONAL MANAGEMENT (OPERATIONAL STRUCTURE)

In 2015, the Company dispatched an average of 675 trains a day. Traffic closures had a significant 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 was the increased demand 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 any 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. The transport of goods was planned according to the individual commodities – coal, iron-chemicals-corn, wood-construction materials, automotive and combined transport. The last category consisted of other one-time and campaign transports.

An important part of the Operational Management employees' work was obtaining feedback from customers. Selected Operational Management specialists and the main control dispatcher no. 2 (HKD 2) were in charge of this task, apart from their regular activities. Since a new Customer Centre has been created, it may be anticipated that feedback requirements from Operational Management employees will gradually become less frequent. In line with this intention, a staff reduction has

been taking place on the HKD 2 position in selected shifts. This reduction already began in late 2015.

In 2015, especially towards the year-end, there were increased demands for cargo space in cars from the Falls series and for the transport of wood in cars from the Roos series. The Company managed to resolve all of these customer demands in cooperation with the Railway Vehicles Repairs and Maintenance Department and the Sales Department.

In the information systems field, the transfer from the CEVIS to the new PROBIS platform was completed in 2015. Through this step, all the operational ISs were connected into one system; this concerned DISC-OŘ, DISC-M, PRIS, ÚDIV, TSM (Transport Management System) and E-ROZA (customer electronic interface). This connection has established a comprehensive overview of all the operational activities; however, the correctness of the provided information depends on the quality of primary data collection, as incorrect information is instantly transferred into all the joint systems. The supervisory department of Operational Management Česká Třebová plays an important role here, resolving any discrepancies or erroneously entered input data, thus ensuring that the systems correspond with the real state of affairs.

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, for which the system must include the causes, analysis and the necessary preventive measures that must be adopted.

Extraordinary events (EE), as a term, are defined in Section 49 of Act No. 266/1994 Coll., on Railways, as amended. They are basically divided into three groups: serious accidents, accidents and dangerous situations. For the internal needs of our Company, when reporting, investigating and qualifying the individual EEs, we use service regulation D17 of the railway operator Správa železniční dopravní cesty, s. o. (SŽDC) and its implementing guidance D17 – 1.

In 2015, 218 EEs were recorded with the Company participating as the railway transporter or the railway operator. Out of these, as of 21 January 2016, 199 EEs have been concluded, of which 101 were the Company's responsibility or co-responsibility.

The total material damage caused by all the EEs is estimated at CZK 97,376,557. The concluded investigations show that ČD Cargo, a.s., is responsible for an estimated damage of CZK 48,692,713, while the damage caused to the assets of ČD Cargo, a.s., is estimated at CZK 22,616,933.

During the EEs, a total of 23 people were killed and 17 people were injured. The deaths occurred due to the people being in restricted areas of the railway track and in collisions at railway crossings. Five employees of the Company were injured during work. A total of 14 traction vehicles (all owned by the Company) and 58 wagons (of which 31 owned by the Company) derailed. A total of 102 traction vehicles (of which 88 owned by the Company) and 68 wagons (of which 44 owned by the Company) were damaged.

The results of the investigations into the 2015 EEs are as follows:

- The total number of EEs dropped by 12% compared to 2014, however it must be noted that based on the D17 SŽDC service regulation, we stopped recording cargo train ruptures as EEs from 1 March 2015. When these are added to the EEs recorded for 2015, the numbers are comparable to 2014.
- In comparison with 2014, the total material damage that the Company suffered rose by approximately CZK 16 million in 2015. In 2014, the aggregate damage resulting from EEs amounted to CZK 81,883,034, while in 2015, the aggregate damage is estimated at CZK 97,376,557, as stated above. The damage to the assets of ČD Cargo, a.s., is about 13% lower in 2015 than in 2014. Even though not all the investigations of the 2015 EEs are finished, it is clear that the damage for which ČD Cargo, a.s., is responsible will be much higher than in 2014. Only the investigations that have already been concluded show an increase of over CZK 12 million.
- ČD Cargo, a.s., was not responsible for any deaths or railroad crossing accidents.
- No EE was caused by a system mistake.

Pursuant to a contract concluded in accordance with Section 9 of Regulation No. 376/2006 Coll. on the safety system of railway operations and transportation and procedures in extraordinary events on railways, as amended, EEs were investigated for the Company by the railway operator, Správa železniční dopravní cesty, a state organisation, for a relevant fee.

The total amount of the damage was primarily impacted by two serious accidents, for which the damage exceeds CZK 22 million in each individual case. There was another serious accident, where the damage has so

far been calculated at CZK 7.68 million. In the cases of two more EEs, the aggregate damage is over CZK 3 million.

The most serious EE in terms of consequences as well as the actual cause of the EE was an A1-category accident that occurred on 28 March 2015 between the Velké Žernoseky and Litoměřice dolní nádraží railway stations. Two ČD Cargo, a.s., freight trains collided on the 1st railway track, at kilometre 411.153. The Nex 148359 train crossed the "Stop" sign on the S1 departure signalling device in the Velké Žernoseky railway station, cut railroad switch no. 1, and collided head-on with the Pn 53668 train on the track. An engine driver employed by ČD Cargo, a.s., from the Ústí nad Labem operational unit is responsible for the accident. The damage caused by this EE amounts to CZK 26,337,931.

Another EE with a similar amount of damage as the serious accident described above happened on 29 June 2015. The Nex 146893 train, riding through the Prosenice railway station, derailed at km 191.109, on station track no. 2. The second chassis of the 18th loaded car behind the traction vehicle derailed in the forward direction. The foreign holder of the railway vehicle is responsible for the accident. The damage caused by this EE amounts to CZK 22,701,315.

During 2015, other EEs also occurred causing material damage that significantly contributed to the aggregate estimated damage for 2015. An example is the EE from 3 November 2015, in which a shunting train part was rolling in the Česká Třebová railway station circuit. On track no. 90, the shunting part was crashed (2nd station reserve) when standing before the Se 239 line-up signalling device. The last two cars of the shunting part were derailed and ČD Cargo, a.s., traction vehicles, as well as railway vehicles located at the end of the shunting part, were significantly damaged. An engine driver employed by ČD Cargo, a.s., from the Česká Třebová operational unit is responsible for the accident. The damage caused is estimated at CZK 7,680,500 so far.

Many EEs are caused by failure of or disruption to the technical condition of either 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 supervision 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 233 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 redundant rail vehicles. With regard to locomotives, these are primarily long-term leases to our partners cooperating in the transportation of goods mainly on the territories of the Slovak Republic, Hungary and Poland.

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.

ROLLING STOCK, MANAGEMENT OF VEHICLES

In 2015, the Company operated 848 traction vehicles and 26 thousand freight vehicles, including different types of vehicles under leases. The rolling stock 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 rolling stock, approximately 17.5 thousand vehicles were in operational condition. As of 31 December 2015, 4,000 freight vehicles and 132 traction vehicles were identified for physical disposal due to their physical obsolescence, moral wear and tear, and poor technical condition. The disposal of the identified vehicles will be carried out in 2016.

The planned maintenance and repair of rail vehicles was carried out primarily by the Company's repair centres, by České dráhy a.s., DPOV a.s. Přešov and partially also based on concluded agreements, and by external sub-suppliers. Three-quarters of the total volume of periodic repairs of vehicles were carried out by the Company's own repair capacity, which was by large attainable due to the Company's continuous investment activities focused on the equipment of its own repair centres.

During the first quarter of 2015, the system of component accounting for the repairs of wheel sets was introduced, and further preparations for the implementation of a new system for periodic repairs of wheel sets were carried out in order to increase the usability of the remaining unused potential.

In 2015, investments in rail vehicles were aimed at enhancing their operating ability and utility parameters. This includes, for example, a complete replacement of the body and floors in 347 Eas vehicles with metal floors and bodies. As part of inspection repairs, the Rail Vehicles Repair Centres also carried out a simple replacement of combined wooden floors with all-metal floors in 120 Eas vehicles.

Investments in traction vehicles were aimed primarily at the renovation of the engine driver spots (air conditioning units, improved illumination, seats, etc.). At the end of 2015, the rolling stock was extended by 23 vehicles of series 163 purchased from the parent company České dráhy, a.s. The purchase of the locomotives enabled the Company to put 122 of the oldest and worn-out locomotives out of operation.

In the area of freight vehicles, strong emphasis was placed on the planning and utilisation of rolling stock capacity in 2015, 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 rolling stock capacity is performed within the Company's reporting, including the identification of key parameters based on individual commercial groups of freight vehicles. Excessive rolling stock will be used within other business segments for leases in order to achieve maximally efficient utilisation of the available rolling stock that would ensure sufficient sources for the operability of the Company's rolling stock.

In line with the Company's efforts to increase its efficiency, the Fleet Management project was completed. It was aimed at the integration of processes and activities related to fleet management both in the area of regular activities as well as in the area of strategic development of rolling stock for future periods. In 2015, a public tender was announced for the delivery of five interoperable locomotives with a possibility of using option rights to increase the number of delivered locomotives by another three vehicles. The tender was not finalised in 2015; its evaluation is expected at the beginning of the following year. The locomotives are acquired for the already existing transport of goods on the east-west and south-north lines.

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 2015. Promotion of the Company focused on existing and potential customers and the public in order to strengthen an awareness of the Company. The principal means of these objectives included a web presentation, participation in international professional trade fairs and conferences, a marketing campaign, support for selected cultural and sports projects, and also a PR presentation in professional printed media.

WEB PRESENTATION

The Company's internet websites attracted a number of new "supporters" who used the web to search for information on the Company's current affairs, its new business offers, or new vehicles. The constantly increasing number of visitors proves that the Company's decision to modernise its

web pages was the right one. The new websites are user friendly and are designed to meet customers' needs. 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.

At present, the internet is one of the most significant means of communication. For this reason, the Company continued to improve and develop its websites. In the first half of 2016, the Company will start providing all important information in several languages, including Russian, in order to meet the needs of foreign customers whose numbers are continually rising.

PRINT AND MEDIA COMMUNICATION WITH CUSTOMERS

In 2015, the Company's printed materials "Profiles of ČD Cargo" were published in various language versions, including Chinese. They focused on the general promotion of the Company as well as offering specific services and products, such as the services of storage halls in Lovosice. In 2015, the publishing of the ČD Cargo bulletin was renewed. The bulletin aims to present successful business cases, business offers, and legislative changes. It was issued as a quarterly in PDF format and can be downloaded from the internet websites. As part of the Company's communication strategy, two more issues of the ČD Cargo bulletin were published, namely the "trade fair issue" offered to customers at all trade fairs in which the Company participated and the "conference issue" published for the participants of the autumn customer conference in Mikulov. An important part of the Company's internal communication was the internal newspaper Cargovák that introduced various new columns.

Communication with journalists and the general public was provided by the press department of České dráhy, also by means of Železničář – a holding newspaper. In addition, the Company presented itself through professional articles in other periodicals, e.g. in Dopravní noviny, LogisticNews, 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. In recent years, the trade fair display of ČD Cargo has been present at most of the significant transportation and logistics trade fairs.

In 2015, this method was used for the presentation of a comprehensive offer of ČD Cargo, a.s., services at the TransRussia trade fair in Moscow

and at the prestigious Transport Logistic trade fair in Munich. The Company traditionally participates in the common stand of the ČD group at the international Czech Raildays Ostrava trade fair.

Significant conferences include the "Business Conference of ČD Cargo", which is intended for business partners and customers and which focuses on the business strategy and pricing policy of the Company for the following year. 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 2015, 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, the Technical University in Ostrava, etc. This cooperation is based predominantly on consultations with, and supervision of, students during the preparation of their annual, semester, bachelor's and master's diploma works and on providing the students with the possibility of gaining work experience. University students thus have an opportunity to gain experience from specific areas of the Company's activities.

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

In 2015, the Company completed the modifications of the operational business information system that responded to the new changes of functional areas (specifics) of TSI-TAF. The modifications were realised with support from the Transport programme (2007-2013) Priority axe 1 – Modernisation of the TEN-T railway network, Support 1.2 – "Interoperability on existing railway routes, compliance with Technical specifications for interoperability (TSI) and development of telematics systems". This development followed the successful implementation of the information system PROBIS in 2013. The modifications resulted in

the Company's successful implementation of the TSI-TAF standard in its systems and regular operations. The Company proceeds in the further development of systems for business and controlling processes.

In 2015, the ICT security programme was realised in the Company to verify the status of the Company's ICT security. After its completion, subsequent remedial measures were taken and the Company initiated preparations 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).

INVESTMENTS

In 2015, the Company made investments amounting to CZK 1.174 billion, of which CZK 57 million was covered by investment grants.

The Company's investment activities focused primarily on the renovation and modernisation of railway vehicles in which investments amounting to CZK 1.012 billion were made (including component repairs of freight vehicles and locomotives), which amounts to 86.2% of the acquired fixed assets.

Investments in Freight Vehicles

In 2015, investments in freight vehicles focused primarily on the technical improvement of Eas 52 group freight vehicles.

Investments in Traction Vehicles

In 2015, major investment in the area of traction vehicles was represented by the purchase of 23 locomotives of series 163 from ČD, a.s. The locomotives are partially modified to operate on the Polish railway network. The Company also continued in the modernisation of a locomotive from series 210 to series 218. Multi-application terminals were additionally equipped with a communication unit that will extend the possibilities of using the terminal on locomotives series 363 (they serve as a prototype). 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 pressure and leak-tightness tests of cisterns, the renovation and opening of rails within the individual repair units, and the renovation of PHM Nymburk. Construction investments also included OHS projects.

Other Investments

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

Investments in the area of IT focused on the further development of internal information systems, and the ICT security project was initiated (cybersecurity) in order to gain the ISO 27 0001 certificate (Information Security Management System). In 2015, these investments were partially supported by the grant under the Transport programme granted to the Company for the Upgrade of Information Systems in Connection with TSI-TAF, and by a grant for teaching aids for employee education.

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 2015, both inspection repairs of freight vehicles and major and general repairs of electric locomotive series were realised.

STAFF POLICY AND SOCIAL PROGRAMME

In 2015, the Company continued the process leading to the strengthening of the Company's business role as a provider of quality services to its customers.

The Company also continued in contractual cooperation with selected grammar schools. 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. This resulted in an improvement 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.

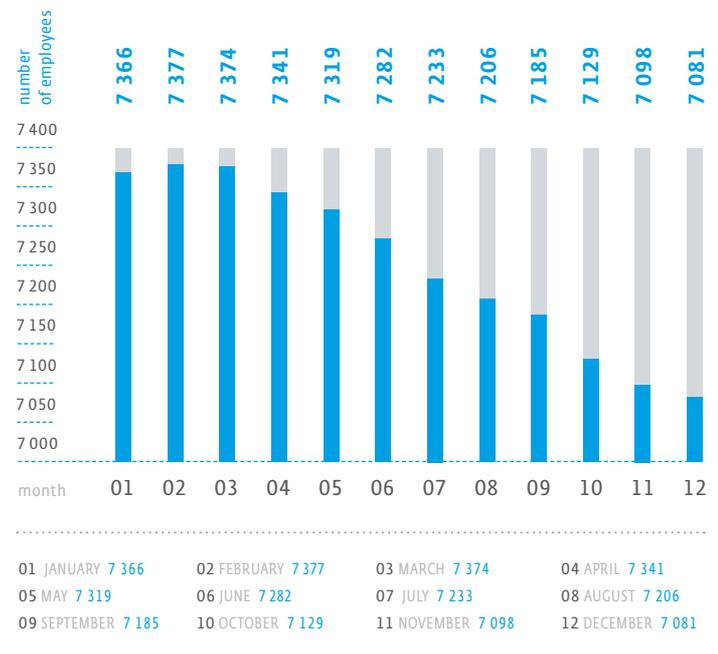
The principles of remuneration and the scope of the provision of employee benefits were agreed in the Company Collective Agreement of ČD Cargo, a.s. The Company met all its obligations towards employees in the remuneration and provision of employee benefits in 2015.

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 2015, the average number of employees recalculated to FTE was 7,249.21 (see the chart). The number of employees as of 31 December 2015 was 7,079.

Chart: Average number of employees recalculated to FTE in individual months of 2015



In 2015, the average salary in ČD Cargo, a.s., i.e. the payroll costs, excluding other staff costs, amounted to CZK 30,735.

Nine trade unions operate within ČD Cargo, a.s., including multi-professional unions as well as unions solely representing specific professional groups of employees. The Company's collective agreement, which regulates individual and collective relationships between the employer and the employees, as well as mutual relationships between trade unions and the employer, was concluded on 2 December 2015, with effect from 1 January 2016 until the end of 2016.

CODE OF ETHICS

One of the key instruments for the development and management of the Company's corporate culture is its Code of Ethics, which employees abided by also in 2015. 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. As in the previous years, the Company's employees respected the Code of Ethics as a basic principle and a moral obligation for all their acts in relation to colleagues, business partners and the public.

QUALITY MANAGEMENT – ISO

The Company adheres to ISO management systems that were introduced in order to ensure a continuous improvement of services offered to the Company's customers. The Company is registered for the following certificates: ISO 9001, QMS – Quality management System, ISO 14001 EMS – Environmental Management System and OHSAS 18001 Occupational Health and Safety Assessment Systems – standard for evaluating the system of work and health safety at work. The Company also performs annual internal audits. In 2015, the Company successfully passed an external audit of its systems.

The Company is also certified in the following systems: in the SQAS Rail Safety & Quality Assessment system, AEO Authorised Economic Operator, ECM – a certificate authorising the maintenance and further development of maintenance of the Company's rolling stock and testifying that the criteria for maintenance management are complied with; welding processes in the area of railway vehicles, Defectoscopy, and Repairs of railway vehicle components.

AEO CERTIFICATE

Simplified Custom Procedures/ Security and Security Measures (AEOF)

As in previous years, the Company did well in 2015 in the post-certification examination by the Customs Authority for the South Bohemian region, in the monitoring of the compliance with, and reassessment of, conditions and criteria that the economic operator has to meet even after the issuance of the AEO certificate.

The Company proved the quality of provided services and met all legislative requirements and criteria for holders of the AEO certificate as required by the Customs Authority for the South Bohemian region.

The AEO certificate is recognised and reflected in all EU member countries, primarily in assessing the risks relating to security issues.

Pursuant to agreements concluded between the EU and third countries on the mutual recognition of programmes for authorised economic operators, the certificate is recognised in Switzerland, Norway, Japan, and Andorra, and negotiations are ongoing with other countries, such as the USA and China.

In the near future, the AEO certificate will be a major prerequisite for issuing the permission for simplified procedures and for gaining certain advantages from the customs administration.

Obtaining the certificate and its extension 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.

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).

ČD Cargo, a.s., is actively involved in a number of international bodies and work groups, primarily within UIC and CER. This primarily involves 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. Drawing on its experience with the implementation of

all the required relationships with the infrastructure administrator, 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). ČD Cargo, a.s., also actively participated in various international conferences. At the international IRFC conference in Prague, the Company presented its experience with using NL CIM/SMGS and electronic freight sheets. Within the group of CER HR directors, ČD Cargo, a.s., is active in the area of EU legislation and employee work conditions.

Together with ČD, the Company is connected to the European railway data IP through the VPN Hermes network and is involved in the activities of HIT Rail, including the development of Heros additional application services. ČD Cargo, a.s., is also a member of the RAILDATA organisation that operates Central European data exchange systems. The Company is fully engaged in the ISR system, which allows the monitoring of the current location and condition of vehicles in 18 countries of Western, Central and Southern Europe. In 2015, the Company was connected to the ORFEUS system for the central exchange of data from freight and wagon sheets. Subsequently, the Company initiated using this method of data exchange with first business partners, namely with the intermodal division of DB Schenker. The number of partners for data exchange continues to grow as the number of transporters cooperating in rail transportation increases.

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. The new cargo list has become popular, as shown by the statistics of ČD Cargo and other railways, e.g. RŽD or UZ. In 2015, 6,958 shipments were transported with the CIM/SMGS cargo document (1,252 export, 5,706 import). In transports with the Russian federation, the CIM/SMGS cargo document was used as follows: export – 78%, import – 82%, with Belarus (import – 92%), Ukraine (export – 1%, import – 1%) and Kazakhstan (export – 45%).

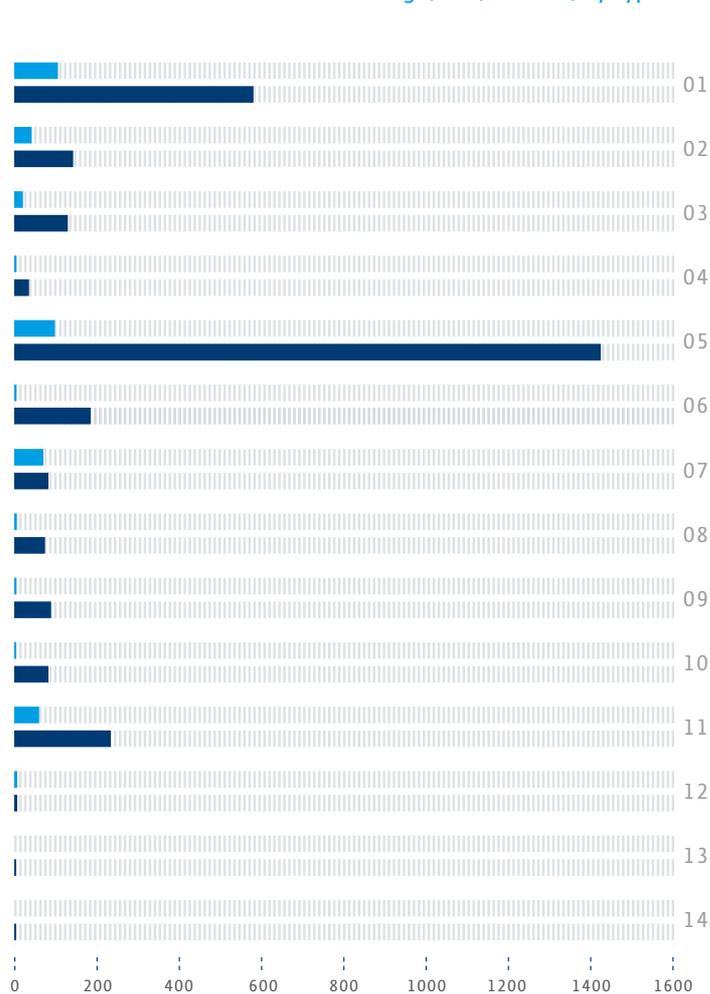
In 2015, the Company presented itself in two trade fairs in Munich and Moscow and participated actively in international conferences (e.g. IRFC conference in Prague, Transsib in Vienna, HLFM in Paris, and the rail tariff conference in Moscow). In the past year, the Company cooperated even more closely with the Belgian transporter SNCB Logistics on creating a new common product of system trains.

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. Given the concluded contract, a hierarchy has been created focusing primarily on Rail Vehicle Repair Services Centres with direct relation to environmental issues. Such a process includes, for example, the reduction of produced waste, the renovation or replacement of waste water treatment plants and sewerage systems, protection of the track bed against pollution by drops of crude oil substances from mothballed railway vehicles, prevention and reduction of the risk of environmental disasters and damage, etc. 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.

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).

Chart: Production of waste in ČD Cargo, a.s., in 2015, by type



■ NO (t) ■ OO (t)

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

As the EMS system focuses on providing the best conditions for environmental protection, the Company realised investments in 2015 for improving certain environmental activities. For example, in the Rail Vehicle Repair Centre in Ústí nad Labem, the repair hall of the Nymburk repair unit was thermally insulated, which resulted in energy savings for heating, and reduced the emissions of greenhouse gases.

Further activities in the area of environmental protection included the renovation of roofing in rotunda 2 in the Most rail vehicle repair services plant, which resulted in savings on energy for heating and in reduced 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. The identified results were discussed at the meetings of the management and were assessed by the senior management of ČD Cargo, a.s., on 4 May 2015.

In the period between 18 May and 22 May 2015, an external audit of ISO management systems was performed by SGS at O12 of the General Directorate of ČD Cargo and at Rail Vehicle Repair Centres in České Budějovice, including the Rail Vehicle Repair Services Plant in Jihlava. The Company repeatedly succeeded in extending the ČSN EN ISO 14001:2005 certification. The external audit identified no inconsistencies and only several minor recommendations which were dealt with immediately after the external audit.

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:

- Since 30 June 2013, there has been no legal obligation for the Company to have its own fire protection unit.
- 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., was engaged in 60 cases.
- In 2015, there were 164 interventions in total for ČD Cargo a.s., of which 9 were fires in traction vehicles due to technical failures, and 5 were fires of vehicles due to someone else's fault; there were also 7 cases of grass fires caused by technical failures on vehicles, and other minor defects.
- The lists of interventions of the Fire Brigade of SŽDC, s.o. for ČD Cargo, a.s., with pricing were sent to ČD Cargo, a.s., for approval on a monthly basis.
- An annual statement of charges will be provided. The total annual amount charged may not exceed CZK 10 million, however, the total amount may be reduced.
- Further negotiations with SŽDC, s.o. resulted in the conclusion of a contract SŽDC, s.o. and ČD Cargo, a.s., on Mutual Assistance signed on 27 February 2015. Mutual Assistance is to be provided in the event of extraordinary events, fires, and in other activities specified in the contract.
- 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 in 2015.

CORPORATE SOCIAL RESPONSIBILITY

The Company is fully aware of its social responsibility and participates in various projects in this area. To name but a few, these include e.g. the Kinematovlak project (Cinema train). As part of this project, films are screened in a special train with three wagons, aimed mostly at pre-school children and pupils of elementary schools. In 2015, the Cinema train, a joint project of ZLÍN FILM FESTIVAL and ČD Cargo, a.s., stopped in 17 towns and covered a distance of more than 1,500 km. ČD Cargo, a.s., is actively involved in ensuring the operation of Legiovlak that commemorates Czech legions and their contribution to forming independent Czechoslovakia. ČD Cargo a.s., also supported the 13th annual project

called Prevention Train focused on safe railway transportation. This is an independent project that has become a tradition. As in previous years, visitors, namely older pupils from elementary schools and students of secondary schools, had the opportunity to see directly on the railway how hazardous behaviour, showing off, or pure inattentiveness leads to unnecessary risks. The Company also ran a charity raffle for the family of one of its employees, which was organised as part of the Company's ball. The amount collected at the raffle was presented to the family as a contribution for buying a MOTomed, a special tool for medical rehabilitation for their handicapped child.

The Company also supported various sports events, e.g. beach volleyball, track and field events, and 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. The stations with the most significant loaded volumes include Praha-Vršovice, Brno hlavní nádraží and Ostrava hlavní nádraží. Other textile materials are sent to Broumov from Slovakia. In total, the Company transported more than 500 wagons for Diakonie Broumov in 2015, which is approximately 4,500 thousand tonnes of goods.

In addition, the Company participated in a number of public events for which it lent railway vehicles or provided railway transport under better conditions. To name but a few, these include the support for the anniversary of the establishment of the Young Railway Travellers' Club and the celebrations of National Train Day in selected localities.

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

Equity 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
 Equity 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
 Equity 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 railway vehicles and traction vehicles, operation of rail transportation.

ČD LOGISTICS, A.S.

Date of entry in the Register of Companies: 16 June 2007
 Share capital: CZK 10,000,000
 Equity 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
 Equity 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
 Equity 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
 Equity 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
 Equity 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
 Equity 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
 Equity interest: 20 % (CZK 3 million)
 Principal business activities: operation of railway transport and lease of locomotives.

XRAIL S.A.

Date of entry in the Register of Companies: Belgium, 24 June 2010
 Share capital: EUR 68,975.10
 Equity interest: 13 % (EUR 8,966.76)
 In the reporting period, ČD Cargo, a.s. sold its 13% share in Xrail S.A. with effect from 6 April 2015.

**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
 Equity 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.

9

Financial Position

Investment Activities of ČD Cargo, a.s.

| INVESTMENT ACTIVITIES OF ČD CARGO, A.S. (CZK MIL.) | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|-----------------------|-----------------------|---------------------|-----------------------|--------------|--------------|
| Acquisition of freight cars | 0 | 19 | 200 | 10 | 0 | 0 |
| Renovation and modernisation of freight cars | 171 | 311 | 52 | 241 | 214 | 584 |
| Acquisition of traction vehicles | 233 | 0 | 0 | 0 | 0 | 0 |
| Renovation and modernisation of traction vehicles | 33 | 42 | 389 | 1 448 ^{**}) | 63 | 390 |
| Machinery investments | 1 | 11 | 2 | 100 | 23 | 11 |
| Construction investments | 61 | 48 | 45 [*]) | 108 | 53 | 104 |
| Other investments | 100 ^{*****)} | 168 ^{*****)} | 143 ^{**}) | 109 [*]) | 72 | 109 |
| Component accounting for inspection repairs of railway vehicles | 575 | 414 | 330 | 558 | 748 | 507 |
| Total investments | 1 174 | 1 014 | 1 161 | 2 574 | 1 173 | 1 705 |
| Prepayments for investments provided (as of 31 December) | 0 | 0 | 0 | 105 | 239 | 239 |

^{*}) investments of CZK 58 million and CZK 59 million in 2012 and 2013, respectively, were acquired from subsidies

^{***)} including the modernisation of traction vehicles from series 163 to series 363.5

^{*****)} In addition to this amount, the Company made 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 acquired from subsidies.

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

The Annual Report of ČD Cargo, a.s., includes three sets of financial statements:

- Separate financial statements (CAS);
- Separate financial statements (IFRS); and
- Consolidated financial statements (IFRS).

The information provided in the Annual Report is based on the financial statements prepared according to Czech Accounting Standards (Separate financial statements [CAS]).

Balance Sheet

In the period from 31 December 2014 to 31 December 2015, the value of the Company's total assets and liabilities increased by CZK 375.1 million. The value of fixed assets increased by CZK 49.4 million and amounted to CZK 11,303 million, i.e. 76.9% of the total assets. The current assets, which include inventory, receivables and current financial assets, increased by CZK 388.6 million to CZK 2,953.7 million, i.e. 20.1% of the total assets. Deferred expenses and accrued income decreased by CZK 62.9 million to CZK 449.0 million and account for 3.1% of the total assets.

The value of the Company's equity in the reporting period increased by CZK 255.6 million to CZK 7,238.3 million, i.e. 49.2% of its total liabilities. External funding increased by CZK 128.9 million to CZK 7,433.9 million in the reporting period, which represents 50.6% of the total liabilities. Accrued expenses and deferred income decreased by CZK 9.4 million to CZK 33.5 million and represent 0.2% of the total liabilities

Profit and Loss Account

The Company's profit before tax for 2015 in the amount of CZK 235.3 million was achieved with the aggregate revenues of CZK 12,518.6 million and the total costs (excluding income tax) of CZK 12,283.3 million, including accounting amortisation and depreciation charges of CZK 988.4 million. The value of EBITDA (earnings before interest, taxes, depreciation and amortisation) amounted to CZK 1,304 million.

Funding of Cargo, a.s.

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, the Company 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 can 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 31 December 2015; however, the promissory notes facility is kept as a reserve for short-term financing independent of bank sources.

LEASES

In 2015, the Company realised 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 issue between 2011 and 2012 was realised in connection with the introduction of the strategy for the gradual replacement of short-term funding sources with long-term ones. In 2015, new bonds were issued amounting to CZK 1 billion and at the same time, due bonds amounting to CZK 1 billion were redeemed. The total bonds issued by the Company as of 31 December 2015 amounted to CZK 2.158 billion.

Risk Management of ČD Cargo, a.s.

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

The standardisation of procedures is supported by 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. minimise the impacts of unused opportunities for generating income and reduce the negative impacts of costs. As part of the active risk management, the Company introduced the ongoing monitoring and assessment of compliance with approved risk limits and the overall risk appetite of the Company in 2015.

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, and the liability for damage by the owners of wagons.

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.

PRICE RISKS

Unfortunately, the liberalisation of the railway transportation market did not result in the transportation of new goods but rather in increasing price pressure. This pressure applies mainly to the segment of complete trains, where many transporters fight for "their place in the sun", including transporters from neighbouring countries equipped with modern technology. In 2015, it was a common trend to group individual shipments into complete trains that were subsequently assumed by another transporter. This trend was apparent namely in the transit route north-south.

With regard to the transport of individual wagon loads, it was necessary to face the attacks of the road transport competition, the position of which was significantly strengthened on account of the decreasing diesel price. ČD Cargo, a.s., actively addressed potential customers with special-offer prices and adopted other measures to maintain its competitiveness towards road transport.

In order to eliminate price – or commercial – risks, other instruments were used, such as multi-annual contracts, contracts with price dependency on the volumes implemented, and the offer of services including the transport of goods abroad or partial transport by road.

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 realised 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 2015, 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 2015, 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.



2.6

10

Anticipated Development, Objectives and Intended Activities

The Company's vision is to maintain its leading position in the freight transportation market in the Czech Republic and in the Central European region and concurrently to be an efficient and customer-focused company. The prerequisite of fulfilling the Company's vision is to strengthen the competitiveness of ČD Cargo, a.s., on the transport market by increasing the efficiency of individual activities across the entire Company as well as by adjusting the capacities to the current requirements of the increasingly globalised market.

ČD Cargo, a.s., has defined, for the short-term to medium-term horizon, three goal categories whose fulfilment is fully in line with the vision and strategy of the ČD Group. These namely comprise commercial goals, with ČD Cargo, a.s., wishing to become the first-choice domestic freight carrier and working towards maintaining a majority share in the Czech Republic in terms of the complete train load segment and towards increasing freight volumes with regard to individual wagon loads. ČD Cargo, a.s., also wishes to strengthen its position on the European transport market and, as a carrier, actively enter foreign markets through its own licence or subsidiaries. In neighbouring Poland, we aim to take over the transport of black coal to the Czech Republic as well as in transit

through the Czech Republic, wishing to become reliable partners in implementing transport from/to the east. We consider combined transport as well as the automotive segment to be particularly promising.

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 stabilising the profitability of principal activities and other business activities and creating a competitive company the production capacities of which, namely the rolling stock, reflect the current market needs.

We also wish to work towards a clear set-up of the long-term state transport policy including the rules for the imposition of charges on the railway and road infrastructures. Another significant goal is the preservation of social peace. We have to be a sought-after employer of secondary school and university graduates, whether their specialisation is transport or not.

11

Share Capital

The Amount of the Issued Share Capital

As of the balance sheet date of 31 December 2015, the share capital amounts to CZK 8,494,000 thousand, which was paid in full.

Ownership Structure

SOLE SHAREHOLDER:

České dráhy, a.s.
Nábřeží L. Svobody 1222, 110 15 Prague 1
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 ENDED 31 DECEMBER 2015 AND THE RESULTS OF THE SUPERVISORY ACTIVITIES

During 2015, the Supervisory Board of ČD Cargo, a.s., held ten meetings, in which it always had a quorum.

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

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

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

In Prague on 14 March 2016



Pavel Krtek, M.Sc.
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 financial statements, the audit and interim audit thereof, and related documents for the periods from 1 January 2015 to 30 September 2015 and 1 January 2015 to 31 December 2015.

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 financial statements under Czech Accounting Standards and IFRS as adopted by the EU and the Report on Related Party Transactions for the period from 1 January 2015 to 31 December 2015, and of preparing the Annual Report of ČD Cargo, a.s., for the year ending 31 December 2015.

The Audit Committee also assessed the impartiality and independence of the Company's auditor, Deloitte Audit s.r.o., discussed and communicated selected information, and issued statements and communications in accordance with the legislation. During the preparation of the 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 Financial Statements and the contents of the Report on Related Party Transactions, the Audit Committee recommended that the Company's bodies discuss the 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 2015 to 31 December 2015 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 separate and consolidated financial statements of ČD Cargo, a.s., under IFRS as adopted by the EU for the year from 1 January 2015 to 31 December 2015, 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 ending 31 December 2015.

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 23 March 2016



Oldřich Vojří
Chairman of the Audit Committee

Report of the Audit Committee

REPORT OF THE AUDIT COMMITTEE OF ČD CARGO, A.S. ON THE FINANCIAL STATEMENTS OF ČD CARGO, A.S. FOR THE YEAR FROM 1 JANUARY 2015 TO 31 DECEMBER 2015, INCLUDING THE AUDITOR'S OPINION AND RELATED PARTY TRANSACTIONS REPORT FOR THE YEAR FROM 1 JANUARY 2015 TO 31 DECEMBER 2015

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 Financial Statements of ČD Cargo, a.s., the procedure of the audit of the financial statements and all related documents for the year from 1 January 2015 to 31 December 2015, 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 Financial Statements of ČD Cargo, a.s., for the year from 1 January 2015 to 31 December 2015 and the Related Party Transaction Report for the year from 1 January 2015 to 31 December 2015.

The Audit Committee also assessed the impartiality and independence of the Company's auditor, Deloitte 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 Financial Statements and the Related Party Transaction Report for the year from 1 January 2015 to 31 December 2015, 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 on the Financial Statements, the Audit Committee recommends that the Financial Statements of ČD Cargo, a.s., for the year from 1 January 2015 to 31 December 2015 and the Auditor's Opinion and the Related Party Transaction Report 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 Financial Statements of ČD Cargo, a.s., for the year from 1 January 2015 to 31 December 2015, and the Related Party Transaction Report for the year from 1 January 2015 to 31 December 2015.



Oldřich Vojříš

Chairman of the Audit Committee

Report 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 2015 TO 31 DECEMBER 2015, 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 2015 to 31 December 2015, from the preparation phase of the entire 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 2015 to 31 December 2015.

The Audit Committee also assessed the impartiality and independence of the Company's auditor, Deloitte 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 2015 to 31 December 2015, 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 2015 to 31 December 2015 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 2015 to 31 December 2015, and the Auditor's Opinion.



Oldřich Vojtíš
Chairman of the Audit Committee

Report 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 2015 TO 31 DECEMBER 2015, 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 2015 to 31 December 2015, 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 2015 to 31 December 2015.

The Audit Committee also assessed the impartiality and independence of the Company's auditor, Deloitte 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 2015 to 31 December 2015, 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 2015 to 31 December 2015 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 2015 to 31 December 2015, and the Auditor's Opinion.



Oldřich Vojříř

Chairman of the Audit Committee



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←13.58 m→

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| | |
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13

Independent Auditor's Report To the Shareholder of ČD Cargo, a.s.

Having its registered office at: Jankovcova 1569/2c, 170 00 Praha 7 – Holešovice
Identification number: 281 96 678

Report on the Financial Statements

We have audited the accompanying financial statements of ČD Cargo, a.s. prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2015, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ending, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with accounting regulations applicable in the Czech Republic, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of ČD Cargo, a.s., as of 31 December 2015, and of its financial performance and its cash flows for the year then ending in accordance with accounting regulations applicable in the Czech Republic.

Emphasis of Matters

We draw attention to Note 4.10. to the financial statements, which describes the uncertainty relating to the future development of identified risks and their potential future impact on the Company. Reflecting these facts, the Company reported reserves which, together with other reserves, total CZK 968,466 thousand as of 31 December 2015. Our opinion is not modified with regard to these matters.

Report on the Financial Statements (in accordance with International Financial Reporting Standards)

We have audited the accompanying financial statements of ČD Cargo, a.s. prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the statement of financial position as of 31 December 2015, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ending, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of ČD Cargo, a.s. as of 31 December 2015, and of its financial performance and its cash flows for the year then ending in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matters

We draw attention to Note 23, the financial statements, which describes the uncertainty relating to the future development of identified risks and their potential future impact on the Company. Reflecting these facts, the Company reported provisions which, together with other provisions, total CZK 968,467 thousand as of 31 December 2015. Our opinion is not modified with regard to these matters.

Report on the Consolidated Financial Statements (in accordance with International Financial Reporting Standards)

We have audited the accompanying consolidated financial statements of ČD Cargo, a.s. and subsidiaries prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the statement of financial position as of 31 December 2015 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ending, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of ČD Cargo, a.s. and subsidiaries as of 31 December 2015, and of their financial performance and their cash flows for the year then ending in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matters

We draw attention to Note 23, the financial statements, which describes the uncertainty relating to the future development of identified risks and their potential future impact on the Company. Reflecting these facts, the Company reported provisions which, together with other provisions, total CZK 974,929 thousand as of 31 December 2015. Our opinion is not modified with regard to these matters.

Other information

The other information comprises the information included in the annual report but does not include the financial statements, financial statements (in accordance with International Financial Reporting Standards), consolidated financial statements (in accordance with International Financial Reporting Standards) (hereinafter "financial statements") and our auditor's report thereon. Management is responsible for the other information.

Our opinions on the financial statements do not cover the other information, and we do not express any form of opinion thereon. However, in connection with our audit of the financial statements, our responsibility is to read the other information and consider whether the other information in the annual report is not materially inconsistent with the financial statements or our knowledge obtained in the audit, whether the annual report has been prepared in accordance with the applicable legal requirements, or whether the other information does not otherwise appear to be materially misstated. If, based on the work we have performed, we conclude that the above is not true, we are required to report such facts.

Based on the work we have performed, we have nothing to report in this regard.

In Prague on 30 March 2016

Audit firm:

Deloitte Audit s.r.o.
registration no. 079



Statutory auditor:

Václav Loubek
registration no. 2037



14

Separate Financial Statements (CAS)¹

Name of the Company: ČD Cargo, a.s.

Registered Office: Jankovcova 1569/2c, 170 00 Prague 7 – Holešovice

Legal Status: Joint Stock Company

Corporate ID: 281 96 678

¹ Chapters relating to financial statements are numbered separately.

■ Balance Sheet (full version)

| Year ended 31. 12. 2015 (CZK '000) | | 31. 12. 2015 | | | 31. 12. 2014 |
|------------------------------------|--|-------------------|-------------------|-------------------|-------------------|
| | | Gross | Adjustment | Net | Net |
| TOTAL ASSETS | | 34 226 715 | 19 520 951 | 14 705 764 | 14 330 643 |
| B. | Fixed assets | 30 580 479 | 19 277 507 | 11 302 972 | 11 253 545 |
| B.I. | Intangible fixed assets | 723 899 | 394 262 | 329 637 | 344 828 |
| B.I.3. | Software | 528 220 | 282 159 | 246 061 | 195 336 |
| B.I.4. | Valuable rights | 126 477 | 112 103 | 14 374 | 21 285 |
| B.I.7. | Intangible fixed assets under construction | 69 202 | | 69 202 | 128 207 |
| B.II. | Tangible fixed assets | 29 244 638 | 18 883 245 | 10 361 393 | 10 161 394 |
| B.II.1. | Land | 85 861 | 169 | 85 692 | 85 685 |
| B.II.2. | Structures | 1 501 342 | 712 482 | 788 860 | 763 039 |
| B.II.3. | Individual tangible movable assets and sets of tangible movable assets | 21 977 602 | 14 297 216 | 7 680 386 | 7 198 882 |
| B.II.6. | Other tangible fixed assets | 59 | 1 | 58 | 48 |
| B.II.7. | Tangible fixed assets under construction | 68 341 | 4 263 | 64 078 | 119 535 |
| B.II.8. | Prepayments for tangible fixed assets | 22 | | 22 | 10 |
| B.II.9. | Valuation difference on acquired assets | 5 611 411 | 3 869 114 | 1 742 297 | 1 994 195 |
| B.III. | Non-current financial assets | 611 942 | | 611 942 | 747 323 |
| B.III.1. | Equity investments - subsidiary (controlled entity) | 571 812 | | 571 812 | 458 287 |
| B.III.2. | Equity investments in associates | 39 985 | | 39 985 | 40 484 |
| B.III.3. | Other securities and investments | | | | 19 |
| B.III.4. | Loans and borrowings - controlled or controlling entity, associates | | | | 234 958 |
| B.III.5. | Other non-current financial assets | 145 | | 145 | 3 575 |
| B.III.6. | Acquisition of non-current financial assets | | | | 10 000 |
| C. | Current assets | 3 197 192 | 243 444 | 2 953 748 | 2 565 116 |
| C.I. | Inventories | 167 390 | 3 864 | 163 526 | 149 929 |
| C.I.1. | Material | 167 390 | 3 864 | 163 526 | 149 929 |
| C.II. | Long-term receivables | 1 564 | | 1 564 | 236 |
| C.II.5. | Long-term prepayments made | 259 | | 259 | 236 |
| C.II.7. | Other receivables | 1 305 | | 1 305 | |
| C.III. | Short-term receivables | 2 164 162 | 239 580 | 1 924 582 | 1 735 029 |
| C.III.1. | Trade receivables | 1 604 979 | 232 678 | 1 372 301 | 1 323 024 |
| C.III.2. | Receivables - controlled or controlling entity | 117 265 | | 117 265 | 4 026 |
| C.III.3. | Receivables - associates | | | | 4 023 |
| C.III.6. | State - tax receivables | 142 608 | | 142 608 | 93 599 |
| C.III.7. | Short-term prepayments made | 75 050 | | 75 050 | 78 236 |
| C.III.8. | Estimated receivables | 201 821 | | 201 821 | 219 372 |
| C.III.9. | Other receivables | 22 439 | 6 902 | 15 537 | 12 749 |
| C.IV. | Current financial assets | 864 076 | | 864 076 | 679 922 |
| C.IV.1. | Cash on hand | 1 908 | | 1 908 | 1 753 |
| C.IV.2. | Cash at bank | 862 168 | | 862 168 | 678 169 |
| D. I. | Other assets | 449 044 | | 449 044 | 511 982 |
| D.I.1. | Deferred expenses | 449 044 | | 449 044 | 511 982 |

■ Balance Sheet (full version)

| Year ended 31. 12. 2015 (CZK '000) | | 31. 12. 2015 | 31. 12. 2014 |
|---------------------------------------|--|-------------------|-------------------|
| TOTAL LIABILITIES & EQUITY | | 14 705 764 | 14 330 643 |
| A. | Equity | 7 238 330 | 6 982 710 |
| A.I. | Share capital | 8 494 000 | 8 494 000 |
| A.I.1. | Share capital | 8 494 000 | 8 494 000 |
| A.II. | Capital funds | 336 729 | 198 685 |
| A.II.1. | Share premium | 138 540 | 138 540 |
| A.II.3. | Gains or losses from the revaluation of assets and liabilities | 198 189 | 60 145 |
| A.III. | Funds from profit | 210 391 | 166 587 |
| A.III.1. | Reserve fund | 108 885 | 82 141 |
| A.III.2. | Statutory and other funds | 101 506 | 84 446 |
| A.IV. | Retained earnings | -1 942 307 | -2 411 440 |
| A.IV.2. | Accumulated losses brought forward | -1 942 307 | -2 411 440 |
| A.V.1. | Profit or loss for the current period (+ -) | 139 517 | 534 878 |
| B. | Liabilities | 7 433 936 | 7 305 056 |
| B.I. | Reserves | 968 466 | 964 969 |
| B.I.4. | Other reserves | 968 466 | 964 969 |
| B.II. | Long-term liabilities | 2 391 909 | 2 533 356 |
| B.II.6. | Bonds issued | 1 000 000 | 1 158 300 |
| B.II.9. | Other payables | 620 872 | 708 706 |
| B.II.10. | Deferred tax liability | 771 037 | 666 350 |
| B.III. | Short-term liabilities | 4 073 561 | 3 806 731 |
| B.III.1. | Trade payables | 1 891 327 | 1 738 638 |
| B.III.5. | Payables to employees | 205 466 | 192 879 |
| B.III.6. | Social security and health insurance payables | 104 895 | 101 354 |
| B.III.7. | State - tax payables and subsidies | 33 271 | 80 165 |
| B.III.8. | Short-term prepayments received | 3 298 | 1 257 |
| B.III.9. | Bonds issued | 1 158 300 | 1 000 000 |
| B.III.10. | Estimated payables | 305 689 | 344 272 |
| B.III.11. | Other payables | 371 315 | 348 166 |
| C. I. | Other liabilities | 33 498 | 42 877 |
| C.I.1. | Accrued expenses | 33 498 | 42 841 |
| C.I.2. | Deferred income | | 36 |

■ Profit and Loss Account

| Year ended 31. 12. 2015 (CZK '000) | | Year ended 31. 12. 2015 | Year ended 31. 12. 2014 |
|------------------------------------|--|-------------------------|-------------------------|
| II. | Production | 11 989 995 | 12 140 567 |
| II.1. | Sales of own products and services | 11 799 811 | 11 973 471 |
| II.3. | Own work capitalised | 190 184 | 167 096 |
| B. | Purchased consumables and services | 6 748 127 | 6 785 459 |
| B.1. | Consumed material and energy | 1 857 141 | 2 177 275 |
| B.2. | Services | 4 890 986 | 4 608 184 |
| + | Added value | 5 241 868 | 5 355 108 |
| C. | Staff costs | 3 885 100 | 3 712 843 |
| C.1. | Payroll costs | 2 777 016 | 2 638 486 |
| C.2. | Remuneration to members of business corporation bodies | 14 756 | 18 182 |
| C.3. | Social security and health insurance costs | 928 990 | 892 433 |
| C.4. | Social costs | 164 338 | 163 742 |
| D. | Taxes and charges | 6 601 | 3 985 |
| E. | Depreciation of intangible and tangible fixed assets | 988 417 | 927 766 |
| III. | Sales of fixed assets and material | 82 113 | 732 119 |
| III.1. | Sales of fixed assets | 65 631 | 692 238 |
| III.2. | Sales of material | 16 482 | 39 881 |
| F. | Net book value of fixed assets and material sold | 18 202 | 596 413 |
| F.1. | Net book value of sold fixed assets | 8 901 | 577 625 |
| F.2. | Book value of sold material | 9 301 | 18 788 |
| G. | Change in reserves and provisions relating to operating activities and complex deferred expenses | 8 655 | -415 813 |
| IV. | Other operating income | 130 645 | 150 066 |
| H. | Other operating expenses | 179 865 | 519 552 |
| * | Operating profit or loss | 367 786 | 892 547 |
| VI. | Proceeds from the sale of securities and investments | 1 233 | |
| J. | Cost of securities and investments sold | 3 423 | 102 |
| VII. | Income from non-current financial assets | 27 642 | 46 525 |
| VII.3. | Income from other non-current financial assets | 27 642 | 46 525 |
| IX. | Income from the revaluation of securities and derivatives | 58 336 | 62 981 |
| L. | Costs of the revaluation of securities and derivatives | 105 264 | 212 661 |
| X. | Interest income | 7 205 | 6 957 |
| N. | Interest expenses | 80 371 | 82 618 |
| XI. | Other financial income | 221 463 | 249 404 |
| O. | Other financial expenses | 259 357 | 238 489 |
| * | Financial profit or loss | -132 536 | -168 003 |
| Q. | Income tax on ordinary activities | 95 733 | 189 666 |
| Q 1. | - due | 260 | 78 062 |
| Q 2. | - deferred | 95 473 | 111 604 |
| ∞∞ | Profit or loss from ordinary activities | 139 517 | 534 878 |
| ∞∞∞ | Profit or loss for the current period (+/-) | 139 517 | 534 878 |
| ∞∞∞∞ | Profit or loss before tax | 235 250 | 724 544 |

■ Statement of Changes in Equity

| Year ended 31. 12. 2015 (CZK '000) | Share capital | Capital funds | Statutory and other funds | Statutory reserve fund | Accumulated profits brought forward | Accumulated losses brought forward | Profit or loss for the current period | Total equity |
|---|------------------|----------------|---------------------------|------------------------|-------------------------------------|------------------------------------|---------------------------------------|------------------|
| Balance at 31 December 31.12.2013 | 8 494 000 | 174 633 | 74 047 | 60 653 | 97 331 | -2 886 052 | 429 769 | 6 444 381 |
| Distribution of profit or loss | | | 31 000 | 21 488 | -97 331 | 474 612 | -429 769 | |
| Revaluation of non-current financial assets | | -21 127 | | | | | | -21 127 |
| Change of value of hedging derivatives | | 55 777 | | | | | | 55 777 |
| Change in deferred tax on financial derivatives | | -10 598 | | | | | | -10 598 |
| Use of the social fund | | | -20 602 | | | | | -20 602 |
| Profit or loss for the current period | | | | | | | 534 878 | 534 878 |
| Balance at 31 December 31.12.2014 | 8 494 000 | 198 685 | 84 446 | 82 141 | | -2 411 440 | 534 878 | 6 982 710 |
| Distribution of profit or loss | | | 39 000 | 26 744 | | 469 134 | -534 878 | |
| Revaluation of non-current financial assets | | 98 766 | | | | | | 98 766 |
| Change of value of hedging derivatives | | 48 491 | | | | | | 48 491 |
| Change in deferred tax on financial derivatives | | -9 213 | | | | | | -9 213 |
| Use of the social fund | | | -21 941 | | | | | -21 941 |
| Profit or loss for the current period | | | | | | | 139 517 | 139 517 |
| Balance at 31 December 31.12.2015 | 8 494 000 | 336 729 | 101 506 | 108 885 | | -1 942 307 | 139 517 | 7 238 330 |

■ Cash Flow Statement

| Year ended 31. 12. 2015 (CZK '000) | | Year ended 31. 12. 2015 | Year ended 31. 12. 2014 |
|------------------------------------|---|-------------------------|-------------------------|
| P. | Opening balance of cash and cash equivalents | 683 948 | 440 953 |
| | Cash flows from ordinary activities | | |
| Z. | Profit or loss from ordinary activities before tax | 235 250 | 724 544 |
| A.1. | Adjustments for non-cash transactions | 969 593 | 459 112 |
| A.1.1. | Depreciation of fixed assets | 988 417 | 927 766 |
| A.1.2. | Change in provisions and reserves | 8 654 | -415 814 |
| A.1.3. | Profit/(loss) on the sale of fixed assets | -54 540 | -114 511 |
| A.1.4. | Revenues from profit shares | -27 642 | -46 525 |
| A.1.5. | Interest expense and interest income | 73 166 | 75 661 |
| A.1.6. | Adjustments for other non-cash transactions | -18 463 | 32 535 |
| A.° | Net operating cash flow before changes in working capital | 1 204 843 | 1 183 656 |
| A.2. | Change in working capital | 154 939 | 445 333 |
| A.2.1. | Change in operating receivables and other assets | 3 256 | 34 965 |
| A.2.2. | Change in operating payables and other liabilities | 170 950 | 414 846 |
| A.2.3. | Change in inventories | -19 266 | -4 478 |
| A.°° | Net cash flow from operations before tax and extraordinary items | 1 359 782 | 1 628 989 |
| A.3. | Interest paid | -80 371 | -82 618 |
| A.4. | Interest received | 7 042 | 6 957 |
| A.5. | Income tax paid from ordinary operations | -74 617 | -62 298 |
| A.7. | Received profit shares | 8 389 | 23 998 |
| A.°°° | Net operating cash flows | 1 220 224 | 1 515 028 |
| | Cash flows from investing activities | | |
| B.1. | Fixed assets expenditures | -959 270 | -666 835 |
| B.2. | Proceeds from fixed assets sold | 17 026 | 597 558 |
| B.3. | Loans provided to related parties | 119 771 | 4 205 |
| B.°°° | Net investment cash flows | -822 474 | -65 073 |
| | Cash flow from financial activities | | |
| C.1. | Change in payables from financing | -192 163 | -1 186 358 |
| C.2. | Impact of changes in equity | -21 941 | -20 602 |
| C.2.5. | Payments from capital funds | -21 941 | -20 602 |
| C.°°° | Net financial cash flows | -214 104 | -1 206 960 |
| F. | Net increase or decrease in cash and cash equivalents | 183 647 | 242 995 |
| R. | Closing balance of cash and cash equivalents | 867 595 | 683 948 |

1. General information

1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

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

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

As of 31 December 2015, the Company reported the 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 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 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; and
- Transit.

Pursuant to 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; and
- Transportation of other non-classified commodities.

Principal business activities are supported by four standard products of other business activities. These focus on the provision of specific activities separate from the principal activities in terms of process:

- Operation of and transport on non-public railways – railway sidings;
- Shipment and logistical services – predominantly logistics solution for transportation of shipments;
- Lease and other management of motor vehicles; and
- Lease and other management of wagons.

With respect to the listed principal and other activities, the Company provides the following services:

- Representation in customs proceedings;
- Operation of customs warehouses;
- Storage of goods and handling of cargo;
- Road freight transportation; and
- Safety advisory for the transportation of dangerous goods.

As part of its business activities, the Company, in its role as transporter, operated 963 tariff points with dispatching authority for transportation of wagon loads and 1,064 railway sidings.

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

1.2. RELATIONSHIP 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 2014 and 2015. The costs for the years ending 31 December 2014 and 2015 are disclosed in Note 4.20.

The income of the Company for 2015 predominantly includes sales of interstate transport of vehicle shipments of CZK 13,203 thousand.

As of 31 December 2015, the Company records receivables from, and payables to, Správa železniční dopravní cesty, s.o., the aggregate value of which represents a net payable of CZK 927,594 thousand in the year ending 31 December 2015. In the year ending 31 December 2014, the aggregate net value of the receivables and payables represented a payable of CZK 988,243 thousand.

1.3. 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;
- Operations Director division; and
- Finance Director division.

In addition, the organisational structure includes operational units, 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. GROUP IDENTIFICATION

The Company is part of the České dráhy consolidation group. The České dráhy group provides comprehensive services relating to the operation of the railway freight and passenger transportation and additional and complementary activities, specifically railway research, testing, telematics, accommodation and catering services. České dráhy, a.s. is the largest Czech railway transporter with a long-term tradition and contractual operator of most railway routes in the Czech Republic. The owner of the České dráhy group is the Czech Republic.

ČD Cargo, a.s., also manages the ČD Cargo consolidation group which includes entities disclosed in Notes 4.3.1. and 4.3.2. The Company prepares the consolidated financial statements under International Financial Reporting Standards for this group for the year ending 31 December 2015.

1.5. STATUTORY BODIES OF THE COMPANY

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

BODIES OF THE COMPANY AS OF 31 DECEMBER 2015:

Board of Directors of ČD Cargo, a.s.

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

Supervisory Board of ČD Cargo, a.s.

- Pavel Krtek, Chairman of the Supervisory Board
- Ludvík Urban, Member of the Supervisory Board
- Jan Kasal, Member of the Supervisory Board
- Radek Nekola, Member of the Supervisory Board
- Jindřich Nohal, Member of the Supervisory Board
- Jan Hartl, Member of the Supervisory Board
- František Bureš – Member of the Supervisory Board

On 3 February 2015, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed Jan Hartl a member of the Company's Supervisory Board with immediate effect.

On 28 April 2015, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed František Bureš a member of the Company's Supervisory Board with immediate effect.

Audit Committee of ČD Cargo, a.s.

- Oldřich Vojíř – Chairman of the Audit Committee
- Miroslav Zámečník – Member of the Audit Committee
- Libor Joukl – Member of the Audit Committee

At the meeting of the Audit Committee held on 27 February 2015, Oldřich Vojíř was appointed Chairman of the Audit Committee.

2. Accounting policies and general accounting principles

The financial statements are prepared and presented in accordance with Accounting Act 563/1991 Coll., as amended, and Regulation 500/2002 Coll., as amended, which provides implementation guidance on certain provisions of Accounting Act 563/1991, as amended, for reporting entities that are businesses maintaining double-entry accounting records, and Czech Accounting Standards for Businesses. Thus prepared financial statements of the Company concurrently represent the statutory financial statements.

The Company additionally prepares financial statements under International Financial Reporting Standards as adopted by the European Union (hereinafter "IFRS"). The separate and consolidated financial statements prepared under IFRS are prepared voluntarily and do not replace the statutory financial statements prepared under the set of standards referred to above.

The accounting books and records are maintained in compliance with 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 Note 3.4, the accruals principle, the prudence concept and the going concern assumption.

These financial statements are presented in thousands of Czech crowns (CZK '000), unless stated otherwise.

2.1. REPORTING PERIOD

The financial statements of the Company as of 31 December 2015 are prepared as follows:

- The balance sheet contains the information as of 31 December 2015 and the comparative information as of 31 December 2014;
- The profit and loss account contains information for the year ending 31 December 2015 and the comparative information for the year ending 31 December 2014;
- The statement of changes in equity contains the information for the year ending 31 December 2015 and the comparative information for the years ending 31 December 2014 and 2013; and
- The cash flow statement contains the information for the year ending 31 December 2015 and the comparative information for the year ending 31 December 2014.

3. Summary of significant accounting policies

3.1. TANGIBLE FIXED ASSETS

Fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 40 thousand (tangible assets except for land, buildings and constructions). Land, buildings and constructions are treated as fixed assets irrespective of their cost valuation.

With respect to assets defined by Act No. 16/1993 Coll., on Road Tax, as amended, assets also include assets with an acquisition cost lower than CZK 40 thousand. This also applies to all railway vehicles (primarily after the termination of the lease).

Land acquired prior to 1992 and invested as part of the non-cash investment is stated at a value prescribed by the regulation issued by the Finance Ministry ruling at the date of acquisition of assets. Land acquired after the formation of the Company is valued at acquisition cost.

Other tangible fixed assets are stated at acquisition cost.

Tangible assets produced and generated internally by the Company are stated at the cost of production comprising direct costs and an element of administrative overheads.

Tangible assets with an acquisition cost greater than CZK 500 but less than CZK 40 thousand are expensed in the period of acquisition and are maintained only in the underlying operational records. The cost of fixed asset improvements exceeding CZK 40 thousand for the period increases the acquisition cost of the related fixed asset.

Replacement costs are used in valuing gifts and assets identified based on physical inventory which were previously not recorded in the accounting books and records.

The liabilities related to finance or operating lease agreements are not recorded on the balance sheet according to the applicable accounting regulations.

Costs incurred with regard to finance and operating leases are charged to the profit and loss account in the period to which they relate on an accruals basis.

Depreciation and amortisation is calculated on a straight line basis over the estimated useful economic lives of the fixed assets. Railway vehicles are depreciated to the estimated residual value. The estimated useful economic lives for the major categories of assets are as follows:

| | Depreciation method | Number of years / % |
|--|---------------------|---------------------|
| Buildings | Straight line | 20–50 / 5–2 % |
| Structures | Straight line | 20–50 / 5–2 % |
| Locomotives (part of locomotives without components) | Straight line | 20–25 / 5–4 % |
| Wagons (part of wagons without components) | Straight line | 30 / 3,33% |
| Machinery and equipment | Straight line | 8–20 / 12,5–5 % |

The useful lives of wagons that were modernised were set at 20 years from the modernisation date.

At the balance sheet date, the Company recognises 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 recognised through the profit and loss account.

3.1.1. 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.

3.1.2. 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.

3.2. 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 % |

3.2.1. 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.

3.3. 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.

3.4. 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 place 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.

3.5. 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.

3.6. 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.

3.7. 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.

3.8. 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.

3.9. 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.

3.10. 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 income and discounted anticipated expenses.

3.11. 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.

3.12. FINANCE LEASES

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.

3.13. 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.

3.14. TAXATION

3.14.1. Depreciation of Fixed Assets for Tax Purposes

Depreciation of fixed assets is calculated using the straight line method for tax purposes.

3.14.2. 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.

3.14.3. 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.

3.15. 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.

3.16. 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.

3.17. REVENUE 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.

■ Cost

| (CZK '000) | Balance at 31 Dec 2013 | | | Balance at 31 Dec 2014 | | | Transfers | Balance at 31 Dec 2015 |
|----------------------------------|------------------------|----------------|----------------|------------------------|----------------|----------------|------------|------------------------|
| | Balance at 31 Dec 2013 | Additions | Disposals | Balance at 31 Dec 2014 | Additions | Disposals | | |
| Start-up costs | 28 492 | 0 | 0 | 28 492 | 0 | 28 492 | 0 | 0 |
| Software | 461 102 | 56 593 | 89 552 | 428 143 | 100 322 | 245 | 0 | 528 220 |
| Valuable rights | 140 389 | 300 | 16 926 | 123 763 | 27 14 | 0 | 0 | 126 477 |
| Intangible FA under construction | 50 798 | 134 302 | 56 893 | 128 207 | 101 111 | 160 021 | -95 | 69 202 |
| Total | 680 781 | 191 195 | 163 371 | 708 605 | 204 147 | 188 758 | -95 | 723 899 |

■ Accumulated Amortisation

| (CZK '000) | Balance at 31 Dec 2013 | | | Balance at 31 Dec 2014 | | | Transfers | Balance at 31 Dec 2015 |
|-----------------|------------------------|---------------|----------------|------------------------|---------------|---------------|-----------|------------------------|
| | Balance at 31 Dec 2013 | Additions | Disposals | Balance at 31 Dec 2014 | Additions | Disposals | | |
| Start-up costs | 28 492 | 0 | 0 | 28 492 | 0 | 28 492 | 0 | 0 |
| Software | 267 029 | 52 342 | 86 564 | 232 807 | 49 597 | 245 | 0 | 282 159 |
| Valuable rights | 104 520 | 14 884 | 16 926 | 102 478 | 9 625 | 0 | 0 | 112 103 |
| Total | 400 041 | 67 226 | 103 490 | 363 777 | 59 222 | 28 737 | 0 | 394 262 |

3.18. 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.

3.19. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance. Cash and cash equivalents can be analysed as follows:

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|--|----------------|----------------|
| Cash on hand and cash in transit | 1 908 | 1 753 |
| Cash at bank | 862 168 | 678 169 |
| Cash on the cash-pooling account | 3 518 | 4 026 |
| Total cash and cash equivalents | 867 594 | 683 948 |

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

4. Additional information on the balance sheet and profit and loss account**4.1. FIXED ASSETS****4.1.1. Intangible Fixed Assets**

■ Net Book Value

| (CZK '000) | Balance at 31 Dec 2013 | Balance at 31 Dec 2014 | Balance at 31 Dec 2015 |
|----------------------------------|------------------------|------------------------|------------------------|
| Start-up costs | 0 | 0 | 0 |
| Software | 194 073 | 195 336 | 246 061 |
| Valuable rights | 35 869 | 21 285 | 14 374 |
| Intangible FA under construction | 50 798 | 128 207 | 69 202 |
| Total | 280 740 | 344 828 | 329 637 |

Intangible fixed assets predominantly include the SAP system and the operational business information system – PROBIS. Intangible assets additionally include the information system supporting the activities of the freight transporter, development of the SAP information systems, the Microsoft Enterprise Agreement licence, the OPT information system, the system for the support of office work and other systems used by the Company. Additions to software in the year ending 31 December 2015 primarily include the costs of adjustments and upgrades of the current systems, namely PROBIS in the amount of CZK 37,827 thousand, the SAP project of CZK 21,397 thousand, the DISC system (Dispatching Information System of Cargo) of CZK 21,701 thousand, the remaining value of the aggregate amount is attributable to other economic and operating tasks. Other licences were capitalised with the aggregate value of CZK 2,713 thousand.

In the year ending 31 December 2015, the Company executed further development of the current systems (SAP, BI, PRIS) with the acquisition cost of CZK 44,675 thousand

and an IT security project of CZK 24,838 thousand. The Company also commenced the OBIS project in the amount of CZK 20,421 thousand, the development of which is also planned for 2016. In the year ending 31 December 2015, the aggregate investments in tangible fixed assets amounted to CZK 101,111 thousand. In the year ending 31 December 2015, the Company received grants for intangible assets from the Transportation Operational Programme in the amount of CZK 56,987 thousand.

Intangible fixed assets under construction predominantly include a further extension of software for the railway transportation and financial management of the Company.

In the year ending 31 December 2015, investment grants were received for the purchase of intangible assets. Investment grants are described in detail in Note 4.1.4.

4.1.2. Tangible Fixed Assets

■ Cost

| (CZK '000) | Balance at 31 Dec 2013 | Additions | Disposals | Transfers | Balance at 31 Dec 2014 | Additions | Disposals | Transfers | Balance at 31 Dec 2015 |
|---|------------------------|------------------|------------------|-----------|------------------------|------------------|------------------|-------------|------------------------|
| Land | 81 240 | 4 621 | 0 | 0 | 85 861 | 0 | 0 | 0 | 85 861 |
| Buildings | 1 409 822 | 32 396 | 690 | 0 | 1 441 528 | 61 991 | 2 177 | 0 | 1 501 342 |
| Individual tangible movable assets of which | 21 213 405 | 781 890 | 859 362 | 0 | 21 135 933 | 1 108 351 | 263 470 | -3 211 | 21 977 602 |
| <i>components</i> | 3 768 752 | 369 018 | 220 859 | 509 | 3 917 420 | 629 781 | 177 865 | 671 796 | 5 041 132 |
| <i>Machinery and equipment</i> | 488 341 | 36 423 | 9 982 | 60 | 514 842 | 9 565 | 6 484 | -183 884 | 334 039 |
| <i>Vehicles</i> | 20 719 267 | 745 467 | 848 522 | 8 | 20 616 220 | 1 098 786 | 256 418 | 180 673 | 21 639 261 |
| <i>Furniture and fixtures</i> | 5 797 | 0 | 858 | -68 | 4 871 | 0 | 568 | 0 | 4 303 |
| Works of art | 48 | 0 | 0 | 0 | 48 | 11 | 0 | 0 | 59 |
| Tangible fixed assets under construction | 62 896 | 879 575 | 822 936 | 0 | 119 535 | 1 120 370 | 1 174 181 | 2 616 | 68 340 |
| Prepayments for tangible fixed assets | 54 | 896 | 940 | 0 | 10 | 273 | 261 | 0 | 22 |
| Valuation difference on acquired assets | 5 611 411 | 0 | 0 | 0 | 5 611 411 | 0 | 0 | 0 | 5 611 411 |
| Total | 28 378 876 | 1 699 378 | 1 683 928 | 0 | 28 394 326 | 2 290 996 | 1 440 089 | -595 | 29 244 638 |

■ Accumulated Depreciation

| (CZK '000) | Balance at 31 Dec 2013 | Additions | Disposals | Transfers | Balance at 31 Dec 2014 | Additions | Disposals | Transfers | Balance at 31 Dec 2015 |
|---|------------------------|----------------|----------------|-----------|------------------------|----------------|----------------|-------------|------------------------|
| Buildings | 644 353 | 34 706 | 688 | 0 | 678 371 | 35 129 | 1 117 | 0 | 712 383 |
| Individual tangible movable assets of which | 13 479 742 | 559 711 | 270 393 | 0 | 13 769 060 | 619 860 | 233 958 | -690 | 14 154 272 |
| <i>components</i> | 1 687 540 | 259 223 | 110 756 | 0 | 1 836 007 | 111 760 | 154 200 | 449 286 | 2 242 853 |
| <i>Machinery and equipment</i> | 340 699 | 29 646 | 9 912 | 46 | 360 479 | 19 704 | 6 415 | -147 878 | 225 890 |
| <i>Vehicles</i> | 13 133 698 | 529 942 | 259 633 | 22 | 13 404 029 | 600 058 | 226 975 | 147 188 | 13 924 300 |
| <i>Furniture and fixtures</i> | 5 345 | 123 | 848 | -68 | 4 552 | 98 | 568 | 0 | 4 082 |
| <i>Works of art</i> | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 |
| Valuation difference on acquired assets | 3 365 318 | 251 898 | 0 | 0 | 3 617 216 | 251 898 | 0 | 0 | 3 869 114 |
| Total | 17 489 413 | 846 315 | 271 081 | 0 | 18 064 647 | 906 888 | 235 075 | -690 | 18 735 770 |

■ Provisions

| (CZK '000) | Balance at 31 Dec 2013 | Additions | Disposals | Balance at 31 Dec 2014 | Additions | Disposals | Balance at 31 Dec 2015 |
|------------------------------------|------------------------|----------------|----------------|------------------------|----------------|----------------|------------------------|
| Land | 0 | 176 | 0 | 176 | 0 | 7 | 169 |
| Buildings | 137 | 118 | 137 | 118 | 99 | 118 | 99 |
| Individual tangible movable assets | 149 246 | 167 991 | 149 246 | 167 991 | 142 944 | 167 991 | 142 944 |
| <i>Vehicles</i> | 149 246 | 167 991 | 149 246 | 167 991 | 142 944 | 167 991 | 142 944 |
| Tangible FA under construction | 0 | 0 | 0 | 0 | 4 263 | 0 | 4 263 |
| Total | 149 383 | 168 285 | 149 383 | 168 285 | 147 306 | 168 116 | 147 475 |

■ Net Book Value

| (CZK '000) | Balance at 31 Dec 2013 | Balance at 31 Dec 2014 | Balance at 31 Dec 2015 |
|---|------------------------|------------------------|------------------------|
| Land | 81 240 | 85 685 | 85 692 |
| Buildings | 765 332 | 763 039 | 788 860 |
| Individual tangible movable assets of which | 7 584 417 | 7 198 882 | 7 680 386 |
| <i>components</i> | 2 081 212 | 2 081 413 | 2 798 279 |
| <i>Machinery and equipment</i> | 147 642 | 154 363 | 108 149 |
| <i>Vehicles</i> | 7 436 323 | 7 044 200 | 7 572 017 |
| <i>Furniture and fixtures</i> | 452 | 319 | 221 |
| Works of art | 48 | 48 | 58 |
| Tangible fixed assets under construction | 62 896 | 119 535 | 64 077 |
| Prepayments for tangible fixed assets | 54 | 10 | 22 |
| Valuation difference on acquired assets | 2 246 093 | 1 994 195 | 1 742 297 |
| Total | 10 740 080 | 10 161 394 | 10 361 393 |

Real estate predominantly includes buildings and land. Land and buildings exclude the assets forming the railway route which are owned by the state.

Vehicles predominantly include rail vehicles (traction vehicles, wagons) used for the operations of the railway freight transportation. These items are provisioned as equal to the difference between the accounting net book value and the recoverable amount in the amount of CZK 142,710 thousand.

Principal additions to individual tangible movable assets in the year ending 31 December 2015 included inspection repairs (components) of wagons of CZK 246,718 thousand, major and general repairs (components) of traction vehicles of CZK 238,732 thousand, purchase of the 163 line traction vehicles of CZK 233,000 thousand, technical improvements on wagons of CZK 170,959 thousand and the purchase of a wheel set for wagons of CZK 89,603 thousand.

In the years ending 31 December 2015 and 2014, the Company acquired tangible fixed assets recognised in expenses in the amounts of CZK 25,829 thousand and CZK 25,663 thousand, respectively. 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 inventory and they are expensed.

In the year ending 31 December 2015, the Company received grants for tangible assets from the Transportation Operational Programme of CZK 105 thousand.

Prepayments made for tangible fixed assets amount to CZK 22 thousand as of 31 December 2015.

4.1.3. Fixed Assets Pledged as Security

As of 31 December 2015 and 2014, no assets of the Company were pledged as security.

4.1.4. Investment Grants

In the year ending 31 December 2015, the Company obtained investment grants totalling CZK 57,091 thousand. The amount primarily consisted of a grant from the Transportation Operational Programme for the project of upgrading the IS in relation to TSI-TAF in the amount of CZK 56,388 thousand and a grant for employee education (an e-learning course and an interactive board with projectors) of CZK 703 thousand.

In the year ending 31 December 2014, the Company obtained investment grants totalling CZK 23,920 thousand for equipping 104 traction vehicles with GSM-R radio stations.

4.1.5. Assets Held under Finance Leases

■ Finance Leases

| Description (CZK '000) | Lease company | Date of inception | Term in months | Total lease value (net of VAT) | Payments made as of 31 Dec 2015 from the inception of the lease | To be paid in total including the purchase | Due in 2016 | Due in the following years |
|---------------------------|--------------------|-------------------|----------------|-----------------------------------|---|--|----------------|-------------------------------|
| Locomotive 709 | ING Lease | 1/07 | 120 | 55 772 | 50 081 | 5 691 | 5 691 | 0 |
| Locomotive 753 | ING Lease | 12/08 | 120 | 1 143 889 | 717 453 | 426 436 | 111 873 | 314 563 |
| Locomotive 230 | ČSOB Leasing | 12/10 | 120 | 272 268 | 158 287 | 113 981 | 23 181 | 90 800 |
| TV 363 ČSOB 1st tranche | ČSOB Leasing | 12/12 | 120 | 396 274 | 152 799 | 243 475 | 34 782 | 208 693 |
| TV 363 SGE 1st tranche | SG Equipment | 12/12 | 120 | 394 886 | 152 264 | 242 622 | 34 660 | 207 962 |
| TV 363 ČSOB 2nd tranche | ČSOB Leasing | 7/13 | 120 | 420 224 | 139 748 | 280 476 | 36 986 | 243 490 |
| TV 363 SGE 2nd tranche | SG Equipment | 7/13 | 120 | 420 359 | 139 793 | 280 566 | 36 998 | 243 568 |
| TV 363 SGE 3rd tranche | Raiffeisen leasing | 5/14 | 120 | 862 073 | 223 703 | 638 370 | 75 846 | 562 524 |
| Wagons: | | | | | | | | |
| Sgnss | ING Lease | 1/07 | 120 | 411 994 | 361 895 | 50 099 | 39 885 | 10 214 |
| Zacns | Railco | 10/10 | 120 | 199 573 | 102 482 | 97 091 | 19 916 | 77 175 |
| Wagons 1,145 pieces | Financial Found | 12/09 | 120 | 1 476 505 | 990 505 | 486 000 | 121 500 | 364 500 |
| Total | | | | 6 053 817 | 3 189 010 | 2 864 807 | 541 318 | 2 323 489 |

Note: The total lease value during the payment of instalments is impacted by the change in interest rates.

On 9 July 2008, ČD Cargo, a.s., concluded a lease contract for the financing of 30 modernised 753.7 series locomotives with ING Lease (ČR), s.r.o., with gradual supply according to the schedule until 30 June 2010 in the form of finance leases in the aggregate amount of CZK 1,004,410 thousand (net of VAT). The lease period was determined to be 10 years (120 even payments). Each leased asset referred to above is paid based on the individual payment schedule. 19 modernised locomotives out of the leased assets referred to above were supplied before 31 December 2009.

On 30 December 2009, ČD Cargo, a.s., concluded three contracts for the sale with a subsequent finance lease-back with Financial Found a.s., for a total of 1,145 rail-road vehicles with the selling price of CZK 1,161,505 thousand (net of VAT). In 2009, the extraordinary lease payment (initial lump-sum payment) of CZK 261,505 thousand (net of VAT) was made. The lease term was determined to be 10 years (120 even payments of CZK 10,125 thousand net of VAT).

Lease payments remain unchanged over the lease period unless the 12M PRIBOR rate changes always as of the end of the reporting period, however, for the first time as of 31 December 2011 by more than 1% as compared to 12M PRIBOR applicable for the first period.

On 24 November 2010, ČD Cargo, a.s., concluded a contract for the sale with a subsequent finance lease-back with ČSOB Leasing, a.s. in the aggregate volume of seven electric alternating-current locomotives with the selling price of CZK 210,450 thousand (net of VAT). The initial lump sum prepayment of CZK 40,450 thousand (net of VAT) was offset in full against the receivable of ČD Cargo, a.s., for the selling price of locomotives in 2010. The lease period was determined to be 10 years (120 even payments of CZK 1,932 thousand net of VAT). Each individual leased asset referred to above is paid on the basis of a standalone payment schedule.

On 15 June 2010, ČD Cargo, a.s., concluded a contract for the lease of 50 Zacns tank wagons with Finrail, s.r.o. with the selling price of CZK 140,000 thousand (net of VAT). The lease period was determined to be 10 years (120 even payments of CZK 1,665 thousand net of VAT). Lease payments remain unchanged over the lease period unless the 12M PRIBOR rate changes always as of the end of the reporting period, however, for the first time as of 31 December 2011 by more than 1% as compared to 12M PRIBOR applicable for the first period. In June 2012, Finrail s.r.o. was renamed to Railco s.r.o.

On 14 December 2012, ČD Cargo, a.s., concluded a contract for the funding of traction vehicle modernisation through leaseback, specifically five 363.5 series traction vehicles, with SG Equipment Finance Czech Republic, s.r.o. The selling price was CZK 321,885 thousand (net of VAT). The initial lump sum prepayment of CZK 48,283 thousand (net of VAT) was due as of the day when the leased asset was taken over. The lease period is determined to be 10 years (120 payments of CZK 2,888 thousand net of VAT). Lease payments remain unchanged over the lease period. Each of the above-stated leased assets is paid based on an individual payment schedule.

On 14 December 2012, ČD Cargo, a.s., concluded a contract for the funding of traction vehicle modernisation through leaseback, specifically five 363.5 series traction vehicles, with ČSOB Leasing, a.s. The selling price was CZK 323,017 thousand (net of VAT). The initial lump sum prepayment of CZK 48,453 thousand (net of VAT) was due as of the day when the leased asset was taken over. The lease period is determined to be 10 years (120 payments of CZK 2,899 thousand net of VAT). Lease payments remain unchanged over the lease period. Each of the above-stated leased assets is paid based on an individual payment schedule.

On 22 July 2013, the Company concluded a contract for the funding of traction vehicle modernisation of traction vehicles through leaseback, specifically five 363.5 series traction vehicles, with SG Equipment Finance Czech Republic, s.r.o. The selling price was CZK 335,881 thousand (net of VAT). The initial lump sum prepayment of CZK 50,382 thousand (net of VAT) was due as of the day when the leased asset was taken over. The lease period is determined to be 10 years (120 payments of CZK 3,083 thousand net of VAT). Lease payments remain unchanged over the lease period.

On 22 July 2013, the Company concluded a contract for the funding of the modernised traction vehicles through leaseback, specifically five 363.5 series traction vehicles, with ČSOB Leasing, a.s. The selling price was CZK 335,773 thousand (net of VAT). The initial lump sum prepayment of CZK 50,366 thousand (net of VAT) was due as of the day when the leased asset was taken over. The lease period is determined to be 10 years (120 payments of CZK 3,082 thousand net of VAT). Lease payments remain unchanged over the lease period.

On 13 May 2014, the Company concluded a contract for the funding of the modernised traction vehicles through leaseback, specifically ten 363.5 series traction vehicles, with Raiffeisen – Leasing, s.r.o. The selling price was CZK 690,753 thousand (net of VAT). The initial lump sum prepayment of CZK 103,613 thousand (net of VAT) was due as of the day when the leased asset was taken over. The lease period is determined to be 10 years (120 payments of CZK 6,321 thousand net of VAT). Lease payments remain unchanged over the lease period.

4.1.6. Operating Leases

In the year ending 31 December 2009, the Company held cars under operating leases. The aggregate amount of leases was CZK 34,556 thousand as of 31 December 2015. During 2015, payments of lease instalments made amounted to CZK 11,414 thousand. During 2014, instalments made amounted to CZK 13,838 thousand.

In August 2010, the Company concluded the contract for the lease of computers (end equipment – desktops, laptops) with ČD-Informační systémy, a.s. The total operating lease payments as of 31 December 2015 and 2014 amounted to CZK 37,342 thousand and CZK 37,882 thousand, respectively. The total operating lease payments as of 31 December 2015 and 2014 amounted to CZK 6,718 thousand and CZK 10,875 thousand, respectively.

4.2. NON-CURRENT FINANCIAL ASSETS

■ Cost

| (CZK '000) | Carrying value | | | | Carrying value | | | | Carrying value |
|------------------------------------|---------------------------|----------|----------|-------------------------------|---------------------------|---------------|----------|-------------------------------|---------------------------|
| | Balance as of 31 Dec 2013 | Addition | Disposal | Revaluation as of 31 Dec 2014 | Balance as of 31 Dec 2014 | Addition | Disposal | Revaluation as of 31 Dec 2015 | Balance as of 31 Dec 2015 |
| Equity investments in subsidiaries | 463 555 | 0 | 0 | -5 268 | 458 287 | 14 260 | 0 | 99 265 | 571 812 |
| Equity investments in associates | 56 445 | 0 | 0 | -15 961 | 40 484 | 0 | 0 | -499 | 39 985 |
| Total | 520 000 | 0 | 0 | -21 229 | 498 771 | 14 260 | 0 | 98 766 | 611 797 |

4.2.1. Equity Investments in Subsidiaries

■ Year Ended 31 December 2015

| Name of the entity (CZK '000) | Registered office | Valuation at 31 Dec 2014 | Addition | Disposal | Revaluation | Ownership percentage | Equity | Profit or loss | Valuation as of 31 Dec 2015 |
|---------------------------------------|---|--------------------------|---------------|----------|---------------|----------------------|---------|----------------|-----------------------------|
| CD Generalvertretung GmbH | Kaiserstrasse 60, 60 329 Frankfurt am Main, Germany | | | | | | | 30 401 | 31 753 |
| Koleje Czeskie Sp. z o.o. | Grzybowska nr 4, lok. 3, 00-131 Warsaw, Poland | 363 076 | 0 | 0 | 87 798 | 100 | 450 874 | 75 071 | 450 874 |
| CD – Generalvertretung Wien GmbH | Rotenturmstraße 22/24, 1010 Vienna, Austria | 0 | 0 | 0 | 0 | 0 | 2 474 | 706 | 0 |
| Generálne zastúpenie ČD Cargo, s.r.o. | Prievozská 4/B, 821 09 Bratislava | 0 | 4 260 | 0 | -4 260 | 100 | -853 | -851 | 0 |
| Terminal Brno, a.s. | Brno, K terminálu 614/11, 619 00 | 45 443 | 0 | 0 | 310 | 66,93 | 68 359 | 463 | 45 753 |
| ČD-DUSS Terminál, a.s. | Lovosice, Lukavecká 1189, 410 02 | 5 091 | 0 | 0 | -1 209 | 51 | 7 611 | 312 | 3 882 |
| ČD Logistics, a.s. | Prague 1, Opletalova 1284/37, 110 00 | 23 873 | 10 000 | 0 | 5 677 | 78 | 50 706 | 8 074 | 39 550 |
| Auto Terminal Nymburk, s.r.o. | Jankovcova 1569/2c, 170 00 Prague 7 | 0 | 0 | 0 | 0 | 100 | 0 | 0 | 0 |
| Total | | 458 287 | 14 260 | 0 | 99 265 | | | | 571 812 |

- Equity and profit or loss of certain entities are preliminary unaudited figures.

■ Year Ended 31 December 2014

| Name of the entity (CZK '000) | Registered office | Valuation as of 31 Dec 2013 | Addition | Disposal | Revaluation | Ownership percentage | Equity | Profit or loss | Valuation as of 31 Dec 2014 |
|---------------------------------------|---|-----------------------------|----------|----------|---------------|----------------------|---------|----------------|-----------------------------|
| CD Generalvertretung GmbH | Kaiserstrasse 60, 60 329 Frankfurt nad Mohanem, SRN | 23 824 | 0 | 0 | -3 020 | 100 | 20 804 | 19 418 | 20 804 |
| Koleje Czeskie Sp. z o.o. | Grzybowska nr 4, lok. 3, 00-131Varšava, Polsko | 372 195 | 0 | 0 | -9 119 | 100 | 363 077 | -3 157 | 363 076 |
| CD – Generalvertretung Wien GmbH | Rotenturmstraße 22/24, 1010 Wien, Rakousko | 0 | 0 | 0 | 0 | 0 | 1 813 | 415 | 0 |
| Generálne zastúpenie ČD Cargo, s.r.o. | Prievozská 4/B, 821 09 Bratislava | 0 | 0 | 0 | 0 | 1,61 | - | - | 0 |
| Terminal Brno, a.s. | Brno, K terminálu 614/11, PSČ 619 00 | 45 988 | 0 | 0 | -545 | 66,93 | 67 896 | -815 | 45 443 |
| ČD-DUSS Terminál, a.s. | Lovosice, Lukavecká 1189, PSČ 410 02 | 3 723 | 0 | 0 | 1 368 | 51 | 9 981 | 2 682 | 5 091 |
| ČD Logistics, a.s. | Praha 1, Opletalova 1284/37, PSČ 110 00 | 17 825 | 0 | 0 | 6 048 | 56 | 42 631 | 10 800 | 23 873 |
| Auto Terminal Nymburk, s.r.o. | Jankovcova 1569/2c, PSČ 170 00 Praha 7 | 0 | 0 | 0 | 0 | 100 | - | - | 0 |
| Total | | 463 555 | 0 | 0 | -5 268 | | | | 458 287 |

- Equity and profit or loss of certain entities are preliminary unaudited figures.

TERMINAL BRNO, A.S.

The company was formed on 20 December 2007 through a cash investment and recorded in the Register of Companies on 25 July 2008. The share capital is CZK 2,000 thousand. The equity investment in ČD Cargo was 60.50 percent (i.e. CZK 1,210 thousand). With effect from 11 November 2010, Terminal Brno, a.s. increased its share capital through a non-cash investment of CZK 53,350 thousand to CZK 55,350 thousand. Through a non-cash investment of CZK 35,840 thousand, ČD Cargo, a.s. increased its equity investment to 66.94% (i.e. CZK 37,050 thousand). As of 31 December 2012, the intent to increase the share capital by CZK 16,200 thousand from CZK 55,350 thousand to the final balance of CZK 71,550 thousand was recorded in the Register of Companies. The General Meeting decided on the increase on 8 October 2012. This increase in the share capital was recorded in the Register of Companies on 31 January 2013 and resulted in a slight change in the equity investment of the Company to 66.93% (i.e. CZK 47.89 million). Principal activities include the operations of the combined transportation terminal in Brno. The company started its business activities in the second quarter of 2011.

ČD LOGISTICS, A.S.

The company was formed through a cash investment on 17 April 2007 and recorded in the Register of Companies on 16 June 2007. The share capital amounts to CZK 10,000 thousand. On 28 January 2008, ČD Cargo, a.s., purchased a 34% equity investment in ČD Logistics, a.s. (CZK 3,400 thousand). On 2 December 2009, ČD Cargo, a.s., purchased a 22% equity share in ČD Logistics, a.s. (CZK 2,200 thousand). On 22 December 2014, EXIMTRA a.s. transferred 22% of the shares of ČD Logistics, a.s. to ČD Cargo, a.s. Currently, ČD Cargo, a.s., owns 78% of the share capital of ČD Logistics, a.s. (i.e. CZK 7,800 thousand of the share capital). The company is managed under the "German" governance method. The company is engaged in shipping.

ČD-DUSS TERMINÁL, A.S.

The company was recorded in the Register of Companies on 1 March 2007. The share capital amounts to CZK 4,000 thousand. ČD Cargo, a.s., obtained the equity investment amounting to 51% (i.e. CZK 2,040 thousand) from České dráhy, a.s., as a capital investment upon its formation. The company is engaged in operations of the container terminal in Lovosice.

CD GENERALVERTRETUNG GMBH

The company was formed through a cash transaction and recorded in the Register of Companies in Germany on 11 October 2004. The share capital amounts to EUR 50 thousand. ČD Cargo, a.s., is the sole owner. The company is engaged in the mediation of services in freight transportation on behalf of and for ČD Cargo, a.s., and shipping.

KOLEJE CZESKIE SP. Z O.O.

The company was formed through a cash investment and recorded in the Register of Companies in Poland on 18 December 2006. The share capital was PLN 100 thousand. ČD Cargo is the sole owner. On 5 June 2013, a cash increase in the share capital to PLN 41,966 thousand was recorded in the Register of Companies. The company is engaged in the mediation of services in freight transportation on behalf of and for ČD Cargo, a.s., shipping and lease of railway wagons and traction vehicles.

CD – GENERALVERTRETUNG WIEN GMBH

The company was formed on 19 March 2007 through a cash investment and recorded in the Register of Companies in Austria on 30 March 2007. The share capital amounted to EUR 45 thousand. ČD Cargo, a.s., was the sole shareholder. On 5 June 2013, an increase in the share capital to EUR 275 thousand was recorded in the Register of Companies. The Company sold its equity investment in this entity to CD Generalvertretung GmbH. The change in the owner was recorded in the Register of Companies on 23 July 2013. The company is engaged in mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping.

GENERÁLNE ZASTÚPENIE ČD CARGO, S.R.O.

The company was formed on 4 August 2008 through a cash investment and recorded in the Register of Companies in Slovakia on 24 September 2008. The share capital is SKK 200 thousand. Since 5 September 2009, the share capital translated to EUR 6,639 has been recorded in the Register of Companies. ČD Cargo, a.s., was the sole owner. On 12 July 2013, an increase in the share capital to EUR 46,639 was recorded in the Register of Companies. In 2013, the Company sold its majority investment (98.39%) in this entity to Koleje Czeskie Sp. z o.o. and kept an equity investment of 1.61%. The new owner was recorded in the Register of Companies on 22 August 2013. The company is engaged in mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping. On 17 December 2014, ČD Cargo, a.s., purchased the equity investment of 93.39% from Koleje Czeskie Sp. z o.o. and consequently became its sole owner. The purchase of the remaining equity investment was recorded in the Register of Companies on 13 January 2015. As of 14 July 2015, an increase in share capital (through a cash investment) of EUR 201 thousand was recorded in the Register of Companies.

AUTO TERMINAL NYMBURK, S.R.O.

The company was formed on 30 August 2012 through a cash investment and recorded in the Register of Companies on 24 October 2012. The share capital is CZK 200 thousand. The sole owner is ČD Cargo, a.s. The company is engaged in shipping and technical services in transportation. The company is dormant.

4.2.2. Equity Investments in Associates**■ Year Ended 31 December 2015**

| Name of the entity (CZK '000) | Registered office | Valuation as of 31 Dec 2014 | Revaluation | Ownership percentage | Equity | Profit or loss | Valuation as of 31 Dec 2015 |
|-------------------------------------|--|--------------------------------|-------------|-------------------------|---------|----------------|--------------------------------|
| BOHEMIAKOMBI, spol. s r.o. | Opletalova 6, 110 00 Prague 1 | 3 286 | -12 | 30 | 10 914 | -40 | 3 274 |
| Ostravská dopravní společnost, a.s. | U Tiskárny 616/9, 702 00 Ostrava, Přívoz | 20 984 | 3 513 | 20 | 122 488 | 17 568 | 24 497 |
| RAILLEX a.s. | Trnkovo nám. 3/1112, 152 00 Prague 5 | 16 214 | -4 000 | 50 | 24 427 | 7 785 | 12 214 |
| Total | | 40 484 | -499 | | | | 39 985 |

- Equity and profit or loss of certain entities are preliminary unaudited figures

■ Year Ended 31 December 2014

| Name of the entity (CZK '000) | Registered office | Valuation as of 31 Dec 2013 | Revaluation | Ownership percentage | Equity | Profit or loss | Valuation as of 31 Dec 2014 |
|-------------------------------------|--|--------------------------------|----------------|-------------------------|---------|----------------|--------------------------------|
| BOHEMIAKOMBI, spol. s r.o. | Opletalova 6, 110 00 Prague 1 | 2 837 | 449 | 30 | 10 954 | 1 498 | 3 286 |
| Ostravská dopravní společnost, a.s. | U Tiskárny 616/9, 702 00 Ostrava, Přívoz | 41 558 | -20 574 | 20 | 104 920 | 17 132 | 20 984 |
| RAILLEX a.s. | Trnkovo nám. 3/1112, 152 00 Prague 5 | 12 050 | 4 164 | 50 | 32 428 | 8 819 | 16 214 |
| Total | | 56 445 | -15 961 | | | | 40 484 |

– Equity and profit or loss of certain entities are preliminary unaudited figures

RAILLEX, A.S.

The company was formed through a cash investment and recorded in the Register of Companies on 17 June 2006. The share capital is CZK 2,000 thousand. ČD Cargo, a.s., holds the equity investment of 50% (CZK 1,000 thousand). The company is managed using a standard governance method. The company is engaged in the handling of cargo and technical services in transportation.

BOHEMIAKOMBI, SPOL. S R.O.

The company was formed through a cash investment and recorded in the Register of Companies on 17 April 1992. The share capital is CZK 6,000 thousand. ČD Cargo, a.s., holds an equity investment of 30 percent (CZK 1,800 thousand). The company is engaged in mediation of services in transportation except for transportation by its own vehicles.

OSTRAVSKÁ DOPRAVNÍ SPOLEČNOST, A.S.

The company was recorded in the Register of Companies on 30 May 1995. The share capital is CZK 15,000 thousand. The equity investment of ČD Cargo, a.s., is 20 percent (i.e. CZK 3,000 thousand). The company is managed under the "German" governance method. The company is engaged in operating railway transportation and lease of locomotives and railway vehicles.

4.2.3. Loans and Borrowings – Controlled or Controlling Entity, Substantial Influence

On 17 December 2014, the Company concluded a loan contract with Koleje Czeskie Sp. Z. o.o. for the payment of the remaining purchase price of Eas 51 and Falls 11 wagons. The principal amounts to CZK 113,585 thousand as of 31 December 2015. The loan will mature as of 31 December 2016. It is reported in line C.II.4 Receivables – controlled or controlling entity.

4.4.1. Trade Receivables

| Receivables (CZK '000) | Total | Before due date | Past due date | 1-91 | 92-180 | 181-365 | over 365 |
|------------------------|-----------|-----------------|---------------|--------|---------|---------|----------|
| 31 Dec 2015 gross | 1 604 979 | 1 353 241 | 251 738 | 84 426 | 7 297 | 7 474 | 152 541 |
| 31 Dec 2015 provisions | -232 678 | -70 387 | -162 291 | -9 012 | -1 669 | -3 962 | -147 648 |
| 31 Dec 2015 net | 1 372 301 | 1 282 854 | 89 447 | 75 414 | 5 628 | 3 512 | 4 893 |
| 31 Dec 2014 gross | 1 534 555 | 1 294 968 | 239 587 | 80 385 | 15 441 | 10 801 | 132 960 |
| 31 Dec 2014 provisions | -211 531 | -68 605 | -142 926 | 0 | -11 195 | -1 871 | -129 860 |
| 31 Dec 2014 net | 1 323 024 | 1 226 363 | 96 661 | 80 385 | 4 246 | 8 930 | 3 100 |

In the past, ČD Cargo concluded a loan contract and a contract for the sale of a railway siding with RAILLEX, a.s. (in which ČD Cargo holds 50%). The short-term portion of the outstanding loan including interest amounted to CZK 2,436 thousand as of 31 December 2014. The short-term receivable from the sale of the railway siding including interest amounted to CZK 1,587 thousand. Both items reported in line C.III.3 Receivables – associates were settled during 2015.

4.3. INVENTORY

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|----------------|----------------|
| Spare parts and other components for rail vehicles and locomotives | 73 574 | 66 886 |
| Other spare parts and other low value components | 75 056 | 65 941 |
| Fuels and other crude oil based products | 3 599 | 3 668 |
| Rail switches, turntables, traversers and components for the track superstructure | 876 | 876 |
| Work shoes and protective supplies | 1 193 | 1 249 |
| Other | 13 092 | 11 309 |
| Total acquisition cost | 167 390 | 149 929 |
| Provisions | -3 864 | 0 |
| Net balance | 163 526 | 149 929 |

In the year ending 31 December 2015, the Company recognised provisions pursuant to the inventory count in the amount of CZK 3,864 thousand.

4.4. SHORT-TERM RECEIVABLES

Receivables past their due date principally include receivables arising from unpaid VAT by foreign railway organisations and receivables from railway organisations from the Balkans. Older receivables are being recovered through foreign courts. Newer receivables are being addressed by the Company actively with the debtors, or using regional ship-ment companies. A minor part of receivables is regularly compensated within the UIC.

Provisions against receivables as of 31 December 2015 are recognised in line with the accounting policies described in detail in Note 3.6.

4.4.2. Short-Term Intercompany Receivables

■ Short-term trade receivables

| Name of the entity (CZK '000) | Balance as of 31 Dec 2015 | Balance as of 31 Dec 2014 |
|--|------------------------------|------------------------------|
| České dráhy a.s. | 10 803 | 4 032 |
| ČD – Telematika, a.s. | 6 | 9 |
| ČD -- Informační Systémy, a.s. | 0 | 0 |
| DPOV, a.s. | 1 394 | 1 293 |
| ČD travel, s.r.o. | 0 | 0 |
| Dopravní vzdělávací institut, a.s. | 0 | 0 |
| Výzkumný Ústav Železniční, a.s. | 3 656 | 1 474 |
| RAILREKLAM, spol. s r.o. | 0 | 0 |
| JLV, a.s. | 0 | 0 |
| Smíchov Station Development, a.s. | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 |
| Masaryk Station Development, a.s. | 0 | 0 |
| Centrum Holešovice, a.s. | 0 | 0 |
| CD Generalvertretung GmbH | 21 955 | 21 037 |
| CD Generalvertretung Wien GmbH | 0 | 152 |
| Koleje Czeskie Sp. z o.o.* | 4 723 | 9 236 |
| Generálne zastúpenie ČD Cargo, s.r.o. | 10 518 | 12 231 |
| ČD Logistics, a.s. | 71 079 | 81 469 |
| ČD-DUSS Terminal, a.s. | 35 | 15 |
| Terminal Brno, a.s. | 31 | 13 |
| Auto Terminal Nymburk, s.r.o. | 0 | 0 |
| RAILLEX, a.s. | 4 194 | 5 012 |
| BOHEMIAKOMBI, spol. s r.o. | 1 854 | 949 |
| Ostravská dopravní společnost, a.s. | 34 873 | 24 202 |
| Total short-term intercompany receivables | 165 121 | 161 124 |

4.5. ESTIMATED RECEIVABLES

As of 31 December 2015 and 31 December 2014, the Company recognised estimated receivables as follows:

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|--|----------------|----------------|
| Income from international transportation of wagon loads – export | 13 158 | 16 606 |
| Income from international transportation of wagon loads – import | 24 114 | 31 962 |
| Income from international transportation of wagon loads – transit | 20 588 | 24 165 |
| Income from local transportation of wagon loads | 2 587 | 21 |
| Income from border services | 53 587 | 36 698 |
| Estimated receivables – ČD, a.s. | 7 | 14 |
| Other estimated receivables (lease and repairs of wagons, damages) | 87 780 | 109 906 |
| Total estimated receivables | 201 821 | 219 372 |

4.6. OTHER RECEIVABLES

Other receivables primarily include short-term receivables arising from deficits and damage. In the years ending 31 December 2015 and 2014, the Company recognised provisions for other receivables of CZK 6,092 thousand and CZK 5,945 thousand on the basis of the individual assessment of potential recoverability of receivables.

4.7. DEFERRED EXPENSES

Deferred expenses amounted to CZK 449,044 thousand and CZK 511,982 thousand as of 31 December 2015 and 31 December 2014, respectively. As of 31 December 2015, this amount predominantly included finance lease instalments of CZK 355,467 thousand. As of 31 December 2014, these payments amounted to CZK 415,753 thousand.

4.8. EQUITY

As of 31 December 2009, the share capital of the Company was composed of the non-cash investment of a business part of České dráhy, a.s. as the sole shareholder and amounted to CZK 8,800,000 thousand.

On 2 June 2009, České dráhy, a.s., acting in the capacity of the General Meeting, adopted the resolution on the decrease in the share capital of ČD Cargo, a.s., in accordance with Section 213a of the Commercial Code, from CZK 8,800,000 thousand to CZK 8,494,000 thousand. As of the balance sheet date, on 31 December 2015, the Company records the share capital of CZK 8,494,000 thousand paid in full.

4.8.2. Changes in Equity

Changes in equity are presented in the Statement of Changes of Equity as of 31 December 2015.

4.9. GAINS AND LOSSES FROM THE REVALUATION OF ASSETS AND LIABILITIES

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|----------------|---------------|
| Valuation of derivatives hedging future cash flows | -53 154 | -101 645 |
| Valuation of an equity investment accounted for using the equity method of accounting | 241 244 | 142 478 |
| Deferred tax on derivatives | 10 099 | 19 312 |
| Total | 198 189 | 60 145 |

4.10. RESERVES

| (CZK '000) | Balance as of 31 Dec 2013 | Recognition | Use | Balance as of 31 Dec 2014 | Recognition | Use | Balance as of 31 Dec 2015 |
|---------------------------------------|------------------------------|----------------|------------------|------------------------------|----------------|----------------|------------------------------|
| Reserve for complaints | 18 646 | 13 812 | 18 646 | 13 812 | 17 285 | 13 812 | 17 285 |
| Reserve for legal disputes | 89 644 | 20 961 | 52 189 | 58 416 | 0 | 16 226 | 42 190 |
| Reserve for outstanding vacation days | 26 764 | 19 955 | 26 764 | 19 955 | 22 240 | 19 955 | 22 240 |
| Reserve for business risks | 902 947 | 37 275 | 916 518 | 23 704 | 0 | 0 | 23 704 |
| Reserve for restructuring | 249 973 | 0 | 69 652 | 180 321 | 18 746 | 59 380 | 139 687 |
| Reserve for employee benefits | 100 130 | 58 467 | 44 651 | 113 946 | 9 159 | 3 336 | 119 769 |
| Reserve for loss-making transactions | 0 | 525 450 | 0 | 525 450 | 54 215 | 0 | 579 665 |
| Other | 10 947 | 57 271 | 38 853 | 29 365 | 51 123 | 56 562 | 23 926 |
| Total | 1 399 051 | 733 191 | 1 167 273 | 964 969 | 172 768 | 169 271 | 968 466 |

After having considered all existing legal analyses and results of negotiations in existing legal disputes and having assessed all potential risks, current developments in legal disputes and in accordance with the inherent level of prudence, management has decided to retain the accounting reserve to cover potential expenses relating to potential risks for business transactions in the same amount as reported as of 31 December 2014, i.e. CZK 23,704 thousand.

As of 31 December 2012, management decided to make organisational changes pursuant to the prepared restructuring plan, the principal features of which were communicated within the Company. The future cash outflows relating to the restructuring were estimated at CZK 535,000 thousand in the plan. During the year ending 31 December 2014, this reserve was used and specified, amounting to CZK 180,321 thousand as of 31 December 2014. During the year ending 31 December 2015, the amount of the reserve decreased by the use by CZK 59,380 thousand to the balance of CZK 139,687 thousand as of 31 December 2015. These funds will continue to be available to the Company to cover the costs relating to the restructuring in the following reporting period.

The reserve for employee benefits includes the claim of employees for a financial contribution for life jubilees, financial contribution upon retirement, and payment of treatment costs including the salary refund in wellness stays. The amount of the reserve was calculated at CZK 119,769 thousand as of 31 December 2015 thousand using an actuarial model. For details on this model refer to Note 3.10.

During the year ending 31 December 2014, the Company recognised a reserve for loss-making transactions. The amount of the reserve is determined on the basis of a reasonable estimate as equal to the future liability arising from the loss. The amount includes the difference between the discounted net anticipated income and discounted anticipated expenses. The reserve amounted to CZK 525,450 thousand as of 31 December 2014. The value of the reserve was subsequently updated and amounted to CZK 579,665 thousand as of 31 December 2015.

During the year ending 31 December 2014, the reserve for business risks was decreased by CZK 916,518 thousand primarily due to:

- Conclusion of an agreement on an out-of-court settlement with SŽDC regarding the consumed traction energy during 2009 and settlement of damage due to traffic closures caused by SŽDC. The out-of-court settlement agreement was concluded for the total amount of CZK 375,811 thousand, of which CZK 61,786 thousand relates to the settlement of damage caused by the traffic closures and CZK 314,025 thousand relates to the price of purchased traction energy for 2009. Payables arising from these out-of-court settlements were recognised as "Other payables", divided into short-term and long-term parts (refer to Notes 4.11. and 4.12.3.); and
- Court ruling dated 15 January 2014 regarding the legal dispute for the damage due to SŽDC's traffic closures based on which ČD Cargo, a.s. is obliged to settle the payable of CZK 164,152 thousand to SŽDC.

4.11. LONG-TERM PAYABLES

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|----------------------------------|------------------|------------------|
| Issued bonds | 1 000 000 | 1 158 300 |
| Long-term prepayments received | 325 213 | 270 037 |
| Long-term payables to SŽDC | 279 603 | 409 488 |
| Derivative financial instruments | 16 056 | 29 181 |
| Total | 1 620 872 | 1 867 006 |

On 4 May 2011, through its Resolution No. 2011/4833/570, ref. no. Sp/2011/50/572 the Czech National Bank approved the bond programme of ČD Cargo, a.s. The maximum volume of outstanding bonds issued under the bond programme may amount up to CZK 6,000 million with the bonds programme period of 10 years. The above resolution of the Czech National Bank took effect on 5 May 2011.

The following bonds issues were placed under the bond programme:

| | |
|--|--------------------------|
| Manager | Komerční banka, a.s. |
| Date of issue | 20 June 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 (1-3 years); coupon | 3.183% p.a. |
| Interest rate (4-5 years); coupon | 5% p.a. |
| Issue rate | 98.025% |
| Payment of interest income | annually retrospectively |
| Date of the payment of interest | 20 June each year |
| Date of the final maturity | 20 June 2016 |
| Date of the final maturity (exercise of the put option) | 20 June 2014 |

| | |
|-------------------------------------|----------------------------------|
| Manager | 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 the interest payment | 21 Dec each year |
| Date of final maturity | 21 Dec 2016 |

| | |
|-------------------------------------|--|
| Manager | UniCredit Bank Czech Republic and Slovakia, a.s. |
| Date of issue | 26 November 2015 |
| Total nominal value | CZK 1,000,000,000 |
| Nominal value of the bond | CZK 5,000,000 |
| Interest rate | Fixed interest income, 1.4% p.a. |
| Issue rate | 99.617% |
| Payment of interest income | annually retrospectively |
| Date of the interest payment | 26 Nov each year |
| Date of final maturity | 26 Nov 2020 |

ČD Cargo, a.s., recorded calls for a premature redemption of part of the first issue of the bonds placed through KB, a.s. with the total nominal value of CZK 341.7 million in the due period. This amount was redeemed as of 20 June 2014.

The bonds issue at Československá obchodní banka of CZK 1,000 million was repaid at the maturity date on 22 December 2015.

In the year ending 31 December 2015, the 4th issue of bonds with the aggregate nominal value of CZK 1,000 million was placed through the administrator UniCredit Bank Czech Republic and Slovakia, a.s.

Bonds with the aggregate nominal value of CZK 2,158.3 million are currently issued. As of 31 December 2015, these bonds were classified as short-term and long-term bonds by their maturity dates in the financial statements.

In the year ending 31 December 2015, long-term payables to SŽDC include the long-term portion of a payable of CZK 214,584 thousand arising from the concluded out-of-court agreement regarding the dispute about the price of traction energy during 2009 and a long-term portion of a payable of CZK 42,220 thousand which relates to the settlement of the damage due to SŽDC's traffic closures. The last part of CZK 22,799 thousand relates to the settlement of the damage due to SŽDC's traffic closures pursuant to a court ruling dated 15 January 2014. In the year ending 31 December 2014, the long-term payable to SŽDC of CZK 331,966 thousand primarily included a long-term portion of a payable arising from concluded out-of-court agreements. Another long-term payable to SŽDC arising from compensation for damage due to traffic closures amounted to CZK 77,522 thousand.

4.12. SHORT-TERM PAYABLES

4.12.1. Aging of Short-Term Trade Payables

| Payables (CZK '000) | Total | Before due date | Past due date | 0-90 | 91-180 | 181-365 |
|---------------------|-----------|-----------------|---------------|--------|--------|---------|
| 31 Dec 2015 | 1 891 327 | 1 869 809 | 21 518 | 21 121 | 360 | 37 |
| 31 Dec 2014 | 1 738 638 | 1 663 352 | 75 286 | 21 647 | 6 646 | 46 993 |

As of 31 December 2015, the Company recorded no payables overdue by more than 365 days.

4.12.2. Intercompany Payables

■ Short-term trade payables

| Name of the entity (CZK '000) | Balance as of 31 Dec 2015 | Balance as of 31 Dec 2014 |
|---------------------------------------|---------------------------|---------------------------|
| České dráhy a.s. | 482 674 | 203 574 |
| ČD – Telematika, a.s. | 6 387 | 5 359 |
| ČD – Informační Systémy, a.s. | 58 228 | 79 050 |
| DPOV, a.s. | 30 201 | 69 597 |
| ČD travel, s.r.o. | 6 079 | 5 989 |
| Dopravní vzdělávací institut, a.s. | 1 345 | 2 147 |
| Výzkumný Ústav Železniční, a.s. | 1 344 | 0 |
| RAILREKLAM, spol. s r.o. | 0 | 0 |
| JLV, a.s. | 0 | 131 |
| Smíchov Station Development, a.s. | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 |
| Masaryk Station Development, a.s. | 0 | 0 |
| Centrum Holešovice, a.s. | 0 | 0 |
| CD Generalvertretung GmbH | 2 662 | 2 580 |
| CD Generalvertretung Wien GmbH | 4 481 | 0 |
| Koleje Czeskie Sp. z o.o. | 12 040 | 23 142 |
| Generálne zastúpenie ČD Cargo, s.r.o. | 4 | 128 |
| ČD Logistics, a.s. | 80 | 2 219 |
| ČD-DUSS Terminal, a.s. | 11 | 0 |
| Terminal Brno, a.s. | 1 162 | 938 |
| Auto Terminal Nymburk, s.r.o. | 0 | 0 |
| RAILLEX, a.s. | 209 | 218 |
| BOHEMIAKOMBI, spol. s r.o. | 0 | 0 |
| Ostravská dopravní společnost, a.s. | 11 095 | 7 565 |
| Total short-term payables | 618 002 | 402 637 |

4.12.3. Other Payables

As of 31 December 2015 and 2014, other payables primarily include supplier loans of CZK 197,557 thousand and CZK 154,855 thousand and short-term derivative instruments of CZK 43,353 thousand and CZK 94,750 thousand, respectively.

Other payables also include a short-term portion of a payable to SŽDC. The payable to SŽDC amounted to CZK 129,880 thousand as of 31 December 2015. The increase is attributable to reclassifying the long-term portion to the short-term portion at the date of the first instalment on 30 June 2015.

As of 31 December 2014, other payables primarily included a short-term portion of a payable to SŽDC of CZK 98,562 thousand. The amount of CZK 43,845 thousand is the short-term portion of the payable arising from the conclusion of the out-of-court

agreement regarding the dispute for the price of the consumed traction energy during 2009 and settlement of damage due to SŽDC's traffic closures. The amount of CZK 54,717 thousand relates to the settlement of the payable arising from the compensation of damage due to SŽDC's traffic closures pursuant to the court ruling dated 15 January 2014 (refer to Note 4.10. Reserves).

4.13. ESTIMATED PAYABLES

As of 31 December 2015 and 31 December 2014, the Company recognised estimated payables as follows:

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|----------------|----------------|
| Unbilled non-investment supplies | 77 531 | 85 711 |
| Unbilled investment supplies | 269 | 7 223 |
| Expenses for border services | 44 552 | 50 487 |
| Estimated payables – ČD-T, a.s. | 7 758 | 654 |
| Estimated payables – ČD, a.s. | 29 755 | 34 776 |
| Estimated payables – CD Generalvertretung GmbH | 46 181 | 46 838 |
| Other estimated payables (predominantly repairs, financial bonuses and lease of wagons) | 99 643 | 118 583 |
| Total estimated payables | 305 689 | 344 272 |

4.14. BANK LOANS

4.14.1. Long-Term Bank Loans

The Company used no long-term loans as of 31 December 2015 and 2014.

4.14.2. Short-Term Bank Loans

Balance at 31 December 2015:

As of the balance sheet date on 31 December 2015, the Company used no short-term bank loans.

Balance at 31 December 2014:

As of the balance sheet date on 31 December 2014, the Company used no short-term bank loans.

4.14.3. Short-Term Financial Borrowings

During the years ending 31 December 2015 and 2014, the Company used no debt bills.

4.14.4. Strategy for Funding the Company's Subsequent Years

Lease-back

In 2015, the Company did not pursue new finance leases. In view of the planned investments the Company anticipates to utilise finance leases in the future.

Operating Bank Loans

In funding its operating needs, ČD Cargo uses overdraft loans in the maximum limit of CZK 1.2 billion provided by four banks and the limit of possible drawings as part of the involvement of the Company in the group cashpooling in the amount of CZK 600 million. The stratification of the lending to several financing entities results in the risk of the termination of the funding being sufficiently diversified.

Promissory Notes Programme

The Company has the possibility of using the promissory notes programme as and when needed. This programme is currently not used.

Possibility of a Loan Being Provided by the Parent Company

In addition to the cash-pool limit presented as part of operational loans, the Company has contracted the possibility of drawing funds of up to CZK 400 million beyond the cashpooling limit from the parent company ČD, a.s. During the year ending 31 December 2015, this loan was not used.

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 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 issue were gradually placed in 2011 with the aggregate nominal amount of CZK 2 billion. In 2012, another two tranches as part of the second issue of bonds were placed with the total nominal amount of CZK 500 million. 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. Funding in the form of bonds increases the liquidity and financial stability of the Company. In 2016, the Company anticipates refinancing the maturing bonds through a new placement of bonds with the same nominal value.

Supplier Loans

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

Summary

The structure of funding above creates a desired framework that allows the 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 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.).

4.15. DERIVATIVE FINANCIAL INSTRUMENTS

| (CZK '000) | 31 Dec 2015 | | |
|---|---------------------|---------------------|----------------|
| | Positive fair value | Negative fair value | Total |
| Derivatives designated as fair value hedges | 61 | -5 431 | -5 370 |
| Derivatives designated as cash flow hedges | 823 | -53 978 | -53 155 |
| Total | 884 | -59 409 | -58 525 |

| (CZK '000) | 31 Dec 2014 | | |
|---|---------------------|---------------------|-----------------|
| | Positive fair value | Negative fair value | Total |
| Derivatives designated as fair value hedges | 0 | -22 285 | -22 285 |
| Derivatives designated as cash flow hedges | 0 | -101 645 | -101 645 |
| Total | 0 | -123 930 | -123 930 |

To hedge foreign exchange rate losses arising from the strengthening of the Czech crown in 2014 and 2015, the Company used the following derivative transactions:

- In June 2014, the Company used a hedge of EUR 1 million per month from April 2015 to December 2015 on the level of the hedged foreign exchange rate of CZK 27.350/EUR;
- In June 2014, the Company used a hedge of EUR 1 million per month from May 2015 to June 2015 on the level of the hedged foreign exchange rate of CZK 27.382/EUR;
- In June 2014, the Company used a hedge of EUR 1 million per month from July 2015 to August 2015 on the level of the hedged foreign exchange rate of CZK 27.371/EUR;
- In July 2014, the Company used a hedge of EUR 1 million per month from September 2015 to December 2015 on the level of the hedged foreign exchange rate of CZK 27.350/EUR;
- In July 2014, the Company used a hedge of EUR 1 million per month from January 2015 to June 2015 on the level of the hedged foreign exchange rate of CZK 27.420/EUR;
- In July 2014, the Company used a hedge of EUR 1 million per month from July 2015 to December 2015 on the level of the hedged foreign exchange rate of CZK 27.510/EUR;
- In September 2014, the Company used a hedge of EUR 1 million per month from January 2015 to December 2015 on the level of the hedged foreign exchange rate of CZK 27.700/EUR;
- In January 2015, the Company used a hedge of EUR 1 million per month from March 2015 to December 2015 on the level of the hedged foreign exchange rate of CZK 27.900/EUR;
- In January 2015, the Company used a hedge of EUR 1 million per month from June 2015 to December 2015 on the level of the hedged foreign exchange rate of CZK 27.915/EUR;
- In September 2015, the Company used a hedge of EUR 1 million per month from January 2016 to December 2016 on the level of the hedged foreign exchange rate of CZK 26.900/EUR;
- In September 2015, the Company used a hedge of EUR 1 million per month from January 2016 to December 2016 on the level of the hedged foreign exchange rate of CZK 27.000/EUR; and
- In December 2015, the Company used a hedge in the form of collar of EUR
- 1 million per month from January 2016 to December 2016 with the lower level of CZK 26.500/EUR and the upper level of CZK 27.150/EUR.

In 2011, the Company additionally hedged interest rates on transactions with a variable interest rate, specifically as follows:

- 30 lease transactions divided into three individual blocks, with ten repayment schedules. The hedging was carried out with two banks in the IRS form, in three individual tranches. The hedging is effective from 2012 to 2020 (derivatives hedging cash flows);
- Three lease transactions. The hedging was carried out with one bank in the form of a collar, in three individual tranches. The hedging is effective from 2013 to 2019 (trading derivatives); and
- Issue of bonds. The hedging was carried out with one bank in the IRS form, in one tranche. The hedging is effective from mid-2012 through the end of 2015 (trading derivatives).

In 2014 and 2015, the Company hedged the price of crude oil using the following hedging transactions:

- In March 2014, the Company hedged the volume of 100 mt/per month from April 2015 to December 2015. The hedged fixed price of crude oil is CZK 17,750/ mt.;
- In October 2014, the Company hedged the volume of 100 mt/per month from January 2015 to December 2015. The hedged fixed price of crude oil is CZK 17,825/ mt.;
- In October 2014, the Company hedged the volume of 100 mt/per month from January 2015 to December 2015. The hedged fixed price of crude oil is CZK 17,400/ mt.;

- In October 2014, the Company hedged the volume of 100 mt/per month from January 2015 to December 2015. The hedged fixed price of crude oil is CZK 17,150/ mt.;
- In November 2014, the Company hedged the volume of 100 mt/per month from January 2015 to December 2015. The hedged fixed price of crude oil is CZK 15,900/ mt.;
- In December 2014, the Company hedged the volume of 100 mt/per month from January 2015 to December 2015. The hedged fixed price of crude oil is CZK 14,450/ mt.;
- In June 2015, the Company hedged the volume of 100 mt/per month from January 2016 to December 2016. The hedged fixed price of crude oil is CZK 14,650/ mt.;
- In July 2015, the Company hedged the volume of 100 mt/per month from January 2016 to December 2016. The hedged fixed price of crude oil is CZK 14,000/ mt.;
- In August 2015, the Company hedged the volume of 200 mt/per month from January 2016 to December 2016. The hedged fixed price of crude oil is CZK 12,650/ mt.;
- In September 2015, the Company hedged the volume of 100 mt/per month from January 2016 to December 2016. The hedged fixed price of crude oil is CZK 12,050/ mt.;
- In September 2015, the Company hedged the volume of 100 mt/per month from January 2016 to December 2016. The hedged fixed price of crude oil is CZK 11,950/ mt.; and
- In December 2015, the Company hedged the volume of 100 mt/per month from January 2016 to December 2016. The hedged fixed price of crude oil is CZK 10,980/ mt.

4.16. INCOME TAXATION

4.16.1. Deferred Tax

The deferred tax asset/(liability) is analysed as follows:

■ Deferred Tax Arising from

| (CZK '000) | Balance at 31 Dec 2015 | Balance at 31 Dec 2014 |
|---------------------------------|------------------------|------------------------|
| Net book value of fixed assets | -1 118 838 | -988 695 |
| Provisions against fixed assets | 28 754 | 31 974 |
| Contractual fines and penalty | -5 765 | -5 092 |
| Receivables | 32 434 | 30 083 |
| Reserves | 183 915 | 246 068 |
| Tax loss | 98 364 | 0 |
| Derivatives | 10 099 | 19 312 |
| Total | -771 037 | -666 350 |

| Analysis of movements | (CZK '000) |
|---|----------------|
| 1 Jan 2015 | 666 351 |
| Current changes charged against the profit and loss account | 95 473 |
| <i>From current activities</i> | 95 473 |
| <i>From extraordinary activities</i> | 0 |
| Total charges against the profit and loss account | 95 473 |
| Current changes recognised in equity | 9 213 |
| Total recognised in equity | 9 213 |
| 31 Dec 2015 | 771 037 |

| Analysis of movements | (CZK '000) |
|---|----------------|
| 1 Jan 2014 | 544 149 |
| Current changes charged against the profit and loss account | 111 604 |
| <i>From current activities</i> | 111 604 |
| <i>From extraordinary activities</i> | 0 |
| Total charges against the profit and loss account | 111 604 |
| Current changes recognised in equity | 10 598 |
| Total recognised in equity | 10 598 |
| 31 Dec 2014 | 666 350 |

4.17. DUE AMOUNTS ARISING FROM SOCIAL SECURITY AND HEALTH INSURANCE CONTRIBUTIONS AND TAX ARREARS

The balance of due amounts arising from social security contributions and contributions to the State employment policy was CZK 73,021 thousand and CZK 70,626 thousand as of 31 December 2015 and 31 December 2014, respectively.

The balances of due amounts arising from public health insurance contributions were CZK 31,873 thousand and CZK 30,728 thousand as of 31 December 2015 and 31 December 2014, respectively.

The Company records no tax arrears to local taxation authorities.

4.18. DETAILS OF INCOME BY PRINCIPAL ACTIVITY

■ Year Ending 31 December 2015

| (CZK '000) | In-country | Cross-border | Total |
|---------------------------------------|------------------|------------------|-------------------|
| Sales of freight transportation | 6 719 467 | 4 006 060 | 10 725 527 |
| Other sales of freight transportation | 228 077 | 608 796 | 836 873 |
| Sales of other services | 0 | 237 411 | 237 411 |
| Total | 6 947 544 | 4 852 267 | 11 799 811 |

■ Year Ending 31 December 2014

| (CZK '000) | In-country | Cross-border | Total |
|---------------------------------------|------------------|------------------|-------------------|
| Sales of freight transportation | 7 202 543 | 3 798 344 | 11 000 887 |
| Other sales of freight transportation | 206 524 | 610 300 | 816 824 |
| Sales of other services | 0 | 155 760 | 155 760 |
| Total | 7 409 067 | 4 564 404 | 11 973 471 |

The classification to cross-border and in-country sales was made reflecting outputs. Cross-border sales include the share of the Company in the income from international transportation of goods, border services and received lease payments for the operation of wagons in foreign countries.

4.18.1. Income Generated with Related Parties

■ Year Ending 31 December 2015

| Entity (CZK '000) | Relation to the Company | Tangible FA | Material | Services | Other income | Fin. income | Total |
|---------------------------------------|-------------------------|---------------|------------|------------------|--------------|--------------|------------------|
| České dráhy a.s. | Parent company | 340 | 108 | 28 393 | 2 341 | 98 | 31 280 |
| ČD – Telematika, a.s. | Fellow subsidiary | 0 | 0 | 51 | 0 | 0 | 51 |
| ČD – Informační Systémy, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| DPOV, a.s. | Fellow subsidiary | 2 165 | 12 | 5 047 | 612 | 0 | 7 836 |
| ČD travel, s.r.o. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Dopravní vzdělávací institut, a.s. | Fellow subsidiary | 0 | 0 | 314 | 0 | 0 | 314 |
| Výzkumný Ústav Železniční, a.s. | Fellow subsidiary | 0 | 0 | 14 995 | 22 | 0 | 15 017 |
| RAILREKLAM, spol. s r.o. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| JLV, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Smíchov Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Žižkov Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Masaryk Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Centrum Holešovice, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| ČD Generalvertretung GmbH | Subsidiary | 0 | 0 | 333 149 | 0 | 671 | 333 820 |
| ČD Generalvertretung Wien GmbH | Subsidiary | 0 | 0 | 358 | 0 | 11 | 369 |
| Koleje Czeskie Sp. z o.o. | Subsidiary | 49 491 | 536 | 30 259 | 30 | 6 990 | 87 306 |
| Generálne zastúpenie ČD Cargo, s.r.o. | Subsidiary | 0 | 0 | 53 594 | 0 | 0 | 53 594 |
| ČD Logistics, a.s. | Subsidiary | 0 | 0 | 494 531 | 22 | 16 | 494 569 |
| ČD-DUSS Terminal, a.s. | Subsidiary | 0 | 0 | 156 | 0 | 0 | 156 |
| Terminal Brno, a.s. | Subsidiary | 0 | 0 | 218 | 0 | 0 | 218 |
| Auto Terminal Nymburk, s.r.o. | Subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| RAILLEX, a.s. | Subsidiary | 0 | 0 | 77 765 | 0 | 2 | 77 767 |
| BOHEMIAKOMBI, spol. s r.o. | Subsidiary | 0 | 0 | 15 958 | 0 | 0 | 15 958 |
| Ostravská dopravní společnost, a.s. | Subsidiary | 0 | 0 | 215 425 | 0 | 0 | 215 425 |
| Total | | 51 996 | 656 | 1 270 213 | 3 027 | 7 788 | 1 333 680 |

■ Year Ending 31 December 2014

| Entity (CZK '000) | Relation to the Company | Tangible FA | Material | Services | Other income | Fin. income | Total |
|---------------------------------------|-------------------------|-------------|--------------|------------------|--------------|--------------|------------------|
| České dráhy a.s. | Parent company | 0 | 1 383 | 17 915 | 1 886 | 0 | 21 184 |
| ČD – Telematika, a.s. | Fellow subsidiary | 20 | 0 | 311 | 0 | 0 | 331 |
| ČD – Informační Systémy, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| DPOV, a.s. | Fellow subsidiary | 0 | 4 | 4 528 | 731 | 0 | 5 263 |
| ČD travel, s.r.o. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Dopravní vzdělávací institut, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Výzkumný Ústav Železniční, a.s. | Fellow subsidiary | 0 | 0 | 11 462 | 0 | 0 | 11 462 |
| RAILREKLAM, spol. s r.o. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| JLV, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Smíchov Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Žižkov Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Masaryk Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Centrum Holešovice, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| ČD Generalvertretung GmbH | Subsidiary | 0 | 0 | 274 369 | 0 | 924 | 275 293 |
| ČD Generalvertretung Wien GmbH | Subsidiary | 0 | 0 | 558 | 0 | 1 | 559 |
| Koleje Czeskie Sp. z o.o. | Subsidiary | 0 | 7 659 | 86 381 | 6 727 | 630 | 101 397 |
| Generálne zastúpenie ČD Cargo, s.r.o. | Subsidiary | 0 | 0 | 46 258 | 0 | 60 | 46 318 |
| ČD Logistics, a.s. | Subsidiary | 0 | 0 | 554 853 | 0 | 374 | 555 227 |
| ČD-DUSS Terminal, a.s. | Subsidiary | 0 | 0 | 137 | 0 | 0 | 137 |
| Terminal Brno, a.s. | Subsidiary | 0 | 0 | 167 | 0 | 0 | 167 |
| Auto Terminal Nymburk, s.r.o. | Subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| RAILLEX, a.s. | Subsidiary | 0 | 0 | 79 370 | 21 | 136 | 79 527 |
| BOHEMIAKOMBI, spol. s r.o. | Subsidiary | 0 | 0 | 10 595 | 0 | 13 | 10 608 |
| Ostravská dopravní společnost, a.s. | Subsidiary | 0 | 0 | 137 548 | 0 | 616 | 138 164 |
| Total | | 20 | 9 046 | 1 224 452 | 9 365 | 2 754 | 1 245 637 |

All related party proceeds were generated on an arm's length basis.

4.18.2. Purchases from Related Parties

■ Year Ending 31 December 2015

| Entity (CZK '000) | Relation to the Company | Assets | Material | Services | Other expenses | Financial expenses | Total |
|---------------------------------------|-------------------------|----------------|----------------|------------------|----------------|--------------------|------------------|
| České dráhy, a.s. | Parent company | 248 505 | 608 488 | 1 011 959 | 7 784 | 0 | 1 876 736 |
| ČD - Telematika, a.s. | Fellow subsidiary | 4 174 | 2 025 | 27 097 | 0 | 0 | 33 296 |
| ČD - Informační Systémy, a.s. | Fellow subsidiary | 34 372 | 3 422 | 89 245 | 0 | 0 | 127 039 |
| DPOV, a.s. | Fellow subsidiary | 72 495 | 852 | 16 173 | 87 | 0 | 89 607 |
| ČD travel, s.r.o. | Fellow subsidiary | 0 | 0 | 17 525 | 0 | 0 | 17 525 |
| Dopravní vzdělávací institut, a.s. | Fellow subsidiary | 0 | 0 | 16 620 | 0 | 5 | 16 625 |
| Výzkumný Ústav Železniční, a.s. | Fellow subsidiary | 1 080 | 0 | 95 | 1 284 | 0 | 2 459 |
| RAILREKLAM, spol. s r.o. | Fellow subsidiary | 0 | 0 | 325 | 0 | 0 | 325 |
| JLV, a.s. | Fellow subsidiary | 0 | 0 | 1 161 | 0 | 0 | 1 161 |
| Smíchov Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Žižkov Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Masaryk Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Centrum Holešovice, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| ČD Generalvertretung GmbH | Subsidiary | 0 | 0 | 72 371 | 0 | 778 | 73 149 |
| ČD Generalvertretung Wien GmbH | Subsidiary | 0 | 0 | 18 478 | 0 | 3 | 18 481 |
| Koleje Czeskie Sp. z o.o. | Subsidiary | 47 947 | 0 | 147 611 | 539 | 405 | 196 502 |
| Generálne zastúpenie ČD Cargo, s.r.o. | Subsidiary | 0 | 22 | 5 665 | 0 | 28 | 5 715 |
| ČD Logistics, a.s. | Subsidiary | 0 | 124 | 5 005 | 0 | 64 | 5 193 |
| ČD-DUSS Terminal, a.s. | Subsidiary | 0 | 0 | 587 | 0 | 0 | 587 |
| Terminal Brno, a.s. | Subsidiary | 0 | 0 | 13 931 | 0 | 1 | 13 932 |
| Auto Terminál Nymburk, s.r.o. | Subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| RAILLEX, a.s. | Subsidiary | 0 | 0 | 1 060 | 295 | 84 | 1 439 |
| BOHEMIAKOMBI, spol. s r.o. | Subsidiary | 0 | 0 | 0 | 0 | 23 | 23 |
| Ostravská dopravní společnost, a.s. | Subsidiary | 0 | 0 | 50 211 | 0 | 786 | 50 997 |
| Total | | 408 573 | 614 933 | 1 495 119 | 9 989 | 2 177 | 2 530 791 |

■ Year Ending 31 December 2014

| Entity (CZK '000) | Relation to the Company | Assets | Material | Services | Other expenses | Financial expenses | Total |
|---------------------------------------|-------------------------|----------------|----------------|------------------|----------------|--------------------|------------------|
| České dráhy a.s. | Parent company | 33 297 | 672 434 | 971 024 | 8 593 | 34 | 1 685 382 656 |
| ČD – Telematika, a.s. | Fellow subsidiary | 47 915 | 1 645 | 13 696 | 579 | 0 | 63 835 |
| ČD – Informační Systémy, a.s. | Fellow subsidiary | 41 838 | 1 273 | 107 545 | 0 | 0 | 150 656 |
| DPOV, a.s. | Fellow subsidiary | 78 233 | 1 432 | 17 586 | 65 | 0 | 97 316 |
| ČD Travel, s.r.o. | Fellow subsidiary | 0 | 0 | 14 833 | 0 | 0 | 14 833 |
| Dopravní vzdělávací institut, a.s. | Fellow subsidiary | 0 | 0 | 17 106 | 0 | 0 | 17 106 |
| Výzkumný Ústav Železniční, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| RAILREKLAM, spol. s r.o. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Jídelní a lůžkové vozy, a.s. | Fellow subsidiary | 0 | 0 | 1 156 | 0 | 0 | 1 156 |
| Smíchov Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Žižkov Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Masaryk Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Centrum Holešovice, a.s. | Fellow subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| ČD Generalvertretung GmbH | Subsidiary | 0 | 0 | 64 794 | 0 | 191 | 64 985 |
| ČD Generalvertretung Wien GmbH | Subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| Koleje Czeskie Sp. z o.o. | Subsidiary | 0 | 2 406 | 191 261 | 953 | 40 | 194 660 |
| Generálne zastúpenie ČD Cargo, s.r.o. | Subsidiary | 0 | 28 | 4 986 | 0 | 1 | 5 015 |
| ČD Logistics, a.s. | Subsidiary | 0 | 0 | 8 522 | 0 | 0 | 8 522 |
| ČD-DUSS Terminal, a.s. | Subsidiary | 0 | 0 | 2 | 0 | 0 | 2 |
| Terminal Brno, a.s. | Subsidiary | 0 | 0 | 13 902 | 0 | 0 | 13 902 |
| Auto Terminal Nymburk, s.r.o. | Subsidiary | 0 | 0 | 0 | 0 | 0 | 0 |
| RAILLEX, a.s. | Subsidiary | 0 | 0 | 1 387 | 0 | 1 | 1 388 |
| BOHEMIAKOMBI, spol. s r.o. | Subsidiary | 0 | 0 | 0 | 2 | 0 | 2 |
| Ostravská dopravní společnost, a.s. | Subsidiary | 0 | 0 | 39 147 | 0 | 0 | 39 147 |
| Total | | 201 283 | 679 218 | 1 466 947 | 10 192 | 267 | 2 357 907 |

4.18.3. Purchases and Sales of Fixed Assets and Non-Current Financial Assets with Related Parties

Sales

In the year ending 31 December 2015, the Company sold tangible fixed assets to ČD, a.s., DPOV, a.s. and Koleje Czeskie, Sp. z o.o. in the amounts of CZK 340 thousand, CZK 2,165 thousand and CZK 49,491 thousand, respectively.

In the year ending 31 December 2014, the Company sold tangible fixed assets to ČD Telematika, a.s. in the amount of CZK 20 thousand.

Purchases

■ Year Ending 31 December 2015

| Entity (CZK '000) | Relation to the Company | Intangible FA | Tangible FA | Total |
|---------------------------------------|-------------------------|---------------|----------------|----------------|
| ČD – Telematika, a.s. | Fellow subsidiary | 674 | 3 500 | 4 174 |
| ČD – Informační Systémy, a.s. | Fellow subsidiary | 34 372 | 0 | 34 372 |
| Výzkumný Ústav Železniční, a.s. | Fellow subsidiary | 0 | 1 080 | 1 080 |
| DPOV, a.s. | Fellow subsidiary | 0 | 74 495 | 74 495 |
| ČD, a.s. | Parent company | 276 | 248 229 | 248 505 |
| ČD Generalvertretung GmbH | Subsidiary | 0 | 0 | 0 |
| ČD Generalvertretung Wien GmbH | Subsidiary | 0 | 0 | 0 |
| Koleje Czeskie Sp. z o.o. | Subsidiary | 0 | 47 947 | 47 947 |
| Generálne zastúpenie ČD Cargo, s.r.o. | Subsidiary | 0 | 0 | 0 |
| ČD Logistics, a.s. | Subsidiary | 0 | 0 | 0 |
| ČD-DUSS Terminal, a.s. | Subsidiary | 0 | 0 | 0 |
| Terminal Brno, a.s. | Subsidiary | 0 | 0 | 0 |
| Auto Terminal Nymburk, s.r.o. | Subsidiary | 0 | 0 | 0 |
| RAILLEX, a.s. | Subsidiary | 0 | 0 | 0 |
| BOHEMIAKOMBI, spol. s r.o. | Subsidiary | 0 | 0 | 0 |
| Ostravská dopravní společnost, a.s. | Subsidiary | 0 | 0 | 0 |
| Smíchov Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 |
| Žižkov Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 |
| Centrum Holešovice, a.s. | Fellow subsidiary | 0 | 0 | 0 |
| Dopravní vzdělávací institut, a.s. | Fellow subsidiary | 0 | 0 | 0 |
| ČD travel, s.r.o. | Fellow subsidiary | 0 | 0 | 0 |
| JLV, a.s. | Fellow subsidiary | 0 | 0 | 0 |
| Masaryk Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 |
| Total | | 35 322 | 375 251 | 410 573 |

The purchases of assets from ČD, a.s., principally include the purchase of the line 163 traction vehicles of CZK 233,000 thousand.

■ Year Ending 31 December 2014

| Entity (CZK '000) | Relation to the Company | Intangible FA | Tangible FA | Total |
|---------------------------------------|-------------------------|---------------|----------------|----------------|
| ČD - Telematika, a.s. | Fellow subsidiary | 0 | 47 915 | 47 915 |
| ČD - Informační Systémy, a.s. | Fellow subsidiary | 41 439 | 399 | 41 838 |
| Výzkumný Ústav Železniční, a.s. | Fellow subsidiary | 0 | 0 | 0 |
| DPOV, a.s. | Fellow subsidiary | 0 | 78 233 | 78 233 |
| ČD, a.s. | Parent company | 54 | 33 243 | 33 297 |
| ČD Generalvertretung GmbH | Subsidiary | 0 | 0 | 0 |
| ČD Generalvertretung Wien GmbH | Subsidiary | 0 | 0 | 0 |
| Koleje Czeskie Sp. z o.o. | Subsidiary | 0 | 0 | 0 |
| Generálne zastúpenie ČD Cargo, s.r.o. | Subsidiary | 0 | 0 | 0 |
| ČD Logistics, a.s. | Subsidiary | 0 | 0 | 0 |
| ČD-DUSS Terminal, a.s. | Subsidiary | 0 | 0 | 0 |
| Terminal Brno, a.s. | Subsidiary | 0 | 0 | 0 |
| Auto Terminal Nymburk, s.r.o. | Subsidiary | 0 | 0 | 0 |
| RAILLEX, a.s. | Subsidiary | 0 | 0 | 0 |
| BOHEMIAKOMBI, spol. s r.o. | Subsidiary | 0 | 0 | 0 |
| Ostravská dopravní společnost, a.s. | Subsidiary | 0 | 0 | 0 |
| Smíchov Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 |
| Žižkov Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 |
| Centrum Holešovice, a.s. | Fellow subsidiary | 0 | 0 | 0 |
| Dopravní vzdělávací institut, a.s. | Fellow subsidiary | 0 | 0 | 0 |
| ČD Travel, s.r.o. | Fellow subsidiary | 0 | 0 | 0 |
| JLV, a.s. | Fellow subsidiary | 0 | 0 | 0 |
| Masaryk Station Development, a.s. | Fellow subsidiary | 0 | 0 | 0 |
| Total | | 41 493 | 159 790 | 201 283 |

4.19. CONSUMED PURCHASES

| (CZK '000) | Year ending 31 Dec 2015 | Year ending 31 Dec 2014 |
|---------------------------------|-------------------------|-------------------------|
| Consumed material | 437 494 | 394 054 |
| Consumed energy | 978 915 | 1 268 448 |
| Consumed fuels | 440 732 | 514 773 |
| Total consumed purchases | 1 857 141 | 2 177 275 |

Consumed energy in the year ending 31 December 2015 includes consumed traction energy purchased from České dráhy, a.s., in the amount of CZK 891,563 thousand.

Consumed energy in the year ending 31 December 2014 included consumed traction energy purchased from České dráhy, a.s., in the amount of CZK 933,105 thousand.

Consumed energy for the year ending 31 December 2014 additionally included the costs of CZK 240,449 thousand pursuant to a concluded out-of-court agreement with SŽDC regarding the dispute for the price of consumed traction energy for 2009.

4.20. SERVICES

| (CZK '000) | Year ending 31 Dec 2015 | Year ending 31 Dec 2014 |
|--|-------------------------|-------------------------|
| Repairs and maintenance | 284 463 | 242 076 |
| Travel expenses | 34 781 | 35 041 |
| Representation costs | 1 972 | 1 889 |
| Telecommunication, data and postal services | 115 526 | 135 130 |
| Other rental | 124 239 | 120 310 |
| Use of the railway route, operations control | 1 497 320 | 1 516 611 |
| Lease for wagons and traction vehicles | 707 056 | 665 311 |
| Transportation fee | 1 989 | 2 194 |
| Costs of general representation | 47 418 | 47 441 |
| Lease | 610 882 | 619 783 |
| Border services | 185 418 | 181 905 |
| Promotion, advertising | 13 678 | 13 974 |
| Healthcare | 13 909 | 19 406 |
| Costs of purchased services | 995 816 | 736 145 |
| Other services | 256 519 | 270 968 |
| Total | 4 890 986 | 4 608 184 |

The services for the use of the railway route and operations control principally include expenses incurred with respect to SŽDC, s.o.

4.21. DEPRECIATION OF INTANGIBLE AND TANGIBLE FIXED ASSETS

| (CZK '000) | Year ending 31 Dec 2015 | Year ending 31 Dec 2014 |
|--|-------------------------|-------------------------|
| Depreciation of intangible and tangible fixed assets | 736 519 | 675 868 |
| Amortisation of a positive valuation difference on acquired assets | 251 898 | 251 898 |
| Total depreciation | 988 417 | 927 766 |

4.22. OTHER OPERATING INCOME

| (CZK '000) | Year ending 31 Dec 2015 | Year ending 31 Dec 2014 |
|-------------------------|-------------------------|-------------------------|
| Claims for damages | 48 405 | 91 039 |
| Gain of material | 55 603 | 26 810 |
| Sundry operating income | 26 637 | 32 217 |
| Total | 130 645 | 150 066 |

4.23. OTHER OPERATING EXPENSES

| (CZK '000) | Year ending 31 Dec 2015 | Year ending 31 Dec 2014 |
|---|-------------------------|-------------------------|
| Uniforms and lump sum payments to employees | 5 361 | 5 637 |
| Insurance payments | 68 644 | 68 755 |
| Compensation of damage | 69 666 | 88 273 |
| Membership fees | 7 845 | 15 193 |
| Contractual fines and default interest | 13 094 | 95 384 |
| Sundry operating expenses | 15 255 | 246 310 |
| Total | 179 865 | 519 552 |

In the year ending 31 December 2015, other operating expenses principally include the costs of the compensation of damage and insurance expenses with the aggregate amount of CZK 153,656 thousand.

In the year ending 31 December 2014, other operating expenses include the expenses from written-off receivables and expenses from the agreement on an out-of-court settlement with SŽDC regarding the dispute for the price of consumed traction energy during 2009 and settlement of damage due to traffic closures caused by SŽDC. The expenses arising from the out-of-court settlement with SŽDC amounted to CZK 59,835 thousand in the year ending 31 December 2014. The principal item of operating expenses are expenses for the settlement of payables arising from the court ruling dated 15 January 2014 regarding the dispute for damage from traffic closures caused by SŽDC. These expenses amounted to CZK 127,184 thousand.

In the years ending 31 December 2015 and 2014, contractual fines and default interest amounted to CZK 13,094 thousand and CZK 95,384 thousand, respectively, and primarily included interest based on the concluded agreement on an out-of-court settlement with SŽDC regarding the dispute for the price of consumed traction energy during 2009 and settlement of damage from traffic closures caused by SŽDC. Total interest amounted to CZK 29,841 thousand. In addition, it included interest arising from the court ruling dated 15 January 2014 regarding the legal dispute for the compensation of damage from traffic closures caused by SŽDC. This interest amounted to CZK 36,968 thousand.

4.24. INCOME FROM NON-CURRENT FINANCIAL ASSETS

| (CZK '000) | Year ending 31 Dec 2015 | Year ending 31 Dec 2014 |
|--------------------|-------------------------|-------------------------|
| Received dividends | 27 642 | 46 525 |
| Total | 27 642 | 46 525 |

4.25. INTEREST INCOME

| (CZK '000) | Year ending 31 Dec 2015 | Year ending 31 Dec 2014 |
|---|-------------------------|-------------------------|
| Interest on current bank accounts | 359 | 76 |
| Premium from settled receivables and payables | 2 | 113 |
| Other interest received from other debtors | 6 844 | 6 768 |
| Total | 7 205 | 6 957 |

4.26. OTHER FINANCIAL INCOME

| (CZK '000) | Year ending 31 Dec 2015 | Year ending 31 Dec 2014 |
|-----------------------------|-------------------------|-------------------------|
| Foreign exchange rate gains | 221 463 | 249 404 |
| Total | 221 463 | 249 404 |

4.27. OTHER FINANCIAL EXPENSES

| (CZK '000) | Year ending 31 Dec 2015 | Year ending 31 Dec 2014 |
|------------------------------|-------------------------|-------------------------|
| Foreign exchange rate losses | 254 561 | 234 251 |
| Sundry financial expenses | 4 796 | 4 238 |
| Total | 259 357 | 238 489 |

4.28. STAFF COSTS AND NUMBER OF EMPLOYEES

The following table summarises the average number of the Company's employees and managers for the year ending 31 December 2015:

| (CZK '000) | Number | Payroll costs | Social security and health insurance | Other staff costs | Bonus for the members of statutory bodies | Contribution for capital life insurance | Contribution for pension insurance | Total staff costs |
|--------------|--------------|------------------|--------------------------------------|-------------------|---|---|------------------------------------|-------------------|
| Employees | 7 236 | 2 647 752 | 918 966 | 127 191 | 0 | 39 425 | 101 394 | 3 834 728 |
| Managers | 13 | 25 178 | 10 024 | 287 | 14 756 | 51 | 76 | 50 372 |
| Total | 7 249 | 2 672 930 | 928 990 | 127 478 | 14 756 | 39 476 | 101 470 | 3 885 100 |

* This includes social security and health insurance paid by companies

The following table summarises the average number of the Company's employees and managers for the year ending 31 December 2014:

| (CZK '000) | Number | Payroll costs | Social security and health insurance | Other staff costs | Bonus for the members of statutory bodies | Contribution for capital life insurance | Contribution for pension insurance | Total staff costs |
|--------------|--------------|------------------|--------------------------------------|-------------------|---|---|------------------------------------|-------------------|
| Employees | 7 381 | 2 570 031 | 881 444 | 59 154 | 0 | 44 623 | 99 079 | 3 654 331 |
| Managers | 15 | 28 716 | 10 989 | 500 | 18 182 | 58 | 67 | 58 512 |
| Total | 7 396 | 2 598 747 | 892 433 | 59 654 | 18 182 | 44 681 | 99 146 | 3 712 843 |

* This includes social security and health insurance paid by companies

Members of statutory, supervisory and administrative bodies were not provided with any discounted fares. Management of the Company has the possibility to use benefits in kind in the form of using Company cars for private purposes.

5. Off balance sheet commitments

5.1. BANK GUARANTEES PROVIDED

Bank guarantees as of 31 December 2015 issued by Komerční banka, a.s. from the liability limit of CZK 50 million.

■ Bank guarantees as of 31 December 2015 issued by Komerční banka, a.s. from the liability limit of CZK 50 million.

| In favour of | Type of guarantee | Amount | Currency | Until | Reason for the issuance of a bank guarantee |
|---|-------------------|------------|----------|--------------|--|
| WestInvest Waterfront Towers, s.r.o., Jankovcova 1569/2c, 170 00 Prague 7, Holešovice, Corporate ID 26178338 | Lease guarantee | 227 267 | EUR | 30 Sept 2016 | 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, Karlín, 186 00 Prague 8, Corporate ID 27626130 | Lease guarantee | 16 517 056 | CZK | 30 June 2016 | 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. |

5.2. RECEIVED SECUREMENT FROM ORDERS

| Name of the order | Applicant - name | Required securements | Securement paid on |
|--|---|----------------------|--------------------|
| Supplies of brake pads | "Association of suppliers:Euro-Metall Kft, Eisenwerk Arnstadt GmbH" | CZK 7 000 000.00 | 18 Nov 2015 |
| Scrapping of 8 wagons from MU Chotovice-Převýšov | PV RECYKLING s.r.o. | CZK 288 415.50 | 25 Sept 2015 |

6. Post balance sheet events

No events occurred subsequent to the balance sheet date that would have a material impact on the balance sheet.

15

Separate Financial Statements (IFRS)

Separate Financial Statements
for the Year Ending 31 December 2015

prepared under IFRS as adopted by the EU

■ STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2015

| (CZK '000) | | 31 Dec 2015 | 31 Dec 2014 |
|--|----|-------------------|-------------------|
| Property, plant and equipment | 14 | 14 008 499 | 13 934 782 |
| Intangible assets | 15 | 317 327 | 326 339 |
| Investments in subsidiaries and associates | 16 | 353 423 | 349 613 |
| Other financial assets | 19 | 1 450 | 238 553 |
| Other assets | 20 | 259 | 236 |
| Total non-current assets | | 14 680 958 | 14 849 523 |
| Inventories | 17 | 129 941 | 121 257 |
| Trade receivables | 18 | 1 571 506 | 1 537 979 |
| Tax receivables | 13 | 22 482 | 0 |
| Other financial assets | 19 | 131 163 | 19 361 |
| Other assets | 20 | 228 868 | 209 380 |
| Cash and cash equivalents | 28 | 864 077 | 679 923 |
| Total current assets | | 2 948 037 | 2 567 900 |
| TOTAL ASSETS | | 17 628 995 | 17 417 423 |
| Share capital | 21 | 8 494 000 | 8 494 000 |
| Reserve and other funds | 21 | 263 487 | 197 465 |
| Accumulated loss | | -1 681 735 | -2 018 034 |
| Total equity | | 7 075 752 | 6 673 431 |
| Loans and borrowings | 22 | 3 015 200 | 3 619 561 |
| Deferred tax liability | 13 | 826 007 | 650 447 |
| Provisions | 23 | 672 151 | 635 323 |
| Other financial liabilities | 25 | 564 627 | 640 852 |
| Other liabilities | 26 | 592 653 | 569 727 |
| Total non-current payables | | 5 670 638 | 6 115 910 |
| Trade payables | 24 | 2 170 371 | 2 011 810 |
| Loans and borrowings | 22 | 1 603 458 | 1 416 444 |
| Tax payables | 13 | 0 | 51 616 |
| Provisions | 23 | 296 316 | 329 646 |
| Other financial payables | 25 | 412 068 | 443 283 |
| Other payables | 26 | 400 392 | 375 283 |
| Total current payables | | 4 882 605 | 4 628 082 |
| TOTAL LIABILITIES | | 17 628 995 | 17 417 423 |

■ STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2015

| (CZK '000) | | Year ending 31 Dec 2015 | Year ending 31 Dec 2014 |
|---|----|-------------------------|-------------------------|
| CONTINUING OPERATIONS | | | |
| Revenue from principal operations | 5 | 11 485 394 | 11 526 214 |
| Other operating income | 6 | 483 939 | 487 317 |
| Purchased consumables and services | 7 | -5 993 539 | -5 965 634 |
| Employee benefit costs | 8 | -3 902 438 | -3 719 496 |
| Depreciation and amortisation | 9 | -1 090 175 | -973 058 |
| Other operating gains (losses) | 10 | -199 918 | 10 817 |
| Profit before interest and tax | | 783 263 | 1 366 160 |
| Financial expenses | 11 | -244 519 | -262 889 |
| Other gains (losses) | 12 | -9 094 | 49 663 |
| Profit before tax | | 529 650 | 1 152 934 |
| Income tax expense | 13 | -166 607 | -279 715 |
| Profit for the period from continuing operations | | 363 043 | 873 219 |
| Profit for the year | | 363 043 | 873 219 |

■ STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

| (CZK '000) | | Year ending 31 Dec 2015 | Year ending 31 Dec 2014 |
|--|--|-------------------------|-------------------------|
| Profit for the year | | 363 043 | 873 219 |
| Cash flow hedging | | 48 491 | 55 777 |
| Relating deferred income tax | | -9 213 | -10 598 |
| Other comprehensive income for the year | | 39 278 | 45 179 |
| Total comprehensive income for the year | | 402 321 | 918 398 |

■ **STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015**

| (CZK '000) | Share capital | Reserve and other funds | Retained earnings | Total equity |
|---|------------------|-------------------------|-------------------|------------------|
| Balance at 31 December 2013 | 8 494 000 | 130 798 | -2 869 765 | 5 755 033 |
| Profit for the period | 0 | 0 | 873 219 | 873 219 |
| Other comprehensive income for the year | 0 | 45 179 | 0 | 45 179 |
| Allocation to the reserve fund | 0 | 21 488 | -21 488 | 0 |
| Balance at 31 December 2014 | 8 494 000 | 197 465 | -2 018 034 | 6 673 431 |
| Profit for the period | 0 | 0 | 363 043 | 363 043 |
| Other comprehensive income for the year | 0 | 39 278 | 0 | 39 278 |
| Allocation to the reserve fund | 0 | 26 744 | -26 744 | 0 |
| Balance at 31 December 2015 | 8 494 000 | 263 487 | -1 681 735 | 7 075 752 |

■ **CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015**

| (CZK '000) | Year ended 31 Dec 2015 | Year ended 31 Dec 2014 |
|--|------------------------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit for the year before tax | 529 650 | 1 152 934 |
| Dividend income | -27 642 | -46 525 |
| Financial expenses | 244 385 | 261 408 |
| Profit (loss) from the sale and disposal of non-current assets | -85 137 | -11 502 |
| Depreciation and amortisation of non-current assets | 1 090 175 | 973 058 |
| Impairment (reversal of impairment) of non-current assets | -9 320 | -67 422 |
| Impairment loss (reversal of impairment loss) of trade receivables | 30 463 | 46 054 |
| Foreign exchange rate (gains) /losses | -13 443 | -21 013 |
| Other | 78 670 | 41 899 |
| Cash flow from operating activities before changes in working capital | 1 837 801 | 2 328 891 |
| Decrease (increase) in trade receivables | -50 581 | 281 557 |
| Decrease (increase) in inventories | -14 353 | -4 478 |
| Decrease (increase) in other assets | -7 543 | -189 796 |
| Increase (decrease) in trade payables | 100 563 | -192 364 |
| Increase (decrease) in provisions | 2 894 | -434 082 |
| Increase (decrease) in other payables | 47 558 | 603 544 |
| Total changes in working capital | 78 538 | 64 382 |
| Cash flows from operating activities | 1 916 339 | 2 393 273 |
| Interest paid | -233 756 | -239 354 |
| Income tax paid | -74 617 | -71 084 |
| Net cash flow from operating activities | 1 607 966 | 2 082 835 |
| CASH FLOWS FROM INVESTMENT ACTIVITIES | | |
| Payments for property, plant and equipment | -924 520 | -650 256 |
| Proceeds from the sale of property, plant and equipment | 17 027 | 10 418 |
| Costs of acquisition of intangible assets | -101 121 | -118 472 |
| Received interest | 7 042 | 6 957 |
| Received dividends | 8 389 | 23 999 |
| Repayments of loans from related parties | 119 771 | 5 792 |
| Net cash flows from the sale (purchase) of a subsidiary | 0 | -10 000 |
| Received subsidies for the purchase of assets | 57 091 | 23 920 |
| Net cash flows (used in) from investment activities | -816 321 | -707 642 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Use of loans and borrowings | 1 000 000 | 690 754 |
| Repayments of loans and borrowings | -1 607 999 | -1 822 952 |
| Net cash flow from financing activities | -607 999 | -1 132 198 |
| Net increase in cash and cash equivalents | 183 646 | 242 995 |
| Cash and cash equivalents at the beginning of the reporting period | 683 949 | 440 954 |
| Cash and cash equivalents at the end of the reporting period | 867 595 | 683 949 |

1. General Information

1.1. FORMATION OF THE COMPANY

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

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

As of 31 December 2015, 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 financial statements were prepared as of 31 December 2015. The reporting period is the calendar year from 1 January 2015 to 31 December 2015.

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 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; and
- Transit.

Pursuant to 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; and
- Transportation of other non-classified commodities.

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

1.3. 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;
- Operations Director division;
- Finance Director division.

In addition, the organisational structure includes operational units and repair centres for rail vehicles, a settlement department for transportation sales in Olomouc and an 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. STATUTORY BODIES OF THE COMPANY

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

The composition of Company's Bodies as of 31 December 2015:

Board of Directors

- Chairman: 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

On 3 February 2015, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed Jan Hartl a member of the Company's Supervisory Board with immediate effect.

On 28 April 2015, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed František Bureš a member of the Company's Supervisory Board with immediate effect.

Audit Committee

- Chairman: Oldřich Vojříš
- Member: Miroslav Zámečník
- Member: Libor Joukl

At the meeting of the Audit Committee held on 27 February 2015, Oldřich Vojříš was appointed Chairman of the Audit Committee.

2. Significant Accounting Policies

2.1. GENERAL INFORMATION

The Company prepares the separate financial statements under International Financial Reporting Standards as adopted by the European Union (IFRS). The separate and consolidated financial statements under IFRS are prepared on a voluntary basis.

The separate financial statement of ČD Cargo, a.s., prepared under Czech Accounting Standards are the statutory financial statements.

2.2. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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.

Investments in subsidiaries and associates that are not classified as held for sale are carried at cost in the separate financial statements. As such, the financial statements present the Company's financial position regardless of the results of subsidiaries and other group entities.

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

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 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.

Dividend revenue from investments is recognised when the Company'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.

2.5. 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 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 is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

2.6. 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 – 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.

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 attaching 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.

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 liability for current tax 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 with regard to property and equipment. 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.

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.

Depreciation is recognised so as to write off the cost of assets (other than property owned by the Company and investments under construction) less their residual values over their useful lives, using the straight-line method.

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 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.

Wagons and traction vehicles without components are depreciated to the estimated residual value. Components of these railway vehicles are depreciated based on the actual mileage. 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. Intangible Assets Acquired Separately

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.

2.13. 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 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.

The 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 in which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

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

In the separate financial statements, investments in subsidiaries and associates which are not classified as held for sale are reported at cost.

The financial statements thus present the Company financial position regardless of the results of subsidiaries and other entities in the group.

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.

2.16.1. Restructuring Provision

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

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 specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

2.17.1. Effective Interest Method

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

Income and expenses are recognised on an effective interest basis for debt instruments other than those financial assets and liabilities classified as at FVTPL.

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

2.17.7. 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 at Fair Value through Profit and Loss

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

In this category, the Company reports derivatives that are not effective hedging instruments.

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. Derivative Financial Instruments

The Company 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.

2.17.12. 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 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 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. 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 PERIODS ENDING 31 DECEMBER 2015**

During the year ending 31 December 2015, the following standards, revised standards and interpretations took effect: :

| Amended, new and revised standards and interpretations | Effective for annual periods beginning on or after |
|--|--|
| Improvements to IFRSs – cycle 2011 – 2013 (published in December 2013) | 1 January 2015 |
| IFRIC 21 – Levies | 17 June 2014 |

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

3.2. STANDARDS AND INTERPRETATIONS USED BEFORE THEIR EFFECTIVE DATES

The Company used no standards or interpretations before their effective dates.

3.3. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

At the balance sheet date, the following standards and interpretations were issued but not yet effective and the Company did not adopt them in advance of their effective dates.

| Amended, new and revised standards and interpretations | Effective for annual periods beginning on or after |
|--|--|
| IFRS 9 – Financial Instruments (2014) | 1 January 2018 |
| IFRS 10, IAS 28 – Amendments 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 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 |
| IFRS 14 – Regulatory Deferral Accounts | 1 January 2016 |
| IFRS 15 – Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 16 – Leases | 1 January 2019 |
| IAS 1 – Amendment to IAS 1 Disclosure Initiative | 1 January 2016 |
| 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 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 February 2015 |
| 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 February 2015 |
| Improvements to IFRSs – cycle 2012 – 2014 (published in September 2014) | 1 January 2016 |

Management of the Company anticipates that the adoption of most of these standards, revised standards, and interpretations will have no material impact on the Company in the following periods, except for IFRS 9 and IFRS 15 where the Company anticipates increased disclosure requirements. With respect to IFRS 16, the Company anticipates the need to disclose a significant number of concluded lease agreements in the balance sheet. Given that this standard was approved on 13 January 2016, the Company has not yet undertaken any analysis making it possible to quantify this impact.

3.4. STANDARDS AND INTERPRETATIONS THAT ARE ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARD BOARD (IASB) 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 9 – Financial Instruments (2014) | 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 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 14 – Regulatory Deferral Accounts | 1 January 2016 |
| IFRS 15 – Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 16 – Leases | 1 January 2019 |
| 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 |

4. Critical Accounting Judgments 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 international transportation, the Company has to estimate the amount of these revenues. The actual value of revenue mutually derecognised among transporters may be different.

4.4. MEASUREMENT OF FINANCIAL INSTRUMENTS

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. PROVISION FOR EMPLOYEE BENEFITS

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.

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.

4.6. PROVISIONS FOR LOSS-MAKING TRANSACTIONS

In the event of a loss-making transaction, the amount of the provision is determined on the basis of a reasonable estimate as equal to the future liability arising from the loss. The amount includes the difference between the discounted net anticipated income and discounted anticipated expenses.

4.7. RESTRUCTURING PLAN

In 2012, the management of ČD Cargo, a.s., undertook a series of measures designed to strengthen the liquidity of the Company in the short-term, create conditions for achieving more favourable economic results in the medium-term, and consequently ensure the stability of the Company in the following years. The implemented measures have served as a basis for preparing a medium-term business plan of the Company. The restructuring plan continues to be effective.

5. Revenue from Principal Operations

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

| (CZK '000) | 2015 | 2014 |
|--|-------------------|-------------------|
| Revenue from freight transportation:: | 10 727 688 | 10 885 026 |
| Revenue from freight transportation – local | 4 006 060 | 3 798 238 |
| Revenue from freight transportation – foreign | 6 721 628 | 7 086 788 |
| Other revenue from freight transportation: | 565 942 | 519 700 |
| Other revenue from freight transportation – local | 337 865 | 313 176 |
| Other revenue from freight transportation – foreign | 228 077 | 206 524 |
| Other revenue related to transportation | 191 764 | 121 488 |
| Total revenue from principal operations – continuing operations | 11 485 394 | 11 526 214 |

Other revenue from freight transportation predominantly includes the revenue from freight transportation from other transporters and owners of railways and revenue from other transportation.

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.;
- ČD Logistics, a.s.;
- ČEZ, a.s.;
- EP Cargo, a.s.; and
- Rail Cargo Logistics – Czech Republic, s.r.o.

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

Railway transportation companies (national transporters)

- Železničná spoločnosť Cargo Slovakia, a.s.;
- DB Schenker Rail Deutschland AG;
- Rail Cargo Austria AG; and
- PKP Cargo S.A.

Other companies

- Maersk Line A/S;
- ČD Generalvertretung GmbH;
- STVA S.A.;
- METRANS, a.s.; and
- BLG AutoRail GmbH.

6. Other Operating Income

| (CZK '000) | 2015 | 2014 |
|---|----------------|----------------|
| Gain from the sale of property, plant and equipment | 85 137 | 11 573 |
| Gain from the sale of inventories | 7 181 | 21 093 |
| Rental income | 316 264 | 331 103 |
| Compensations for deficits and damage | 48 406 | 99 425 |
| Other | 26 951 | 24 123 |
| Total other operating income – continuing operations | 483 939 | 487 317 |

Other operating income predominantly includes income from contractual penalties and default interest.

7. Purchased Consumables and Services

| (CZK '000) | 2015 | 2014 |
|---|-------------------|-------------------|
| Traction costs | -1 324 511 | -1 648 800 |
| Traction fuel (diesel) | -432 948 | -506 655 |
| Traction electricity | -891 563 | -1 142 145 |
| Payment for the use of railway route | -1 497 320 | -1 516 611 |
| Other purchased consumables and services | -3 171 708 | -2 800 220 |
| Consumed material | -313 624 | -259 943 |
| Consumed other energy | -87 352 | -94 893 |
| Consumed fuel | -7 785 | -9 259 |
| Repairs and maintenance | -284 314 | -228 058 |
| Travel costs | -34 781 | -35 041 |
| Telecommunication, data and postal services | -50 613 | -52 447 |
| Other rental | -172 391 | -177 446 |
| Rental for rail vehicles | -707 056 | -665 310 |
| Transportation charges | -1 001 640 | -740 721 |
| Services associated with the use of buildings | -41 828 | -38 632 |
| Operational cleaning of rail vehicles | -2 366 | -5 224 |
| Border area services | -185 417 | -181 905 |
| Advertising and promotion costs | -12 764 | -12 048 |
| Other services | -269 777 | -299 293 |
| Total purchased consumables and services – continuing operations | -5 993 539 | -5 965 634 |

Traction electricity in the year ending 31 December 2015 includes traction energy purchased from České dráhy, a.s., in the amount of CZK 891,563 thousand.

Traction electricity in the year ending 31 December 2014 includes consumed traction energy purchased from České dráhy, a.s., in the amount of CZK 933,105 thousand. Consumed energy for the year ending 31 December 2014 additionally includes the costs of CZK 209,039 thousand pursuant to a concluded out-of-court agreement with SŽDC regarding the dispute for the price of consumed traction energy for 2009.

Other services predominantly include the costs of education, IT, healthcare, advisory, fire protection and security and commissions for representation abroad.

8. Employee Benefit Costs

| (CZK '000) | 2015 | 2014 |
|--|-------------------|-------------------|
| Payroll costs | -2 714 362 | -2 585 095 |
| Severance pay | -45 081 | -30 038 |
| Statutory social security and health insurance | -896 674 | -868 856 |
| Benefits resulting from the collective agreement | -50 608 | -44 651 |
| Other social costs | -164 338 | -163 742 |
| Other employee benefit costs | -31 375 | -27 114 |
| Total employees benefit costs – continuing operations | -3 902 438 | -3 719 496 |

9. Depreciation and Amortisation

| (CZK '000) | 2015 | 2014 |
|--|-------------------|-----------------|
| Depreciation of property, plant and equipment | -1 037 133 | -917 489 |
| Amortisation of intangible assets | -53 042 | -55 569 |
| Total depreciation and amortisation – continuing operations | -1 090 175 | -973 058 |

10. Other Operating Income (Losses)

| (CZK '000) | 2015 | 2014 |
|--|-----------------|---------------|
| Change in other provisions | 2 326 | 447 898 |
| Losses from impaired receivables (change in balance) | -22 104 | 633 |
| Temporarily impaired property, plant and equipment (change in balance) | 10 190 | 71 426 |
| Change in provisions against inventories | -3 864 | 0 |
| Costs of contractual fines and default interest | -13 101 | -95 384 |
| Taxes and fees | -6 601 | -3 985 |
| Other operating expenses | -166 764 | -409 771 |
| Total other operating losses (gains) – continuing operations | -199 918 | 10 817 |

In the year ending 31 December 2015, other operating expenses include costs of the compensation for damage and insurance costs of CZK 153,565 thousand.

In the year ending 31 December 2014, other operating expenses included the expenses from written-off receivables and expenses from the agreement on an out-of-court settlement with SŽDC regarding the dispute for the price of consumed traction energy during 2009 and settlement of damage due to traffic closures caused by SŽDC. The expenses arising from the out-of-court settlement with SŽDC amounted to CZK 59,835 thousand. The principal item of operating expenses were expenses for the settlement of a payable arising from the court ruling dated 15 January 2014 regarding the dispute for damage from traffic closures caused by SŽDC. These expenses amounted to CZK 127,184 thousand.

In the year ending 31 December 2014, other operating expenses additionally included damages of CZK 86,463 thousand, insurance of assets and liability insurance of CZK 68,751 thousand, costs of written-off and assigned receivables of CZK 46,687 thousand and membership fees of CZK 15,192 thousand.

In the year ending 31 December 2015, the aggregate value of contractual fines and default interest amounted to CZK 13,101 thousand.

In the year ending 31 December 2014, costs of contractual fines and default interest of CZK 95,384 thousand primarily included interest based on the concluded agreement on an out-of-court settlement with SŽDC regarding the dispute for the price of consumed traction energy during 2009 and settlement of damage from traffic closures caused by SŽDC. Total interest amounted to CZK 29,841 thousand. In addition, it included interest arising from the court ruling dated 15 January 2014 regarding the legal dispute for the compensation of damage from traffic closures caused by SŽDC. This interest amounted to CZK 36,968 thousand.

11. Financial Expenses

| (CZK '000) | 2015 | 2014 |
|---|-----------------|-----------------|
| Interest on bank overdraft accounts and loans | -69 | -2 881 |
| Interest on finance lease payables | -142 487 | -161 977 |
| Interest expenses – bonds | -69 866 | -84 349 |
| Other interest expenses | -31 493 | -13 127 |
| Unwinding of the discount of provisions | -604 | -541 |
| Other financial expenses | 0 | -14 |
| Total financial expenses – continuing operations | -244 519 | -262 889 |

12. Other Gains (Losses)

| (CZK '000) | 2015 | 2014 |
|--|---------------|---------------|
| Net foreign exchange gains (losses) | -33 098 | 15 153 |
| Received dividends | 27 642 | 46 525 |
| Net profit (loss) from the sale of securities and equity investments | -2 190 | -102 |
| Received interest | 7 205 | 6 957 |
| Banking fees | -2 213 | -1 831 |
| Actuarial gains (loss) | -5 220 | -13 275 |
| Other financial gains (losses) | -1 220 | -3 764 |
| Total other gains (losses) – continuing operations | -9 094 | 49 663 |

13. Income Taxation

13.1. INCOME TAX REPORTED IN PROFIT OR LOSS

| (CZK '000) | 2015 | 2014 |
|--|-----------------|-----------------|
| Current income tax for the prior period | -260 | -78 061 |
| Deferred tax recognised in the statement of profit or loss | -166 347 | -201 654 |
| Total tax charge relating to continuing operations | -166 607 | -279 715 |

■ Reconciliation of the total tax charge for the period to the accounting profit:

| (CZK '000) | 2015 | 2014 |
|---|-----------------|-----------------|
| Profit from continuing operations | 529 650 | 1 152 489 |
| Income tax calculated using the statutory rate of 19% | -100 634 | -218 973 |
| Effect of permanently non-tax costs and income | -65 973 | -60 742 |
| Income tax reported in profit or loss | -166 607 | -279 715 |

13.2. DEFERRED TAX

| (CZK '000) | Unutilised tax losses | Receivables | Provisions | Non-current assets | Leases | Other | Total |
|--|-----------------------|----------------|-----------------|--------------------|----------------|----------------|----------------|
| Balance at 31 December 2013 | 0 | -26 730 | -265 819 | 459 400 | 291 488 | -20 143 | 438 196 |
| Deferred tax recognised in the statement of profit or loss | 0 | -3 353 | 19 751 | 164 681 | 36 271 | -15 696 | 201 654 |
| Deferred tax recognised in other comprehensive income | 0 | 0 | 0 | 0 | 0 | 10 597 | 10 597 |
| Balance at 31 December 2014 | 0 | -30 083 | -246 068 | 624 081 | 327 759 | -25 242 | 650 447 |
| Deferred tax recognised in the statement of profit or loss | -98 364 | -2 351 | 62 153 | 151 541 | 56 005 | -2 637 | 166 347 |
| Deferred tax recognised in other comprehensive income | 0 | 0 | 0 | 0 | 0 | 9 213 | 9 213 |
| Balance at 31 December 2015 | -98 364 | -32 434 | -183 915 | 775 622 | 383 764 | -18 666 | 826 007 |

14. Property, Plant and Equipment

| Cost (CZK '000) | Balance at 31 Dec 2013 | Additions | Disposals | Reclassification | Balance at 31 Dec 2014 | Additions | Disposals | Reclassification | Balance at 31 Dec 2015 |
|---|---------------------------|------------------|----------------|------------------|---------------------------|------------------|------------------|------------------|---------------------------|
| Land | 91 294 | 4 621 | 0 | 0 | 95 915 | 0 | 0 | 0 | 95 915 |
| Structures | 1 430 440 | 32 397 | 891 | 0 | 1 461 946 | 61 991 | 1 183 | 0 | 1 522 754 |
| Individual movable assets | 36 616 659 | 889 659 | 410 089 | 0 | 37 096 229 | 1 097 531 | 548 603 | -33 | 37 645 124 |
| <i>Machinery, equipment, and furniture and fixtures</i> | 570 997 | 39 610 | 8 813 | -2 326 | 599 468 | 10 058 | 7 184 | -197 779 | 404 563 |
| <i>Vehicles</i> | 29 444 061 | 708 053 | 378 988 | 283 832 | 30 056 958 | 1 067 267 | 518 575 | 194 568 | 30 800 218 |
| <i>Vehicles acquired under finance leases</i> | 6 592 538 | 141 996 | 21 418 | -281 189 | 6 431 927 | 20 206 | 22 007 | 3 178 | 6 433 304 |
| <i>Other</i> | 9 063 | 0 | 870 | -317 | 7 876 | 0 | 837 | 0 | 7 039 |
| Other assets | 0 | 0 | 0 | 0 | 0 | 59 | 0 | 0 | 59 |
| Assets under construction | 99 066 | 879 575 | 11 568 | -818 865 | 148 208 | 1 125 286 | 1 170 909 | -1 650 | 100 935 |
| Prepayments | 54 | 896 | 940 | 0 | 10 | 273 | 261 | 0 | 22 |
| Total | 38 237 513 | 1 807 148 | 423 488 | -818 865 | 38 802 308 | 2 285 140 | 1 720 956 | -1 683 | 39 364 809 |

| Accumulated depreciation (CZK '000) | Balance at 31 Dec 2013 | Additions | Disposals | Reclassification | Balance at 31 Dec 2014 | Additions | Disposals | Reclassification | Balance at 31 Dec 2015 |
|---|---------------------------|----------------|----------------|------------------|---------------------------|------------------|----------------|------------------|---------------------------|
| Structures | 737 857 | 35 297 | 780 | 0 | 772 374 | 35 571 | 1 038 | 0 | 806 907 |
| Individual movable assets | 23 427 478 | 886 056 | 392 056 | 0 | 23 921 478 | 988 704 | 522 488 | -1 777 | 24 385 917 |
| <i>Machinery, equipment, and furniture and fixtures</i> | 416 499 | 39 675 | 8 706 | -2 335 | 445 133 | 24 540 | 7 162 | -161 824 | 300 687 |
| <i>Vehicles</i> | 20 889 976 | 615 577 | 362 089 | 46 227 | 21 189 691 | 743 131 | 492 720 | 159 879 | 21 599 981 |
| <i>Vehicles acquired under finance leases</i> | 2 112 946 | 230 665 | 20 397 | -43 596 | 2 279 618 | 220 917 | 21 773 | 168 | 2 478 930 |
| <i>Other</i> | 8 057 | 139 | 864 | -296 | 7 036 | 116 | 833 | 0 | 6 319 |
| Other assets | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 |
| Total | 24 165 335 | 921 353 | 392 836 | 0 | 24 693 852 | 1 024 276 | 523 526 | -1 777 | 25 192 825 |

| Impairment (CZK '000) | Balance at 31 Dec 2013 | Additions | Disposals | Balance at 31 Dec 2014 | Additions | Disposals | Balance at 31 Dec 2015 |
|--|---------------------------|----------------|----------------|---------------------------|----------------|----------------|---------------------------|
| Land | 0 | 273 | 0 | 273 | 0 | 0 | 273 |
| Buildings | 441 | 393 | 441 | 393 | 346 | 393 | 346 |
| Individual movable assets: vehicles | 244 659 | 158 686 | 244 659 | 158 686 | 147 523 | 158 686 | 147 523 |
| Individual movable assets: vehicles acquired under finance lease | 0 | 14 322 | 0 | 14 322 | 11 080 | 14 322 | 11 080 |
| Assets under construction | 0 | 0 | 0 | 0 | 4 263 | 0 | 4 263 |
| Total | 245 100 | 173 674 | 245 100 | 173 674 | 163 212 | 173 401 | 163 485 |

Reclassifications predominantly include transfers of asset items between individual groups of assets (IAS 16, IAS 17) relating to the finance leaseback of railway vehicles and traction vehicles.

| Net book value (CZK '000) | Balance at 31 Dec 2013 | Balance at 31 Dec 2014 | Balance at 31 Dec 2015 |
|---|---------------------------|---------------------------|---------------------------|
| Land | 91 294 | 95 642 | 95 642 |
| Buildings | 692 142 | 689 179 | 715 501 |
| Individual movable assets | 12 944 522 | 13 001 743 | 13 100 604 |
| <i>Machinery, equipment, and furniture and fixtures</i> | 154 498 | 154 335 | 103 876 |
| <i>Vehicles</i> | 8 309 426 | 8 708 581 | 9 052 714 |
| <i>Vehicles acquired under finance leases</i> | 4 479 592 | 4 137 987 | 3 943 294 |
| <i>Other</i> | 1 006 | 840 | 720 |
| Other assets | | | 58 |
| Assets under construction | 99 066 | 148 208 | 96 672 |
| Prepayments | 54 | 10 | 22 |
| Total | 13 827 078 | 13 934 782 | 14 008 499 |

Real estate predominantly includes buildings and land. Land and buildings exclude the assets forming the railway route which are owned by the state.

Vehicles predominantly include rail vehicles (traction vehicles, freight cars) used for the operations of railway freight transportation. These items are provisioned as equal to the difference between the net book value and the recoverable value of CZK 158,603 thousand.

Principal additions to individual tangible movable assets in the year ending 31 December 2015 included inspection repairs (components) of wagons of CZK 246,718 thousand, major and general repairs (components) of traction vehicles of CZK 238,732 thousand,

purchase of traction vehicles of the 163 line of CZK 233,000 thousand, technical improvements on wagons of CZK 170,959 thousand, and purchase of wheel sets for wagons of CZK 89,603 thousand.

In the years ending 31 December 2015 and 2014, the Company acquired tangible assets recognised in expenses in the amounts of CZK 25,829 thousand and CZK 25,663 thousand, respectively. 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 the year ending 31 December 2015, the Company was awarded a grant from the Transport Operational Programme in the amount of CZK 105 thousand for financing tangible assets.

Prepayments made for tangible fixed assets amount to CZK 22 thousand as of 31 December 2015.

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 |

14.1. ASSETS PLEDGED AS COLLATERAL

As of 31 December 2015 and 2014, no assets of the Company were pledged as collateral.

15. Intangible Assets

| Cost (CZK '000) | Balance at 31 Dec 2013 | Additions | Disposals | Reclassification | Balance at 31 Dec 2014 | Additions | Disposals | Reclassification | Balance at 31 Dec 2015 |
|---------------------------|------------------------|----------------|----------------|------------------|------------------------|----------------|----------------|------------------|------------------------|
| Software | 440 314 | 56 593 | 89 004 | 0 | 407 903 | 100 322 | 245 | 0 | 507 980 |
| Valuable rights | 124 214 | 300 | 17 298 | 0 | 107 216 | 2 713 | 0 | 0 | 109 929 |
| Assets under construction | 50 798 | 134 302 | 56 893 | 0 | 128 207 | 101 111 | 160 021 | -95 | 69 202 |
| Total | 615 326 | 191 195 | 163 195 | 0 | 643 326 | 204 146 | 160 266 | -95 | 687 111 |

| Accumulated amortisation (CZK '000) | Balance at 31 Dec 2013 | Additions | Disposals | Reclassification | Balance at 31 Dec 2014 | Additions | Disposals | Reclassification | Balance at 31 Dec 2015 |
|-------------------------------------|------------------------|---------------|---------------|------------------|------------------------|---------------|------------|------------------|------------------------|
| Software | 272 619 | 45 257 | 87 528 | 0 | 230 348 | 46 276 | 245 | 7 058 | 283 437 |
| Valuable rights | 79 271 | 11 462 | 4 093 | 0 | 86 640 | 6 765 | 0 | -7 058 | 86 347 |
| Total | 351 890 | 56 719 | 91 621 | 0 | 316 988 | 53 041 | 245 | 0 | 369 784 |

Reclassifications predominantly include transfers of asset items between individual groups of assets (IAS 38) relating to software and valuable rights.

| Net book value (CZK '000) | Balance at 31 Dec 2013 | Balance at 31 Dec 2014 | Balance at 31 Dec 2015 |
|---------------------------|------------------------|------------------------|------------------------|
| Software | 167 695 | 177 555 | 224 543 |
| Valuable rights | 44 943 | 20 576 | 23 582 |
| Assets under construction | 50 798 | 128 207 | 69 202 |
| Total | 263 436 | 326 338 | 317 327 |

Amortisation costs were reported in the statement of profit or loss line "Depreciation and amortisation". The amortisation was calculated using useful lives of 3 to 8 years.

Intangible fixed assets predominantly include the SAP system and the operational business information system – PROBIS. Intangible assets additionally include the information system supporting the activities of the freight transporter, development of the SAP information systems, the Microsoft Enterprise Agreement licence, OPT information system, the system for the support of office work and other systems used by the Company. Additions to software in the year ending 31 December 2015 primarily include the costs of adjustments and upgrades of the current systems, namely PROBIS in the amount of CZK 37,827 thousand, the SAP project of CZK 21,397 thousand, the DISC system (Dispatching Information System of Cargo) of CZK 21,701 thousand; the remaining value of the aggregate amount is attributable to other economic and operating tasks. Other licences were capitalised with the aggregate value of CZK 2,713 thousand.

In the year ending 31 December 2015, the Company executed further development of the current systems (SAP, BI, PRIS) with the acquisition cost of CZK 44,675 thousand and an IT security project of CZK 24,838 thousand. The Company also commenced the OBIS project in the amount of CZK 20,421 thousand the development of which is also planned for 2016. In the year ending 31 December 2015, the aggregate investments in tangible fixed assets amounted to CZK 101,111 thousand. In the year ending 31 December 2015, the Company received grants from the Transport Operational Programme in the amount of CZK 56,987 thousand for financing intangible assets.

Intangible fixed assets under construction predominantly include a further extension of software for the railway transportation and financial management of the Company.

16. Investments in Subsidiaries and Associates

16.1. INFORMATION ON SUBSIDIARIES

| Name of the entity (CZK '000) | Registered office | Value of investment as of 31 Dec 2015 | Value of investment as of 31 Dec 2014 |
|--------------------------------------|--|---------------------------------------|---------------------------------------|
| CD Generalvertretung GmbH | Kaiserstrasse 60, 60329 Frankfurt am Main, Germany | 1 375 | 1 375 |
| Koleje Czeskie Sp. z o.o. | Grzybowska nr 4, lok. 3, 00-131 Warsaw, Poland | 259 900 | 259 900 |
| CD Generalvertretung Wien GmbH | Rotenturmstraße 22/24, 1010 Vienna, Austria | 0 | 0 |
| Generálne zatúpenie ČD Cargo, s.r.o. | Tomášikova 10/H, 82103 Bratislava | 0 | 0 |
| Terminal Brno, a.s. | K terminálu 614/11, 61900 Brno | 45 752 | 45 443 |
| ČD-DUSS Terminál, a.s. | Lukavecká 1189, 41002 Lovosice | 2 040 | 2 040 |
| ČD Logistics, a.s. | Opletalova 1284/37, 11000 Prague 1 | 15 600 | 15 600 |
| Auto Terminal Nymburk, s.r.o. | Jankovcova 1569/2c, 170 00 Prague 7 | 0 | 0 |
| Total | | 324 667 | 324 358 |

| Name of the entity | Principal activities | Investment as of 31 Dec 2015 | Investment as of 31 Dec 2014 |
|--------------------------------------|---|------------------------------|------------------------------|
| CD Generalvertretung GmbH | Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. | 100 % | 100 % |
| Koleje Czeskie Sp. z o.o. | Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. | 100 % | 100 % |
| CD Generalvertretung Wien GmbH | Mediation of services in freight transportation and shipping. | 0 % | 0 % |
| Generálne zátupenie ČD Cargo, s.r.o. | Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping. | 100 % | 100 % |
| Terminal Brno, a.s. | Operations of the combined transport terminal in Brno. | 66,93 % | 66,93 % |
| ČD-DUSS Terminál, a.s. | Operations of the container terminal in Lovosice. | 51 % | 51 % |
| ČD Logistics, a.s. | Shipping. | 78 % | 78 % |
| Auto Terminal Nymburk, s.r.o. | Shipping and technical services in transportation. | 100 % | 100 % |

16.2. INFORMATION ON ASSOCIATES

| Name of the entity (CZK '000) | Registered office | Value of investment as of 31 Dec 2015 | Value of investment as of 31 Dec 2014 |
|-------------------------------------|---|---------------------------------------|---------------------------------------|
| BOHEMIAKOMBI, spol. s r.o. | Opletalova 6, 11000 Prague 1 | 3 274 | 3 286 |
| Ostravská dopravní společnost, a.s. | U Tiskárny 616/9, 70200 Ostrava, Přívoz | 24 497 | 20 984 |
| RAILLEX a.s. | Trnkovo nám. 3, 15200 Prague 5 | 985 | 985 |
| Total | | 28 756 | 25 255 |

| Name of the entity | Principal activities | Investment as of 31 Dec 2015 | Investment as of 31 Dec 2014 |
|-------------------------------------|---|------------------------------|------------------------------|
| BOHEMIAKOMBI, spol. s r.o. | Mediation of services in transportation except for transportation by own vehicles | 30 % | 30 % |
| Ostravská dopravní společnost, a.s. | Operating railway transportation and lease of locomotives and railway vehicles | 20 % | 20 % |
| RAILLEX a.s. | Handling of cargo and technical services in transportation | 50 % | 50 % |

16.3. SUMMARY FINANCIAL INFORMATION ON ASSOCIATES

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|---------------|---------------|
| Total assets | 432 915 | 465 692 |
| Total liabilities | 275 086 | 317 390 |
| Net assets | 157 829 | 148 302 |
| Share of the Company in associates' net assets | 39 985 | 40 484 |

| (CZK '000) | 2015 | 2014 |
|--|--------------|--------------|
| Total income | 1 397 919 | 1 643 364 |
| Profit for the period | 25 313 | 27 449 |
| Share of the Company in associates' profit for the period | 7 394 | 8 285 |

17. Inventories

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|--|----------------|----------------|
| Spare parts and other components for rail vehicles and locomotives | 39 989 | 38 213 |
| Other machinery, tools and equipment and their spare parts | 75 056 | 65 941 |
| Fuels, lubricants and other oil products | 3 599 | 3 668 |
| Work clothes, work shoes, protective devices | 1 193 | 1 249 |
| Other | 13 968 | 12 186 |
| Total cost | 133 805 | 121 257 |
| Write-down of inventories to their net realisable value | -3 864 | 0 |
| Total net book value | 129 941 | 121 257 |

In the year ending 31 December 2015, the value of inventories was written down by CZK 3,864 thousand based on the results of inventory counts. No write-down of inventories was made in 2014.

18. Trade Receivables

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|--------------|------------------|------------------|
| Short-term | 1 571 506 | 1 537 979 |
| Total | 1 571 506 | 1 537 979 |

18.1. AGING OF TRADE RECEIVABLES

| (CZK '000) | Category | Before due date | Past due date (days) | | | | Total past due date | Total | |
|--------------|------------|------------------|----------------------|---------------|--------------|---------------|---------------------|---------------|------------------|
| | | | | 31 – 90 | 91 – 180 | 181 – 365 | | | 365 and more |
| 31. 12. 2015 | Gross | 1 484 718 | 74 048 | 9 725 | 7 240 | 7 282 | 138 607 | 236 902 | 1 721 620 |
| | Allowances | -1 685 | -6 200 | -2 812 | -1 669 | -3 962 | -133 786 | -148 429 | -150 114 |
| | Net | 1 483 033 | 67 848 | 6 913 | 5 571 | 3 320 | 4 821 | 88 473 | 1 571 506 |
| 31. 12. 2014 | Gross | 1 441 263 | 67 320 | 12 883 | 4 346 | 10 792 | 128 783 | 224 124 | 1 665 387 |
| | Allowances | 0 | 0 | 0 | 0 | -13 063 | -114 345 | -127 408 | -127 408 |
| | Net | 1 441 263 | 67 320 | 12 883 | 4 346 | -2 271 | 14 438 | 96 716 | 1 537 979 |

19. Other Financial Assets

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|-------------------------------------|----------------|----------------|
| Other non-current financial assets | 1 450 | 238 553 |
| Other current financial assets | 131 163 | 19 361 |
| Total other financial assets | 132 613 | 257 914 |

Other financial assets predominantly include loans provided to Koleje Czeskie Sp. z o.o. of CZK 113,585 thousand, receivables for deficits and damage and receivables registered for recovery with the courts. Receivables registered for recovery through the courts in the years ending 31 December 2015 and 2014 decreased by CZK 82,564 thousand and CZK 84,122 thousand, respectively.

20. Other Assets

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|----------------|----------------|
| Non-current other assets | 259 | 236 |
| Prepayments made | 75 050 | 78 236 |
| Tax receivables (except for corporate income tax) | 120 126 | 93 465 |
| Prepaid expenses | 29 437 | 31 693 |
| Other | 4 255 | 5 986 |
| Current other assets | 228 868 | 209 380 |
| Total other assets | 229 127 | 209 616 |

21. Equity

21.1. 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 8,800,000 thousand.

On 2 June 2009, České dráhy, a.s., acting in the capacity of the General Meeting, adopted the resolution on the decrease in the share capital of ČD Cargo, a.s., in accordance with Section 213a of the Commercial Code, from CZK 8,800,000 thousand to CZK 8,494,000 thousand. As of 31 December 2015, the Company reports the share capital of CZK 8,494,000 thousand fully paid.

21.2. RESERVE AND OTHER FUNDS

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---------------------------|----------------|----------------|
| Share premium | 197 658 | 197 658 |
| Statutory reserve fund | 108 884 | 82 138 |
| Cash flow hedging reserve | -43 055 | -82 331 |
| Total | 263 487 | 197 465 |

Allocations to the statutory reserve fund are made in accordance with the national legislation.

■ Cash Flow Hedging Reserve

| (CZK '000) | 2015 | 2014 |
|--|----------------|-----------------|
| Balance at the beginning of the year | -82 333 | -127 513 |
| Loss from revaluation | -29 547 | -62 862 |
| Reclassification to profit or loss | 78 038 | 118 639 |
| Total change in the cash flow hedging reserve | 48 491 | 55 777 |
| Relating income tax | -9 213 | -10 597 |
| Balance at the year-end | -43 055 | -82 333 |

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.

22. Loans and Borrowings

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|------------------------------|------------------|------------------|
| Payables from finance leases | 429 274 | 416 444 |
| Issued bonds | 1 174 184 | 1 000 000 |
| Total short-term | 1 603 458 | 1 416 444 |
| Payables from finance leases | 2 015 200 | 2 443 866 |
| Issued bonds | 1 000 000 | 1 175 695 |
| Total long-term | 3 015 200 | 3 619 561 |
| Total | 4 618 658 | 5 036 005 |

Portions of long-term loans and borrowings that are repayable in a period shorter than one year from the financial statements date are recognised as short-term loans and borrowings. The Company breached no loan covenants in the reporting period.

22.1. ISSUED BONDS

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

In 2012 and 2011, the following issues of bonds were placed under the bond programme:

| | |
|---|--------------------------|
| Administrator | Komerční banka, a.s. |
| Date of issue | 20 June 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 (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 the interest payment | 20 June each year |
| Date of the final maturity | 20 June 2016 |
| Date of the final maturity (use of the put option) | 20 June 2014 |

| | |
|-------------------------------------|----------------------------------|
| 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 the interest payment | 21 Dec each year |
| Date of the final maturity | 21 Dec 2016 |

| | |
|-------------------------------------|--|
| Manager | UniCredit Bank Czech Republic and Slovakia |
| Date of issue | 26 November 2015 |
| Total nominal value | CZK 1,000,000,000 |
| Nominal value of the bond | CZK 5,000,000 |
| Interest rate | Fixed interest income, 1.40% |
| Issue rate | 99.617% |
| Payment of interest income | Annually retrospectively |
| Date of the interest payment | 26 Nov each year |
| Date of final maturity | 26 Nov 2020 |

ČD Cargo, a.s., recorded calls for a premature redemption of part of the first issue of the bonds placed through KB, a.s. with the total nominal value of CZK 341.7 million within the due period. This amount was redeemed as of 20 June 2014.

The bonds issue at Československá obchodní banka of CZK 1,000 million were redeemed as of 22 December 2015.

In the year ending 31 December 2015, the 4th issue of bonds with the aggregate nominal value of CZK 1,000 million was placed through the administrator UniCredit Bank Czech Republic and Slovakia, a.s.

Bonds with the aggregate nominal value of CZK 2,158.3 million are currently issued. As of 31 December 2015, these bonds were classified as short-term and long-term bonds by their maturity dates in the financial statements.

22.2. FINANCE LEASE PAYABLES

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 leases is as follows:

| (CZK '000) | Minimum lease payments | | Present value of minimum lease payments | |
|--|------------------------|------------------|---|------------------|
| | 31 Dec 2015 | 31 Dec 2014 | 31 Dec 2015 | 31 Dec 2014 |
| Less than 1 year | 540 306 | 546 486 | 429 274 | 416 443 |
| From 1 to 5 years | 1 732 203 | 2 005 067 | 1 479 965 | 1 675 893 |
| 5 years and more | 577 227 | 845 186 | 535 235 | 767 973 |
| Total | 2 849 736 | 3 396 739 | 2 444 474 | 2 860 309 |
| Less future finance expenses | -405 262 | -536 430 | - | - |
| Present value of minimum lease payments | 2 444 474 | 2 860 309 | 2 444 474 | 2 860 309 |
| In the statement of financial position as: | | | | |
| short-term loans | | | 429 274 | 416 443 |
| long-term loans | | | 2 015 200 | 2 443 866 |
| Total | | | 2 444 474 | 2 860 309 |

The fair value of finance lease payables is calculated in Note 32.11.1.

23. Provisions

| (CZK '000) | Balance at 31 Dec 2013 | Charge | Use | Balance at 31 Dec 2014 | Charge | Use | Balance at 31 Dec 2015 |
|---|------------------------|----------------|------------------|------------------------|----------------|----------------|------------------------|
| Provision for legal disputes | 89 644 | 20 961 | 52 189 | 58 416 | 0 | 16 226 | 42 190 |
| Provision for outstanding vacation days | 26 764 | 19 955 | 26 764 | 19 955 | 22 240 | 19 955 | 22 240 |
| Provision for business risks | 902 947 | 37 275 | 916 518 | 23 704 | 0 | 0 | 23 704 |
| Provision for employee bonuses | 100 130 | 58 467 | 44 651 | 113 946 | 9 159 | 3 336 | 119 769 |
| Provision for restructuring | 249 973 | 0 | 69 652 | 180 321 | 18 746 | 59 380 | 139 687 |
| Provision for loss-making transactions | 0 | 525 450 | 0 | 525 450 | 54 215 | 0 | 579 665 |
| Other provisions* | 29 593 | 71 083 | 57 499 | 43 177 | 68 409 | 70 374 | 41 212 |
| Total provisions | 1 399 051 | 733 191 | 1 167 273 | 964 969 | 172 769 | 169 271 | 968 467 |
| long-term | 64 100 | | | 635 323 | | | 672 151 |
| short-term | 1 334 951 | | | 329 646 | | | 296 316 |

* Other provisions includes provisions for complaints, returns of empty wagons, damages and other provisions.

As of 31 December 2015, after having considered all existing legal analyses and results of negotiations in existing legal disputes and having assessed all potential risks, current developments in legal disputes and in accordance with the inherent level of prudence, management has decided to retain the amount of the non-tax deductible provision to cover potential expenses relating to potential risks for business transactions in the same amount as reported as of 31 December 2014, i.e. CZK 23,704 thousand.

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. As of 31 December 2015, the amount of the provision was calculated at CZK 119,769 thousand using an actuarial model. For details on this model, refer to Note 4.5.

As of 31 December 2012, management of the Company decided to make organisational changes pursuant to the prepared restructuring plan, the main features of

which were communicated within the Company. The future cash outflows associated with the restructuring were estimated at CZK 535,000 thousand in the plan. During the year ending 31 December 2014, this provision was used and specified; it amounted to CZK 180,321 thousand as of 31 December 2014. During the year ending 31 December 2015, the amount of the provision decreased by the use by CZK 59,380 thousand to the balance of CZK 139,687 thousand as of 31 December 2015. These funds will continue to be available to the Company to cover the costs relating to the restructuring in the following reporting period.

During the year, the Company recognised a provision for loss-making transactions. The amount of the provision is determined on the basis of a reasonable estimate as equal to the future liability arising from the loss. The amount includes the difference between the discounted net anticipated income and discounted anticipated expenses. The provision amounts to CZK 525,450 thousand as of 31 December 2014. The value of the provision was subsequently updated, amounting to CZK 579,665 thousand as of 31 December 2015.

In the year ending 31 December 2014, the provision for business risks was decreased by CZK 916,518 thousand primarily due to:

- Conclusion of an agreement on an out-of-court settlement with SŽDC regarding the consumed traction energy during 2009 and settlement of damage due to traffic closures caused by SŽDC. The out-of-court settlement agreement was concluded for the total amount of CZK 375,811 thousand, of which CZK 61,786 thousand relates to the settlement of damage caused by the traffic closures and CZK 314,025 thousand relates to the price of purchased traction energy for 2009.

- Payables arising from these out-of-court settlements were recognised as “Other payables”, divided into short-term and long-term parts; and
- Court ruling dated 15 January 2014 regarding the legal dispute for the damage due to SŽDC’s traffic closures based on which ČD Cargo, a.s., is obliged to settle the payable of CZK 164,152 thousand to SŽDC.

24. Trade Payables

| Year (CZK '000) | Category | Before due date | Past due date (days) | | | | Total past due date | Total | |
|--------------------|------------|-----------------|----------------------|----------|-----------|--------------|---------------------|---------|-----------|
| | | | 31 – 90 | 91 – 180 | 181 – 365 | 365 and more | | | |
| 31 Dec 2015 | Short-term | 2 156 008 | 14 068 | 186 | 72 | 37 | 0 | 14 363 | 2 170 371 |
| 31 Dec 2014 | Short-term | 1 887 159 | 120 197 | 2982 | 93 | 1379 | 0 | 124 651 | 2 011 810 |

Supplier invoices typically mature in 94 days.

25. Other Financial Liabilities

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|----------------|------------------|
| Long-term other financial liabilities | 564 627 | 640 852 |
| Financial derivative instruments | 16 056 | 29 181 |
| Other | 548 571 | 611 671 |
| Short-term other financial liabilities | 412 068 | 443 283 |
| Financial derivative instruments | 43 353 | 94 750 |
| Other | 368 715 | 348 533 |
| Total other financial liabilities | 976 695 | 1 084 135 |

In the year ending 31 December 2015, long-term other financial liabilities primarily include the long-term portion of a payable to SŽDC of CZK 214,584 thousand arising from the concluded out-of-court agreement regarding the dispute about the price of traction energy during 2009 and a long-term portion of a payable which relates to the settlement of damage due to SŽDC’s traffic closures of CZK 42,220 thousand. The amount of CZK 22,799 thousand relates to the settlement of the payable arising from the settlement of damage due to SŽDC’s traffic closures pursuant to the court ruling dated 15 January 2014.

In the year ending 31 December 2014, other financial liabilities to SŽDC amounted to CZK 331,966 thousand and included the long-term portion of a payable arising from the concluded out-of-court agreement. Another long-term liability to SŽDC arising from the settlement of damage due to traffic closures amounted to CZK 77,522 thousand (refer to Note 23 Provisions).

The short-term other financial liability to SŽDC amounted to CZK 129,880 thousand as of 31 December 2015. The increase is attributable to reclassifying the long-term portion to the short-term portion at the date of the first instalment on 30 June 2015.

As of 31 December 2014, short-term other financial liabilities primarily included a short-term portion of a payable to SŽDC of CZK 98,562 thousand. The amount of CZK 43,845 thousand was the short-term portion of the payable arising from the conclusion of the out-of-court agreement regarding the dispute for the price of the consumed traction energy during 2009 and settlement of damage due to SŽDC’s traffic closures. The amount of CZK 54,717 thousand relates to the settlement of the payable arising from the settlement of damage due to SŽDC’s traffic closures pursuant to the court ruling dated 15 January 2014 (refer to Note 23 Provisions).

“Other” additionally includes a liability arising from supplier loans divided into a short-term and long-term portion.

26. Other Liabilities

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|----------------|----------------|
| Other long-term liabilities | 592 653 | 569 727 |
| Received prepayments | 3 298 | 1 257 |
| Payables to employees | 227 406 | 213 519 |
| Social security and health insurance payables | 104 895 | 101 354 |
| Other | 64 793 | 59 153 |
| Total short-term liabilities | 400 392 | 375 283 |
| Total other liabilities | 993 045 | 945 010 |

The line item 'Other long-term liabilities' primarily includes deferred leaseback gains. The line item 'Other' predominantly includes payables arising from VAT and deferred leaseback gains.

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

27. Related Party Transactions

27.1. INCOME GENERATED WITH RELATED PARTIES

| 2015 (CZK '000) | Sale of tangible FA | Sale of inventories | Sale of services | Other income | Financial income | Total |
|--|------------------------|------------------------|---------------------|-----------------|---------------------|------------------|
| České dráhy a.s. | 340 | 108 | 28 393 | 2 341 | 98 | 31 280 |
| ČD – Telematika, a.s. | 0 | 0 | 51 | 0 | 0 | 51 |
| ČD – Informační Systémy, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| DPOV, a.s. | 2 165 | 12 | 5 047 | 612 | 0 | 7 836 |
| ČD travel, s.r.o. | 0 | 0 | 0 | 0 | 0 | 0 |
| Dopravní vzdělávací institut, a.s. | 0 | 0 | 314 | 0 | 0 | 314 |
| Výzkumný Ústav Železniční, a.s. | 0 | 0 | 14 995 | 22 | 0 | 15 017 |
| RAILREKLAM, spol. s r.o. | 0 | 0 | 0 | 0 | 0 | 0 |
| JLV, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Smíchov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Masaryk Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Centrum Holešovice, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| ČD Generalvertretung GmbH | 0 | 0 | 333 149 | 0 | 671 | 333 820 |
| ČD Generalvertretung Wien GmbH | 0 | 0 | 358 | 0 | 11 | 369 |
| Koleje Czeskie Sp. z o.o. | 49 491 | 536 | 30 259 | 30 | 6 990 | 87 306 |
| Generálne zastúpenie ČD Cargo, s.r.o. | 0 | 0 | 53 594 | 0 | 0 | 53 594 |
| ČD Logistics, a.s. | 0 | 0 | 494 531 | 22 | 16 | 494 569 |
| ČD-DUSS Terminal, a.s. | 0 | 0 | 156 | 0 | 0 | 156 |
| Terminal Brno, a.s. | 0 | 0 | 218 | 0 | 0 | 218 |
| Auto Terminal Nymburk, s.r.o. | 0 | 0 | 0 | 0 | 0 | 0 |
| RAILLEX, a.s. | 0 | 0 | 77 765 | 0 | 2 | 77 767 |
| BOHEMIAKOMBI, spol. s r.o. | 0 | 0 | 15 958 | 0 | 0 | 15 958 |
| Ostravská dopravní společnost, a.s. | 0 | 0 | 215 425 | 0 | 0 | 215 425 |
| Total | 51 996 | 656 | 1 270 213 | 3 027 | 7 788 | 1 333 680 |

| 2014 (CZK '000) | Sale of tangible FA | Sale of inventories | Sale of services | Other income | Financial income | Total |
|--|------------------------|------------------------|---------------------|-----------------|---------------------|------------------|
| České dráhy a.s. | 0 | 1 383 | 17 915 | 1 886 | 0 | 21 184 |
| ČD – Telematika, a.s. | 20 | 0 | 311 | 0 | 0 | 331 |
| ČD – Informační Systémy, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| DPOV, a.s. | 0 | 4 | 4 528 | 731 | 0 | 5 263 |
| ČD travel, s.r.o. | 0 | 0 | 0 | 0 | 0 | 0 |
| Dopravní vzdělávací institut, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Výzkumný Ústav Železniční, a.s. | 0 | 0 | 11 462 | 0 | 0 | 11 462 |
| RAILREKLAM, spol. s r.o. | 0 | 0 | 0 | 0 | 0 | 0 |
| JLV, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Smíchov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Masaryk Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Centrum Holešovice, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| ČD Generalvertretung GmbH | 0 | 0 | 274 369 | 0 | 924 | 275 293 |
| ČD Generalvertretung Wien GmbH | 0 | 0 | 558 | 0 | 1 | 559 |
| Koleje Czeskie Sp. z o.o. | 0 | 7 659 | 86 381 | 6 727 | 630 | 101 397 |
| Generálne zastúpenie ČD Cargo, s.r.o. | 0 | 0 | 46 258 | 0 | 60 | 46 318 |
| ČD Logistics, a.s. | 0 | 0 | 554 853 | 0 | 374 | 555 227 |
| ČD-DUSS Terminal, a.s. | 0 | 0 | 137 | 0 | 0 | 137 |
| Terminal Brno, a.s. | 0 | 0 | 167 | 0 | 0 | 167 |
| Auto Terminal Nymburk, s.r.o. | 0 | 0 | 0 | 0 | 0 | 0 |
| RAILLEX, a.s. | 0 | 0 | 79 370 | 21 | 136 | 79 527 |
| BOHEMIAKOMBI, spol. s r.o. | 0 | 0 | 10 595 | 0 | 13 | 10 608 |
| Ostravská dopravní společnost, a.s. | 0 | 0 | 137 548 | 0 | 616 | 138 164 |
| Total | 20 | 9 046 | 1 224 452 | 9 365 | 2 754 | 1 245 637 |

27.2. PURCHASES FROM RELATED PARTIES

| 2015 (CZK '000) | Assets | Material | Services | Other expenses | Fin. expenses | Total |
|---------------------------------------|----------------|----------------|------------------|-------------------|------------------|------------------|
| České dráhy a.s. | 248 505 | 608 488 | 1 011 959 | 7 784 | 0 | 1 876 736 |
| ČD – Telematika, a.s. | 4 174 | 2 025 | 27 097 | 0 | 0 | 33 296 |
| ČD – Informační Systémy, a.s. | 34 372 | 3 422 | 89 245 | 0 | 0 | 127 039 |
| DPOV, a.s. | 72 495 | 852 | 16 173 | 87 | 0 | 89 607 |
| ČD travel, s.r.o. | 0 | 0 | 17 525 | 0 | 0 | 17 525 |
| Dopravní vzdělávací institut, a.s. | 0 | 0 | 16 620 | 0 | 5 | 16 625 |
| Výzkumný Ústav Železniční, a.s. | 1 080 | 0 | 95 | 1 284 | 0 | 2 459 |
| RAILREKLAM, spol. s r.o. | 0 | 0 | 325 | 0 | 0 | 325 |
| JLV, a.s. | 0 | 0 | 1 161 | 0 | 0 | 1 161 |
| Smíchov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Masaryk Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Centrum Holešovice, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| ČD Generalvertretung GmbH | 0 | 0 | 72 371 | 0 | 778 | 73 149 |
| ČD Generalvertretung Wien GmbH | 0 | 0 | 18 478 | 0 | 3 | 18 481 |
| Koleje Czeskie Sp. z o.o. | 47 947 | 0 | 147 611 | 539 | 405 | 196 502 |
| Generálne zastúpenie ČD Cargo, s.r.o. | 0 | 22 | 5 665 | 0 | 28 | 5 715 |
| ČD Logistics, a.s. | 0 | 124 | 5 005 | 0 | 64 | 5 193 |
| ČD-DUSS Terminal, a.s. | 0 | 0 | 587 | 0 | 0 | 587 |
| Terminal Brno, a.s. | 0 | 0 | 13 931 | 0 | 1 | 13 932 |
| Auto Terminal Nymburk, s.r.o. | 0 | 0 | 0 | 0 | 0 | 0 |
| RAILLEX, a.s. | 0 | 0 | 1 060 | 295 | 84 | 1 439 |
| BOHEMIAKOMBI, spol. s r.o. | 0 | 0 | 0 | 0 | 23 | 23 |
| Ostravská dopravní společnost, a.s. | 0 | 0 | 50 211 | 0 | 786 | 50 997 |
| Total | 408 573 | 614 933 | 1 495 119 | 9 989 | 2 177 | 2 530 791 |

| 2014 (CZK '000) | Assets | Material | Services | Other expenses | Fin. expenses | Total |
|---------------------------------------|----------------|----------------|------------------|-------------------|------------------|------------------|
| České dráhy a.s. | 33 297 | 672 434 | 971 024 | 8 593 | 34 | 1 685 382 |
| ČD – Telematika, a.s. | 47 915 | 1 645 | 13 696 | 579 | 0 | 63 835 |
| ČD – Informační Systémy, a.s. | 41 838 | 1 273 | 107 545 | 0 | 0 | 150 656 |
| DPOV, a.s. | 78 233 | 1 432 | 17 586 | 65 | 0 | 97 316 |
| ČD travel, s.r.o. | 0 | 0 | 14 833 | 0 | 0 | 14 833 |
| Dopravní vzdělávací institut, a.s. | 0 | 0 | 17 106 | 0 | 0 | 17 106 |
| Výzkumný Ústav Železniční, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| RAILREKLAM, spol. s r.o. | 0 | 0 | 0 | 0 | 0 | 0 |
| JLV, a.s. | 0 | 0 | 1 156 | 0 | 0 | 1 156 |
| Smíchov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Masaryk Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Centrum Holešovice, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| ČD Generalvertretung GmbH | 0 | 0 | 64 794 | 0 | 191 | 64 985 |
| ČD Generalvertretung Wien GmbH | 0 | 0 | 0 | 0 | 0 | 0 |
| Koleje Czeskie Sp. z o.o. | 0 | 2 406 | 191 261 | 953 | 40 | 194 660 |
| Generálne zastúpenie ČD Cargo, s.r.o. | 0 | 28 | 4 986 | 0 | 1 | 5 015 |
| ČD Logistics, a.s. | 0 | 0 | 8 522 | 0 | 0 | 8 522 |
| ČD-DUSS Terminal, a.s. | 0 | 0 | 2 | 0 | 0 | 2 |
| Terminal Brno, a.s. | 0 | 0 | 13 902 | 0 | 0 | 13 902 |
| Auto Terminal Nymburk, s.r.o. | 0 | 0 | 0 | 0 | 0 | 0 |
| RAILLEX, a.s. | 0 | 0 | 1 387 | 0 | 1 | 1 388 |
| BOHEMIAKOMBI, spol. s r.o. | 0 | 0 | 0 | 2 | 0 | 2 |
| Ostravská dopravní společnost, a.s. | 0 | 0 | 39 147 | 0 | 0 | 39 147 |
| Total | 201 283 | 679 218 | 1 466 947 | 10 192 | 267 | 2 357 907 |

27.3. PURCHASES AND SALES OF FIXED ASSETS AND FINANCIAL ASSETS WITH RELATED PARTIES

Sales

In the year ending 31 December 2015, the Company sold tangible fixed assets to ČD, a.s., DPOV, a.s. and Koleje Czeskie, Sp. z o.o. in the amounts of CZK 340 thousand, CZK 2,165 thousand and CZK 49,491 thousand, respectively.

In the year ending 31 December 2014, the Company sold tangible fixed assets to ČD Telematika, a.s. in the amount of CZK 20 thousand.

Purchases

| Purchases (CZK '000) | Intangible assets 2015 | Property, plant and equipment 2015 | Intangible assets 2014 | Property, plant and equipment 2014 |
|---------------------------------|------------------------|------------------------------------|------------------------|------------------------------------|
| | 2015 | 2015 | 2014 | 2014 |
| ČD, a.s. | 276 | 248 229 | 54 | 33 243 |
| ČD – Telematika a.s. | 674 | 3 500 | 0 | 47 915 |
| ČD – Informační Systémy, a.s. | 34 372 | 0 | 41 439 | 399 |
| Výzkumný Ústav Železniční, a.s. | 0 | 1 080 | 0 | 0 |
| DPOV, a.s. | 0 | 74 495 | 0 | 78 233 |
| Koleje Czeskie Sp. z o.o. | 0 | 47 947 | 0 | 0 |
| Total | 35 322 | 375 251 | 41 493 | 159 790 |

The purchases of assets from ČD, a.s., principally include the purchase of traction vehicles of the line 163 in the amount of CZK 233,000 thousand. Purchases of fixed assets from DPOV, a.s. include purchases of railway vehicles components – performance of significant periodical repairs.

27.4. OUTSTANDING TRADE BALANCES AT THE END OF THE REPORTING PERIOD

| 31 December 2015 (CZK '000) | Receivables | Payables |
|------------------------------------|-------------|----------|
| České dráhy a.s. | 10 803 | 482 674 |
| ČD – Telematika, a.s. | 6 | 6 387 |
| ČD – Informační Systémy, a.s. | 0 | 58 228 |
| DPOV, a.s. | 1 394 | 30 201 |
| ČD travel, s.r.o. | 0 | 6 079 |
| Dopravní vzdělávací institut, a.s. | 0 | 1 345 |
| Výzkumný Ústav Železniční, a.s. | 3 656 | 1 344 |
| RAILREKLAM, spol. s r.o. | 0 | 0 |
| JLV, a.s. | 0 | 0 |
| Smíchov Station Development, a.s. | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 |
| Masaryk Station Development, a.s. | 0 | 0 |
| Centrum Holešovice, a.s. | 0 | 0 |

| | | |
|---------------------------------------|----------------|----------------|
| CD Generalvertretung GmbH | 21 955 | 2 662 |
| CD Generalvertretung Wien GmbH | 0 | 4 481 |
| Koleje Czeskie Sp. z o.o. | 4 723 | 12 040 |
| Generálne zastúpenie ČD Cargo, s.r.o. | 10 518 | 4 |
| ČD Logistics, a.s. | 71 079 | 80 |
| ČD-DUSS Terminal, a.s. | 35 | 11 |
| Terminal Brno, a.s. | 31 | 1 162 |
| Auto Terminal Nymburk, s.r.o. | 0 | 0 |
| RAILLEX, a.s. | 4 194 | 209 |
| BOHEMIKOMBI, spol. s r.o. | 1 854 | 0 |
| Ostravská dopravní společnost, a.s. | 34 873 | 11 095 |
| Total | 165 121 | 618 002 |

| 31 December 2014 (CZK '000) | Receivables | Payables |
|---------------------------------------|----------------|----------------|
| České dráhy a.s. | 4 032 | 203 574 |
| ČD – Telematika, a.s. | 9 | 5 359 |
| ČD – Informační Systémy, a.s. | 0 | 79 050 |
| DPOV, a.s. | 1 293 | 69 597 |
| ČD travel, s.r.o. | 0 | 5 989 |
| Dopravní vzdělávací institut, a.s. | 0 | 2 147 |
| Výzkumný Ústav Železniční, a.s. | 1 474 | 0 |
| RAILREKLAM, spol. s r.o. | 0 | 0 |
| JLV, a.s. | 0 | 131 |
| Smíchov Station Development, a.s. | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 |
| Masaryk Station Development, a.s. | 0 | 0 |
| Centrum Holešovice, a.s. | 0 | 0 |
| CD Generalvertretung GmbH | 21 037 | 2 580 |
| CD Generalvertretung Wien GmbH | 152 | 0 |
| Koleje Czeskie Sp. z o.o.* | 9 236 | 23 142 |
| Generálne zastúpenie ČD Cargo, s.r.o. | 12 231 | 128 |
| ČD Logistics, a.s. | 81 469 | 2 219 |
| ČD-DUSS Terminal, a.s. | 15 | 0 |
| Terminal Brno, a.s. | 13 | 938 |
| Auto Terminal Nymburk, s.r.o. | 0 | 0 |
| RAILLEX, a.s. | 5 012 | 218 |
| BOHEMIKOMBI, spol. s r.o. | 949 | 0 |
| Ostravská dopravní společnost, a.s. | 24 202 | 7 565 |
| Total | 161 124 | 402 637 |

* Receivables reclassified to the loan disclosed under Note 27.5.

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.

27.5. LOANS TO RELATED PARTIES

On 17 December 2014, the Company concluded a loan contract with Koleje Czeskie Sp. Z. o.o. for the payment of the remaining purchase price of Eas 51 and Falls 11 wagons. The principal amounts to CZK 113,585 thousand as of 31 December 2015. The loan will mature as of 31 December 2016.

In the past, ČD Cargo, a.s., concluded a loan contract and contract for the sale of a railway siding with RAILLEX, a.s. (in which ČD Cargo holds 50%). The short-term portion of the outstanding loan including interest amounted to CZK 2,436 thousand as of 31 December 2014. The short-term receivable from the sale of the railway siding including interest amounted to CZK 1,587 thousand. Both items were settled during 2015.

27.6. BONUSES TO KEY MANAGEMENT MEMBERS

Directors and other members of key management received the following bonuses in the reporting period:

| (CZK '000) | 2015 | 2014 |
|------------------------------|---------------|---------------|
| Short-term employee benefits | 14 756 | 18 182 |
| Total | 14 756 | 18 182 |

Members of the statutory, supervisory and initiative bodies were not provided with discounted fares.

Management of the Company has the possibility to use in-kind remuneration in the form of the use of Company cars for private purposes.

27.7. 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 2014 and 2015. The costs for the years ending 31 December 2014 and 2015 are disclosed in Note 7.

The income of the Company predominantly includes sales from the intrastate vehicle transports of CZK 13,203 thousand.

Expenses and income resulting from the transactions conducted with SŽDC for the years ending 31 December 2014 and 2015 were as follows:

| 31 Dec 2015 (CZK '000) | Expenses | Income |
|--|------------------|---------------|
| Operation of the railway route | 2 022 | 0 |
| Use of railway route and allocated capacity of the railway route | 1 494 980 | 0 |
| Other | 112 804 | 26 738 |
| Total | 1 609 806 | 26 738 |

| 31 Dec 2014 (CZK '000) | Expenses | Income |
|--|------------------|---------------|
| Operation of the railway route | 2 320 | 0 |
| Use of railway route and allocated capacity of the railway route | 1 505 001 | 0 |
| Consumed traction electricity | 240 449 | 0 |
| Other | 115 054 | 10 139 |
| Total | 1 862 824 | 10 139 |

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

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|-----------------------|-------------|-------------|
| Receivables | 6 615 | 4 716 |
| Payables | 901 832 | 980 692 |
| Prepayments made | 13 740 | 1 494 |
| Estimated payables | 47 250 | 17 589 |
| Estimated receivables | 1 133 | 3 828 |

27.8. TRANSACTIONS WITH THE ČEZ GROUP

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

| 31 Dec 2015 (CZK '000) | Expenses | Income |
|---|--------------|----------------|
| Railway operation | 235 | 0 |
| Utilisation of the transportation route and allocated capacity of the railway | 1 122 | 0 |
| Other | 6 960 | 422 456 |
| Total | 8 317 | 422 456 |

As of 31 December 2014, the expenses incurred in relation to the ČEZ Group amounted to CZK 6,269 thousand. Income generated by the Company in relation to the ČEZ Group amounted to CZK 509,625 thousand.

In relation to the activities referred to above, the Company records payables to and receivables from the ČEZ Group as follows:

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|-----------------------|-------------|-------------|
| Receivables | 71 893 | 67 126 |
| Payables | 203 | 166 |
| Prepayments provided | 0 | 1 897 |
| Estimated receivables | 47 | 0 |

28. 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 '000) | 31 Dec 2015 | 31 Dec 2014 |
|----------------------------------|----------------|----------------|
| Cash on hand and cash in transit | 1 908 | 1 754 |
| Cash at bank | 862 168 | 678 169 |
| Cash on the cash-pooling account | 3 518 | 4 026 |
| Total | 867 594 | 683 949 |

29. Contracts for Operating Leases

29.1. THE COMPANY AS A LESSOR

The Company acts as a lessor in all operating leases. 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 2015 amounts to CZK 281,493 thousand (2014: CZK 298,179 thousand).

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

30. Contractual Obligations Relating to Expenses

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 1,342,949 thousand, of which CZK 729,037 thousand relates to supplies agreed for 2015 and CZK 326,993 thousand relates to supplies agreed for the following years. The remaining amount of CZK 286,920 thousand was paid as of 31 December 2015. A significant part of the obligations relating to expenses of CZK 1,189,856 thousand include investments in railway vehicles.

31. Contingent Liabilities and Contingent Assets

31.1. BANK GUARANTEES ISSUED

Bank guarantees as of 31 December 2015 issued by Komerční banka, a.s. from the liability limit of CZK 50 million.

■ List of active bank guarantees provided by ČD Cargo, a.s. as of 31 December 2015

| In favour of | Type of guarantee | Amount | Currency | Until | Reason for the issuance of 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 2016 | 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 670/19, Karlín, 186 00 Prague 8 Corporate ID 27626130 | Lease guarantee | 16 517 056 | CZK | 30 June 2016 | 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. |

31.2. RECEIVED SECUREMENT FROM ORDERS

| Name of the order | Applicant – name | Required securements | Securement paid on |
|--|--|----------------------|--------------------|
| Supplies of brake pads | "Association of suppliers: Euro-Metall Kft, Eisenwerk Arnstadt GmbH" | CZK 7,000,000.00 | 18 Nov 2015 |
| Scrapping of 8 wagons from MU Choťovice-Převýšov | PV RECYKLING s.r.o. | CZK 288,415.50 | 25 Sept 2015 |

32. Financial Instruments

32.1. 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.

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).

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

The Board of Directors and the Supervisory Board 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.

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

| Financial assets (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|------------------|------------------|
| Cash and bank accounts | 864 077 | 679 923 |
| Financial derivative instruments used in hedge accounting | 824 | 0 |
| Other financial derivative instruments | 61 | 0 |
| Loans and receivables | 1 703 234 | 1 795 893 |
| Total | 2 568 196 | 2 475 816 |

| Financial liabilities (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|------------------|------------------|
| Financial derivative instruments used in hedge accounting | 53 978 | 101 645 |
| Other financial derivative instruments | 5 431 | 22 285 |
| Trade payables, finance leases measured at amortised cost | 7 706 316 | 8 008 019 |
| Total | 7 765 725 | 8 131 949 |

Other financial derivative instruments are classified as financial assets/liabilities at fair value reported in profit or loss.

Income from individual categories of financial assets is as follows:

| Category of financial assets (CZK '000) | 2015 | 2014 | Reported in the income statement line |
|---|--------------|--------------|---------------------------------------|
| Interest on cash in bank accounts | 7 205 | 6 957 | Other gains |
| Total | 7 205 | 6 957 | |

Impairment losses on financial assets are presented in the Notes 'Trade receivables' (Note 18) and "Other financial assets" (Note 19). 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 Company, and 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.

32.5. CURRENCY RISK MANAGEMENT

The Company undertakes transactions denominated in foreign currencies; exposures to exchange rate fluctuations consequently arise. These transactions predominantly include income from international transportation of goods and received loans. The Company seeks to maintain the share of long-term loans and borrowings in foreign currency at the maximum level of 70%.

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 2015 (CZK '000) | EUR | USD | Other | Total |
|------------------------|-----------|--------|-------|-----------|
| Financial assets | 1 380 153 | 3 146 | 53 | 1 383 352 |
| Financial liabilities | 521 838 | 10 904 | 3 005 | 535 747 |

| 31 Dec 2014 (CZK '000) | EUR | USD | Other | Total |
|------------------------|-----------|-------|-------|-----------|
| Financial assets | 1 465 420 | 2 788 | 133 | 1 468 341 |
| Financial liabilities | 480 377 | 1 | 2 590 | 482 968 |

32.5.1. 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; and
- Changes in the fair value of concluded financial derivatives.

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

| (CZK '000) | 2015 | 2014 |
|---|----------------|----------------|
| Translation of items denominated in foreign currencies at the end of the period | -31 320 | -35 542 |
| Change in the fair value of derivatives at the end of the period | -12 931 | 0 |
| Total impact on the profit for the period | -44 251 | -35 542 |
| Change in the fair value of derivatives at the end of the period | 31 941 | 54 961 |
| Total impact on other comprehensive income | 31 941 | 54 961 |

32.5.2. CURRENCY FORWARDS AND OPTIONS

In according with its principles, the Company concludes currency forwards and options to cover received payments denominated in foreign currencies.

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

■ Foreign currency forwards

| Sale (CZK '000) | Average foreign currency rate | Foreign currency | Nominal value | Fair value |
|-----------------|-------------------------------|------------------|---------------|------------|
| 31 Dec 2015 | 26,950 | EUR | 24 000 | 548 |
| 31 Dec 2014 | 27,182 | EUR | 55 000 | -31 271 |

■ Foreign currency options – collar

| Sale (CZK '000) | Average foreign currency rate | Foreign currency | Nominal value | Fair value |
|--------------------|----------------------------------|---------------------|---------------|------------|
| 31 Dec 2015 | 26,50 – 27,15 | EUR | 12 000 | -518 |
| 31 Dec 2014 | - | - | - | - |

The Group concluded no outstanding foreign currency forwards and options for the purchase of foreign currency in the years ending 31 December 2014 and 2015.

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 rate; and
- 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 '000) | 2015 | 2014 |
|--|---------------|----------------|
| Interest from loans and lease with variable rate for the period | -46 400 | -103 594 |
| Change in the present value of long-term provisions at the end of the period | 63 230 | 63 462 |
| Change in the fair value of derivatives at the end of the period | 10 565 | 26 760 |
| Total impact on the profit for the period | 27 395 | -13 372 |
| Change in the fair value of derivatives at the end of the period | 12 477 | 20 846 |
| Total impact on other comprehensive income | 12 477 | 20 846 |

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 using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

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

■ IRS

| 31 Dec 2015 | Average contracted fixed interest rate | Principal in CZK thousand | Fair value of assets (liabilities) in CZK thousand |
|------------------|---|------------------------------|---|
| Less than 1 year | 3,265 % | 106 156 | -10 433 |
| 1 to 5 years | 3,265 % | 303 793 | -13 094 |
| 5 years and more | 3,265 % | 12 560 | -65 |
| Total | | | -23 592 |

| 31 Dec 2014 | Average contracted fixed interest rate | Principal in CZK thousand | Fair value of assets (liabilities) in CZK thousand |
|------------------|---|------------------------------|---|
| Less than 1 year | 3,265 % | 102 938 | -13 158 |
| 1 to 5 years | 3,265 % | 327 521 | -22 221 |
| 5 years and more | 3,265 % | 95 018 | -1 387 |
| Total | | | -36 766 |

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.

■ Hedging of the Bonds Rate

In the year ending 31 December 2015, the Company made no hedging of bond rates.

| 31 Dec 2014 | Average contracted fixed interest rate | Principal in CZK thousand | Fair value of assets (liabilities) in CZK thousand |
|------------------|---|------------------------------|---|
| Less than 1 year | 2,94 % | 1 000 000 | -13 466 |
| Total | | | -13 466 |

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. These are trading derivatives.

| 31 Dec 2015 | Hedged range | Principal in CZK thousand | Fair value of assets (liabilities) in CZK thousand |
|------------------|-----------------|------------------------------|---|
| Less than 1 year | 1,13 % – 3,13 % | 94 059 | -2 534 |
| 1 to 5 years | 1,13 % – 3,13 % | 384 576 | -2 896 |
| 5 years and more | 1,13 % – 3,13 % | 0 | 0 |
| Total | | | -5 430 |

| 31 Dec 2014 | Hedged range | Principal in CZK thousand | Fair value of assets (liabilities) in CZK thousand |
|------------------|-----------------|------------------------------|---|
| Less than 1 year | 1,13 % – 3,13 % | 88 337 | -3 246 |
| 1 to 5 years | 1,13 % – 3,13 % | 300 854 | -5 283 |
| 5 years and more | 1,13 % – 3,13 % | 64 233 | -291 |
| Total | | | -8 820 |

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.

32.7. 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; and
- 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; and
- Changes in prices of purchases of unhedged use of commodities.

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 '000) | 2015 | 2014 |
|--|----------------|----------------|
| Costs of oil consumption for the period | -43 334 | -50 572 |
| Change in the fair value of derivatives at the end of the period | 0 | 0 |
| Total impact on the profit for the period | -43 334 | -50 572 |
| Change in the fair value of derivatives at the end of the period | 7 694 | 10 684 |
| Total impact on other comprehensive income | 7 694 | 10 684 |

32.7.2. Commodity Derivatives

The Parent Company used a commodity swap to hedge the price of oil.

The table shows outstanding commodity contracts for the purchase of oil as of 31 December 2015:

| Purchase of oil (CZK '000) | Hedged average price (USD/mt) | Volume of contracts (mt) | Fair value (CZK thousand) |
|-------------------------------|----------------------------------|--------------------------|------------------------------|
| 31 Dec 2015 | 12 713,00 | 8 400 | -29 592 |
| 31 Dec 2014 | 16 751,43 | 8 400 | -33 609 |

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.

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 carrying amount of financial assets 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 credit quality of receivables that are not past their due dates or otherwise impaired is good and corresponds to the carrying value.

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 Company assesses the available funds and cash flows and liquidity development. Pursuant to these assessments, the Company decides on an optimal use of operating financial sources, consisting primarily of overdraft loans and the cash-pool limit. In order to strengthen its financial stability, the Company secures long-term financial sources on a continuous basis. As of 31 December 2015, the Company issued bonds in the aggregate volume of CZK 2,158.3 million. In addition, the Group has a promissory notes programme available in the aggregate amount of CZK 1.5 billion and has contracted the possibility of drawing funds of up to CZK 400 million beyond the cashpooling limit from the Parent Company. During the years ending 31 December 2014 and 2015, the promissory notes programme and drawing beyond the cashpooling 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 2015 (CZK '000) | Less than 1 month | 1 – 3 months | 3 months to 1 year | 1 year – 5 years | 5 years and more | Total |
|------------------------------------|----------------------|------------------|-----------------------|---------------------|---------------------|------------------|
| Non-interest bearing | 1 010 021 | 956 963 | 615 456 | 564 561 | 65 | 3 147 066 |
| Finance lease liabilities | 45 021 | 90 044 | 405 242 | 1 732 203 | 577 227 | 2 849 737 |
| Variable interest rate instruments | 0 | 0 | 671 831 | 0 | 0 | 671 831 |
| Fixed interest rate instruments | 0 | 0 | 550 586 | 1 060 151 | 0 | 1 610 737 |
| Total | 1 055 042 | 1 047 007 | 2 243 115 | 3 356 915 | 577 292 | 8 279 371 |

| 31 Dec 2014 (CZK '000) | Less than 1 month | 1 – 3 months | 3 months to 1 year | 1 year – 5 years | 5 years and more | Total |
|------------------------------------|----------------------|-----------------|-----------------------|---------------------|---------------------|------------------|
| Non-interest bearing | 1 242 956 | 887 969 | 340 625 | 708 638 | 68 | 3 180 256 |
| Finance lease liabilities | 46 014 | 91 984 | 409 245 | 2 005 825 | 845 186 | 3 398 254 |
| Variable interest rate instruments | 0 | 0 | 1 065 735 | 672 707 | 0 | 1 738 442 |
| Fixed interest rate instruments | 0 | 0 | 19 694 | 519 722 | 0 | 539 416 |
| Total | 1 288 970 | 979 953 | 1 835 299 | 3 906 892 | 845 254 | 8 856 368 |

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 2015 (CZK '000) | Less than 1 month | 1 – 3 months | 3 months to 1 year | 1 year – 5 years | 5 years and more | Total |
|---------------------------|----------------------|-----------------|-----------------------|---------------------|---------------------|------------------|
| Non-interest bearing | 1 373 651 | 810 800 | 382 294 | 1 450 | 0 | 2 568 195 |
| Total | 1 373 651 | 810 800 | 382 294 | 1 450 | 0 | 2 568 195 |

| 31 Dec 2014 (CZK '000) | Less than 1 month | 1 – 3 months | 3 months to 1 year | 1 year – 5 years | 5 years and more | Total |
|---------------------------------|----------------------|-----------------|-----------------------|---------------------|---------------------|------------------|
| Non-interest bearing | 1 844 194 | 323 223 | 69 846 | 0 | 0 | 2 237 263 |
| Fixed interest rate instruments | 0 | 0 | 0 | 238 553 | 0 | 238 553 |
| Total | 1 844 194 | 323 223 | 69 846 | 238 553 | 0 | 2 475 816 |

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 '000) | 31 Dec 2015 | 31 Dec 2014 |
|------------------------------------|-------------|-------------|
| Cashpool: | | |
| loan facility at | 600 000 | 600 000 |
| balance at | 600 000 | 600 000 |
| Overdraft loans: | | |
| loan facility at | 1 200 000 | 1 200 000 |
| balance at | 1 200 000 | 1 200 000 |
| Bill of exchange programme: | | |
| loan facility at | 1 500 000 | 1 500 000 |
| balance at | 1 500 000 | 1 500 000 |

32.10. STRATEGY FOR THE GROUP'S FUNDING IN SUBSEQUENT YEARS

32.10.1. Finance Leases

In 2015, a new finance lease was concluded with Koleje Czeskie in the amount of CZK 83,114 thousand. In view of the planned investments, the Parent Company is anticipated to continue utilising finance leases in the future.

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 1.2 billion 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 million. The stratification of the lending to several financing entities results in the risk of the termination of the funding being sufficiently diversified. The subsidiary ČD Logistics a.s. has also a limit of CZK 10 thousand in the form of an overdraft loan.

32.10.3. Promissory Note Programme

The Group has the possibility to use the approved promissory note programme if needed. This programme is currently not used.

32.10.4. Possibility of a Loan Being Provided by ČD, a.s.

The Company has contracted the possibility of drawing funds of up to CZK 400 million from the Parent Company beyond the cashpooling limit. During the years ending 31 December 2014 and 2015, 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 Company'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 billion. In 2012, another two tranches as part of the second issue of bonds were placed with the total nominal value of CZK 500 million. 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. Funding in the form of bonds increases the liquidity and financial stability of the Company. In 2016, the Parent Company anticipates refinancing the maturing bonds through a new placement of bonds with the same nominal value.

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. 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.

The fair value of the lease as of 31 December 2015 amounts to CZK 2,845,511 thousand. 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 2015 amounts to CZK 2,195,069 thousand. The fair value of bonds is recalculated based on the up-to-date issue rate communicated by individual banks.

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); and
- 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 2015, and 31 December 2014 are included in Level 2.

33. Post Balance Sheet Events

No events occurred subsequent to the balance sheet date that would have a material impact on the financial statements.

34. Approval of the Financial Statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 30 March 2016.

16

Consolidated Financial Statements (IFRS)

Consolidated Financial Statements for the
Year Ended 31 December 2015

Prepared under IFRS as adopted by the EU

■ STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2015

| (CZK '000) | | 31 Dec 2015 | 31 Dec 2014 |
|--|----|-------------------|-------------------|
| Property, plant and equipment | 14 | 14 690 499 | 14 622 323 |
| Intangible assets | 15 | 321 627 | 328 353 |
| Investments in subsidiaries and associates | 16 | 39 984 | 40 484 |
| Deferred tax asset | 13 | 23 186 | 231 |
| Other financial assets | 19 | 1 450 | 3 595 |
| Other assets | 20 | 567 | 53 296 |
| Total non-current assets | | 15 077 313 | 15 048 282 |
| Inventories | 17 | 129 995 | 121 298 |
| Trade receivables | 18 | 1 694 801 | 1 633 421 |
| Tax receivables | 13 | 23 001 | 60 |
| Other financial assets | 19 | 17 446 | 19 361 |
| Other assets | 20 | 328 243 | 192 231 |
| Cash and cash equivalents | 28 | 961 567 | 839 878 |
| Total current assets | | 3 155 053 | 2 806 249 |
| TOTAL ASSETS | | 18 232 366 | 17 854 531 |
| Share capital | 21 | 8 494 000 | 8 494 000 |
| Reserve and other funds | 21 | 291 671 | 215 340 |
| Accumulated loss | | -1 765 332 | -2 245 195 |
| Equity attributable to owners of the Company | | 7 020 339 | 6 464 145 |
| Non-controlling interests | | 37 652 | 36 489 |
| Total equity | | 7 057 991 | 6 500 634 |
| Loans and borrowings | 22 | 3 414 466 | 4 036 070 |
| Deferred tax liability | 13 | 826 497 | 659 160 |
| Provisions | 23 | 672 151 | 635 323 |
| Other financial liabilities | 25 | 564 784 | 641 241 |
| Other liabilities | 26 | 600 738 | 578 151 |
| Total non-current payables | | 6 078 636 | 6 549 945 |
| Trade payables | 24 | 2 172 679 | 2 007 959 |
| Loans and borrowings | 22 | 1 674 813 | 1 524 423 |
| Tax payables | 13 | 2 678 | 73 981 |
| Provisions | 23 | 302 778 | 348 372 |
| Other financial payables | 25 | 412 297 | 450 407 |
| Other payables | 26 | 530 494 | 398 810 |
| Total current payables | | 5 095 739 | 4 803 952 |
| TOTAL LIABILITIES | | 18 232 366 | 17 854 531 |

■ STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2015

| (CZK '000) | | Year ending 31 Dec 2015 | Year ending 31 Dec 2014 |
|---|----|----------------------------|----------------------------|
| CONTINUING OPERATIONS | | | |
| Revenue from principal operations | 5 | 12 062 992 | 12 352 488 |
| Other operating income | 6 | 604 086 | 491 343 |
| Purchased consumables and services | 7 | -6 353 091 | -6 438 350 |
| Employee benefit costs | 8 | -3 977 738 | -3 808 541 |
| Depreciation and amortisation | 9 | -1 155 409 | -994 647 |
| Other operating losses | 10 | -184 873 | -34 044 |
| Profit before interest and tax | | 995 967 | 1 568 249 |
| Financial expenses | 11 | -261 662 | -281 854 |
| Other gains (losses) | 12 | -48 209 | -28 977 |
| Share in the profit of associates and joint ventures | 16 | 7 406 | 2 214 |
| Profit before tax | | 693 502 | 1 259 632 |
| Income tax expense | 13 | -171 283 | -330 061 |
| Profit for the period from continuing operations | | 522 219 | 929 571 |
| Profit for the period | | 522 219 | 929 571 |
| Attributable to equity holders of the Parent Company | | 519 753 | 925 990 |
| Attributable to non-controlling interests | | 2 466 | 3 581 |

■ STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

| (CZK '000) | Year ending 31 Dec 2015 | Year ending 31 Dec 2014 |
|---|----------------------------|----------------------------|
| Profit for the year | 522 219 | 929 571 |
| Foreign currency translation reserve | -2 836 | -13 936 |
| Cash flow hedging | 48 490 | 55 777 |
| Relating deferred income tax | -9 213 | -10 598 |
| Other comprehensive income (loss) for the year | 36 441 | 31 243 |
| Total comprehensive income (loss) for the year | 558 660 | 960 814 |
| Attributable to equity holders of the Parent Company | 556 194 | 957 233 |
| Attributable to non-controlling interests | 2 466 | 3 581 |

■ STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

| (CZK '000) | Share capital | Reserve and other funds | Accumulated loss | Equity attributable to equity holders of the Parent Company | Non-controlling interests | Total equity |
|--|------------------|----------------------------|---------------------|--|------------------------------|------------------|
| Balance at 31 December 2013 | 8 494 000 | 157 261 | -3 151 117 | 5 500 144 | 39 676 | 5 539 820 |
| Cash flows hedging | | 55 777 | | 55 777 | | 55 777 |
| Relating deferred income tax | | -10 598 | | -10 598 | | -10 598 |
| Profit for the year | | | 925 990 | 925 990 | 3 581 | 929 571 |
| Allocation to the reserve fund | | 26 836 | -26 275 | 561 | -561 | 0 |
| Foreign currency translation fund | | -13 936 | | -13 936 | | -13 936 |
| Impacts of the change in the consolidation group | | | 6 207 | 6 207 | -6 207 | 0 |
| Balance at 31 December 2014 | 8 494 000 | 215 340 | -2 245 195 | 6 464 145 | 36 489 | 6 500 634 |
| Cash flows hedging | | 48 490 | | 48 490 | | 48 490 |
| Relating deferred income tax | | -9 213 | | -9 213 | | -9 213 |
| Profit for the year | | | 519 753 | 519 753 | 2 466 | 522 219 |
| Allocation to the reserve fund | | 39 890 | -39 890 | 0 | | 0 |
| Foreign currency translation fund | | -2 836 | | -2 836 | | -2 836 |
| Payment of dividends | | | | 0 | -1 303 | -1 303 |
| Balance at 31 December 2015 | 8 494 000 | 291 671 | -1 765 332 | 7 020 339 | 37 652 | 7 057 991 |

■ CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

| (CZK '000) | Year ending 31 Dec 2015 | Year ending 31 Dec 2014 |
|--|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit (loss) for the year before tax | 693 502 | 1 259 632 |
| Financial expenses | 261 528 | 280 373 |
| Profit from the sale and disposal of non-current assets | -42 588 | -12 164 |
| Depreciation and amortisation of non-current assets | 1 155 409 | 994 647 |
| Impairment (increase in the value) of non-current assets | -9 320 | -67 422 |
| Impairment of trade receivables | 20 827 | 74 090 |
| Foreign exchange rate (gains) losses | -16 416 | -14 376 |
| Other | 78 358 | 46 748 |
| Cash flow from operating activities before changes in working capital | 2 141 300 | 2 561 528 |
| Decrease (increase) in trade receivables | -19 943 | 85 113 |
| Decrease (increase) in inventories | -14 365 | -4 444 |
| Decrease (increase) in other assets | -125 669 | 91 265 |
| Increase (decrease) in trade payables | 39 919 | -182 686 |
| Increase (decrease) in provisions | -9 370 | -426 311 |
| Increase (decrease) in other payables | 134 700 | 403 785 |
| Total changes in working capital | 5 272 | -33 278 |
| Cash flows from operating activities | 2 146 572 | 2 528 250 |
| Interest paid | -250 899 | -258 319 |
| Income tax paid | -117 331 | -109 004 |
| Net cash flow from operating activities | 1 778 342 | 2 160 927 |
| CASH FLOWS FROM INVESTMENT ACTIVITIES | | |
| Payments for property, plant and equipment | -987 893 | -690 111 |
| Proceeds from the sale of property, plant and equipment | 25 508 | 11 101 |
| Costs of acquisition of intangible assets | -104 540 | -120 363 |
| Received interest | 7 517 | 2 108 |
| Received grants for the purchase of assets | 57 091 | 23 920 |
| Repayments of loans from related parties | 4 023 | 5 792 |
| Net cash flows (used in) from investment activities | -998 294 | -767 553 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Use of loans and borrowings | 1 065 478 | 739 329 |
| Repayments of loans and borrowings | -1 724 345 | -1 877 860 |
| Net cash flow from financing activities | -658 867 | -1 138 531 |
| Net increase in cash and cash equivalents | 121 181 | 254 843 |
| Cash and cash equivalents at the beginning of the reporting period | 843 904 | 589 061 |
| Cash and cash equivalents at the end of the reporting period | 965 085 | 843 904 |

1. General Information

1.1. GENERAL INFORMATION

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

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

As of 31 December 2015, 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.

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 2015. The reporting period is the calendar year, i.e. from 1 January 2015 to 31 December 2015.

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; and
- Transit.

Pursuant to 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; and
- Transportation of other non-classified commodities.

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

1.3. 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;
- Operations Director division; and
- 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 Parent 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. 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 is 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 Parent Company's Bodies as of 31 December 2015:

Board of Directors

- Chairman: Ivan Bednárik
- Member: Zdeněk Škvařil
- Member: Bohumil Rampula

Dozorčí rada

- Chairman: Pavel Krtek
- Member: Ludvík Urban
- Member: Jan Kasal
- Member: Jindřich Noha
- Member: Radek Nikola
- Member: Jan Hart
- Member: František Bureš

On 3 February 2015, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., acting in the capacity of the general meeting, appointed Jan Hartl a member of the Parent Company's Supervisory Board with immediate effect.

On 28 April 2015, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., acting in the capacity of the general meeting, appointed František Bureš a member of the Parent Company's Supervisory Board with immediate effect.

Audit Committee

- Chairman: Oldřich Vojříš
- Member: Miroslav Zámečník
- Member: Libor Joukl

At the meeting of the Audit Committee held on 27 February 2015, Oldřich Vojtíš was appointed Chairman of the Audit Committee

1.5. DEFINITION OF THE CONSOLIDATION GROUP

1.5.1. Entities Included in the Consolidation

| 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 am Main, Germany | 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, 619 00 | 28295374 | 66.93 | Control |
| ČD-DUSS Terminál, a.s. | Lovosice, Lukavecká 1189, 410 02 | 27316106 | 51.00 | Control |
| ČD Logistics, a.s. | Prague 1, Nové Město, Opletalova 1284/37, 110 00 | 27906931 | 78.00 | Control |
| RAILLEX, a.s. | Prague 5, Hlubočepy, Trnkovo náměstí 3/ 1112, 152 00 | 27560589 | 50.00 | Significant |
| BOHEMIAKOMBI, spol. s r.o. | Prague 1, Opletalova 6, 110 00 | 45270589 | 30.00 | Significant |
| Ostravská dopravní společnost, a.s. | Ostrava, Přívóz, U Tiskárny 616/9, 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 as adopted by the European Union (IFRS). The separate and consolidated financial statements under IFRS are prepared on a voluntary basis.

The separate financial statement of ČD Cargo, a.s., prepared under Czech Accounting Standards are the statutory financial statements.

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

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.

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). Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its 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 into 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 Payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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 that are present ownership interests of third parties and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in 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 made 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.

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.

2.8. FOREIGN CURRENCIES

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

Transactions denominated in foreign currencies are recorded at the ruling fixed exchange rate announced by the Czech National Bank. If the ruling exchange rate does not significantly change over time, the Group uses the foreign exchange rate promulgated as of the first day of the period for a longer period of time – 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.

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.

In the Group, 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.

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

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 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.

Wagons and traction vehicles without components are depreciated to the estimated residual value. 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

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. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each 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.

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.

2.18.1. Restructuring Provision

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

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 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" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

2.19.1. Effective Interest Method

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

Income and expenses are recognised on an effective interest basis for debt instruments other than those financial assets and liabilities classified as at FVTPL.

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 Assets

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

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have

to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

2.19.7. Equity Instruments

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

2.19.8. Financial 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.

In this category, the Group reports derivatives that are not effective hedging instruments.

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 Liabilities

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

2.19.11. 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 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.

2.19.13. 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. Financial Derivatives Held for Trading

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

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

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

3. Adoption of New and Revised International Financial Reporting Standards

3.1. STANDARDS AND INTERPRETATIONS EFFECTIVE FOR ANNUAL PERIODS ENDED 31 DECEMBER 2015

During the year ending 31 December 2015, the following standards, revised standards and interpretations took effect:

| Amended, new and revised standards and interpretations | Effective for annual periods beginning on or after |
|--|--|
| Improvements to IFRSs – cycle 2011 – 2013 (published in December 2013) | 1 January 2015 |
| IFRIC 21 – Levies | 17 June 2014 |

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

3.2. STANDARDS AND INTERPRETATIONS USED BEFORE THEIR EFFECTIVE DATES

The Group used no standards or interpretations before their effective dates.

3.3. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

At the balance sheet date, the following standards and interpretations were issued but not yet effective and the Group did not adopt them in advance of their effective dates.

| Amended, new and revised standards and interpretations | Effective for annual periods beginning on or after |
|--|--|
| IFRS 9 – Financial Instruments (2014) | 1 January 2018 |
| IFRS 10, IAS 28 – Amendments 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 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 |
| IFRS 14 – Regulatory Deferral Accounts | 1 January 2016 |
| IFRS 15 – Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 16 – Leases | 1 January 2019 |
| IAS 1 – Amendment to IAS 1 Disclosure Initiative | 1 January 2016 |
| 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 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 February 2015 |
| 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 February 2015 |
| Improvements to IFRSs – cycle 2012 – 2014 (published in September 2014) | 1 January 2016 |

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 Parent Company in the following periods, except for IFRS 9 and IFRS 15 where the Parent Company anticipates increased disclosure requirements. With respect to IFRS 16, the Parent Company anticipates the need to disclose a significant number of concluded lease agreements in the balance sheet. Given that this standard was approved on 13 January 2016, the Parent Company has not yet undertaken any analysis making it possible to quantify this impact.

3.4. STANDARDS AND INTERPRETATIONS THAT ARE ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARD BOARD (IASB) 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 9 – Financial Instruments (2014) | 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 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 14 – Regulatory Deferral Accounts | 1 January 2016 |
| IFRS 15 – Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 16 – Leases | 1 January 2019 |
| 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 |

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

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

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

4.1. USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

The Group reviews the estimated useful lives of 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. The determination of the recoverable value of these assets depends on the estimate of their future realisation.

4.6. PROVISION FOR EMPLOYEE BENEFITS

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.

In calculating the provision, the Group 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.

4.7. PROVISIONS FOR LOSS-MAKING TRANSACTIONS

In the event of a loss-making transaction, the amount of the provision is determined on the basis of a reasonable estimate as equal to the future liability arising from the loss. The amount includes the difference between the discounted net anticipated income and discounted anticipated expenses.

4.8. RESTRUCTURING PLAN

In 2012, management of the Parent Company undertook a series of measures designed to strengthen the liquidity of the Parent Company in the short-term and create conditions for achieving more favourable economic results in the medium-term and consequently ensure the stability of the Parent Company in the following years. The implemented measures have served as a basis for preparing a medium-term business plan of the Parent Company. The restructuring plan continues to be effective.

5. Revenue from Principal Operations

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

| (CZK '000) | 2015 | 2014 |
|--|-------------------|-------------------|
| Revenue from freight transportation: | 11 274 765 | 11 699 082 |
| Revenue from freight transportation – local | 4 402 050 | 4 292 864 |
| Revenue from freight transportation – foreign | 6 872 715 | 7 406 218 |
| Other revenue from freight transportation | 557 538 | 508 740 |
| Other revenue from freight transportation – local | 329 503 | 302 219 |
| Other revenue from freight transportation – foreign | 228 035 | 206 521 |
| Other revenue related to transportation | 230 689 | 144 666 |
| Total revenue from principal operations – continuing operations | 12 062 992 | 12 352 488 |

Other revenue from freight transportation predominantly includes the revenue from freight transportation from other transporters and owners of railways and revenue from other transportation.

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.;
- EP Cargo, a.s.; and
- Rail Cargo Logistics – Czech Republic, s.r.o.

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

Railway transportation companies (national transporters)

- Železničná spoločnosť Cargo Slovakia, a.s.;
- DB Schenker Rail Deutschland AG;
- Rail Cargo Austria AG; and
- PKP Cargo S.A.

Other companies

- Maersk Line A/S;
- STVA S.A.;
- METRANS, a.s.; and
- BLG AutoRail GmbH.

6. Other Operating Income

| (CZK '000) | 2015 | 2014 |
|---|----------------|----------------|
| Gain from disposal of property, plant and equipment and investment property | 42 588 | 12 235 |
| Gain from the sale of inventories | 6 782 | 17 516 |
| Rental income | 475 298 | 342 172 |
| Compensations for deficits and damage | 48 406 | 99 425 |
| Other | 31 012 | 19 995 |
| Total other operating income – continuing operations | 604 086 | 491 343 |

Other operating income predominantly includes income from contractual penalties and default interest.

7. Purchased Consumables and Services

| (CZK '000) | 2015 | 2014 |
|---|-------------------|-------------------|
| Traction costs | -1 361 814 | -1 648 800 |
| Traction fuel (diesel) | -470 251 | -506 655 |
| Traction electricity | -891 563 | -1 142 145 |
| Payment for the use of railway route | -1 497 320 | -1 516 611 |
| Other purchased consumables and services | -3 493 957 | -3 272 939 |
| Consumed material | -279 113 | -262 832 |
| Consumed other energy | -93 687 | -95 821 |
| Consumed fuel | -9 916 | -11 700 |
| Repairs and maintenance | -287 526 | -233 942 |
| Travel costs | -36 435 | -35 664 |
| Telecommunication, data and postal services | -54 494 | -55 419 |
| Other rental | -211 330 | -191 759 |
| Rental for rail vehicles | -651 050 | -708 364 |
| Transportation charges | -1 329 905 | -1 114 660 |
| Services associated with the use of buildings | -42 121 | -38 984 |
| Operational cleaning of rail vehicles | -2 366 | -5 224 |
| Border area services | -185 417 | -181 905 |
| Advertising and promotion costs | -13 191 | -12 202 |
| Leases | -4 487 | 1 279 |
| Other services | -292 919 | -325 742 |
| Total purchased consumables and services – continuing operations | -6 353 091 | -6 438 350 |

Traction electricity in the year ending 31 December 2015 includes traction energy purchased from České dráhy, a.s., in the amount of CZK 891,563 thousand.

Traction electricity in the year ending 31 December 2014 included consumed traction energy of the Parent Company purchased from České dráhy, a.s. in the amount of CZK 933,105 thousand. Consumed energy for the year ending 31 December 2014 additionally included the costs of CZK 209,039 thousand pursuant to a concluded out-of-court agreement with SŽDC regarding the dispute for the price of consumed traction energy for 2009.

Other services predominantly include the costs of education, IT, healthcare, advisory, fire protection and security and costs of commissions paid for cross-border representation.

8. Employee Benefit Costs

| (CZK '000) | 2015 | 2014 |
|--|-------------------|-------------------|
| Payroll costs | -2 771 760 | -2 651 989 |
| Severance pay | -45 081 | -30 113 |
| Statutory social security and health insurance | -907 079 | -878 199 |
| Benefits resulting from the collective agreement | -50 756 | -44 793 |
| Statutory social costs | -167 247 | -166 855 |
| Other employee benefit costs | -35 815 | -36 592 |
| Total employees benefit costs – continuing operations | -3 977 738 | -3 808 541 |

9. Depreciation and Amortisation

| (CZK '000) | 2015 | 2014 |
|--|-------------------|-----------------|
| Depreciation of property, plant and equipment | -1 101 185 | -939 052 |
| Amortisation of intangible assets | -54 224 | -55 595 |
| Total depreciation and amortisation – continuing operations | -1 155 409 | -994 647 |

10. Other Operating Income (Losses)

| (CZK '000) | 2015 | 2014 |
|--|-----------------|----------------|
| Change in provisions | 4 345 | 446 332 |
| Losses from impaired receivables (change in balance) | -5 997 | -27 403 |
| Change in allowances for property, plant and equipment (change in balance) | 10 190 | 71 426 |
| Change in provisions against inventories | -3 864 | 0 |
| Costs of contractual fines and default interest | -13 101 | -95 384 |
| Taxes and fees | -7 510 | -4 782 |
| Other operating expenses | -168 936 | -424 233 |
| Total other operating profit (loss) – continuing operations | -184 873 | -34 044 |

In the year ending 31 December 2015, other operating expenses principally include costs of the compensation for damage and insurance costs of CZK 153,565 thousand.

In the year ending 31 December 2014, other operating expenses included the expenses from written-off receivables and expenses from the agreement on an out-of-court settlement with SŽDC regarding the dispute for the price of consumed traction energy during 2009 and settlement of damage due to traffic closures caused by SŽDC. The expenses arising from the out-of-court settlement with SŽDC amounted to CZK 59,835 thousand. The principal item of operating expenses were expenses for

the settlement of a payable arising from the court ruling dated 15 January 2014 regarding the dispute for damage from traffic closures caused by SŽDC. These expenses amounted to CZK 127,184 thousand.

In the year ending 31 December 2014, other operating expenses additionally included damages of CZK 86,463 thousand, insurance of assets and liability insurance of CZK 68,751 thousand, costs of written-off and assigned receivables of CZK 46,687 thousand and membership fees of CZK 15,192 thousand.

In the year ending 31 December 2015, the aggregate value of contractual fines and default interest amounted to CZK 13,101 thousand.

In the year ending 31 December 2014, costs of contractual fines and default interest of CZK 95,384 thousand primarily included interest based on the concluded agreement on an out-of-court settlement with SŽDC regarding the dispute for the price of consumed traction energy during 2009 and settlement of damage from traffic closures caused by SŽDC. Total interest amounted to CZK 29,841 thousand. In addition, it included interest arising from the court ruling dated 15 January 2014 regarding the legal dispute for the compensation of damage from traffic closures caused by SŽDC. This interest amounted to CZK 36,968 thousand.

11. Financial Expenses

| (CZK '000) | 2015 | 2014 |
|---|-----------------|-----------------|
| Interest on bank overdraft accounts and loans | -2 910 | -6 478 |
| Interest on finance lease payables | -156 550 | -175 204 |
| Interest expenses – bonds | -69 866 | -84 349 |
| Other interest expenses | -31 732 | -15 268 |
| Unwinding of the discount of provisions | -604 | -541 |
| Other financial expenses | 0 | -14 |
| Finanční náklady celkem – pokračující činnosti | -261 662 | -281 854 |

12. Other Gains (Losses)

| (CZK '000) | 2015 | 2014 |
|---|----------------|----------------|
| Net foreign exchange gains (losses) | -30 125 | -21 101 |
| Loss from the sale of securities and equity investments | -2 190 | -1 001 |
| Received interest | 708 | 2 108 |
| Banking fees | -2 501 | -2 190 |
| Actuarial losses | -5 220 | -13 275 |
| Other | -8 881 | 6 482 |
| Total other gains (losses) – continuing operations | -48 209 | -28 977 |

13. Income Taxation

13.1. INCOME TAX REPORTED IN PROFIT OR LOSS

| (CZK '000) | 2015 | 2014 |
|---|-----------------|-----------------|
| Current income tax for the period reported in the statement of profit or loss | -35 254 | -115 981 |
| Deferred tax recognised in the statement of profit or loss | -136 029 | -214 080 |
| Total tax charge relating to continuing operations | -171 283 | -330 061 |

13.2. INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

| (CZK '000) | 2015 | 2014 |
|--|---------------|----------------|
| Remeasurement of financial instruments recognised as cash flow hedging | -9 213 | -10 598 |
| Total income tax recognised in other comprehensive income | -9 213 | -10 598 |

13.3. DEFERRED TAX

| (CZK '000) | Unutilised tax losses | Non-current assets | Provisions | Leases | Receivables | Derivatives | Other | Total |
|---|-----------------------|--------------------|-----------------|----------------|----------------|----------------|---------------|----------------|
| Balance at 1 Jan 2014 | 0 | 458 803 | -269 631 | 287 638 | -23 598 | -29 910 | 10 950 | 434 252 |
| Deferred tax recognised in profit or loss | -106 | 162 848 | 19 696 | 53 193 | -6 308 | 0 | -15 243 | 214 080 |
| Deferred tax recognised in other comprehensive income | 0 | 0 | 0 | 0 | 0 | 10 598 | 0 | 10 598 |
| Revaluation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Balance at 31 Dec 2014 | -106 | 621 651 | -249 935 | 340 831 | -29 906 | -19 312 | -4 293 | 658 930 |
| Deferred tax recognised in profit or loss | -98 258 | 148 259 | 61 575 | 27 374 | -5 462 | 0 | 2 541 | 136 029 |
| Deferred tax recognised in other comprehensive income | 0 | 0 | 0 | 0 | 0 | 9 213 | 0 | 9 213 |
| Revaluation | 0 | 0 | 0 | 0 | 0 | 0 | -861 | -861 |
| Balance at 31 Dec 2015 | -98 364 | 769 910 | -188 360 | 368 205 | -35 368 | -10 099 | -2 613 | 803 311 |

14. Property, Plant and Equipment

| Cost (CZK '000) | Balance at 1 Jan 2014 | Additions | Disposals | Reclassification | Revaluation | Balance at 31 Dec 2014 | Additions | Disposals | Reclassification | Revaluation | Balance at 31 Dec 2015 |
|---|-----------------------|------------------|----------------|------------------|----------------|------------------------|------------------|------------------|------------------|----------------|------------------------|
| Land | 126 194 | 4 621 | 0 | 0 | 0 | 130 815 | 0 | 0 | 0 | 0 | 130 815 |
| Structures | 1 478 367 | 32 865 | 891 | 0 | -98 | 1 510 243 | 62 863 | 1 183 | 0 | -223 | 1 571 700 |
| Individual movable assets | 38 115 653 | 960 963 | 414 654 | -19 871 | -12 070 | 38 630 021 | 1 087 605 | 533 420 | -1 701 | -19 682 | 39 162 823 |
| <i>Machinery, equipment, and furniture and fixtures</i> | 574 608 | 40 308 | 8 950 | -2 326 | 12 | 603 652 | 10 391 | 7 822 | -197 481 | -7 | 408 733 |
| <i>Vehicles</i> | 30 207 502 | 773 508 | 382 403 | 263 961 | -7 818 | 30 854 750 | 1 055 480 | 471 785 | 117 982 | -9 783 | 31 546 644 |
| <i>Vehicles acquired under finance leases</i> | 7 323 539 | 147 086 | 22 134 | -281 189 | -4 333 | 7 162 969 | 21 699 | 52 909 | 77 798 | -9 889 | 7 199 668 |
| <i>Other</i> | 10 004 | 61 | 1 167 | -317 | 69 | 8 650 | 35 | 904 | 0 | -3 | 7 778 |
| Other assets | 52 | 24 | 0 | 0 | 0 | 76 | 86 | 0 | 0 | 0 | 162 |
| Assets under construction | 139 092 | 880 916 | 12 250 | -798 994 | -1 118 | 207 646 | 1 110 756 | 1 202 525 | 18 | -135 | 115 760 |
| Prepayments | 21 519 | -20 569 | 940 | 0 | 0 | 10 | 85 162 | 261 | 0 | 0 | 84 911 |
| Total | 39 880 877 | 1 858 820 | 428 735 | -818 865 | -13 286 | 40 478 811 | 2 346 472 | 1 737 389 | -1 683 | -20 040 | 41 066 171 |

| Accumulated depreciation (CZK '000) | Balance at 1 Jan 2014 | Additions | Disposals | Reclassification | Revaluation | Balance at 31 Dec 2014 | Additions | Disposals | Reclassification | Revaluation | Balance at 31 Dec 2015 |
|---|-----------------------|----------------|----------------|------------------|--------------|------------------------|------------------|----------------|------------------|-------------|------------------------|
| Structures | 744 861 | 37 871 | 780 | 0 | 72 | 782 024 | 38 155 | 1 038 | 0 | 0 | 819 141 |
| Individual movable assets | 24 380 583 | 912 515 | 395 601 | 0 | 3 233 | 24 900 730 | 996 311 | 500 630 | -3 445 | 0 | 25 392 966 |
| <i>Machinery, equipment, and furniture and fixtures</i> | 418 853 | 40 100 | 8 843 | -2 335 | 40 | 447 815 | 25 096 | 7 800 | -161 526 | 0 | 303 585 |
| Vehicles | 21 420 329 | 624 601 | 363 536 | 46 227 | 534 | 21 728 155 | 718 194 | 445 297 | 155 838 | 0 | 22 156 890 |
| <i>Vehicles acquired under finance leases</i> | 2 532 547 | 247 594 | 22 061 | -43 596 | 2 592 | 2 717 076 | 252 829 | 46 633 | 2 243 | 0 | 2 925 515 |
| Other | 8 854 | 220 | 1 161 | -296 | 67 | 7 684 | 192 | 900 | 0 | 0 | 6 976 |
| Other assets | 49 | 11 | 0 | 0 | 0 | 60 | 20 | 0 | 0 | 0 | 80 |
| Total | 25 125 493 | 950 397 | 396 381 | 0 | 3 305 | 25 682 814 | 1 034 486 | 501 668 | -3 445 | 0 | 26 212 187 |

| Impairment (CZK '000) | Balance at 1 Jan 2014 | Additions | Disposals | Reclassification | Revaluation | Balance at 31 Dec 2014 | Additions | Disposals | Reclassification | Revaluation | Balance at 31 Dec 2015 |
|---|-----------------------|----------------|----------------|------------------|-------------|------------------------|----------------|----------------|------------------|-------------|------------------------|
| Land | 0 | 273 | 0 | 0 | 0 | 273 | 0 | 0 | 0 | 0 | 273 |
| Buildings | 441 | 393 | 441 | 0 | 0 | 393 | 346 | 393 | 0 | 0 | 346 |
| Individual movable assets | 244 659 | 173 008 | 244 659 | 0 | 0 | 173 008 | 158 603 | 173 008 | 0 | 0 | 158 603 |
| <i>Vehicles</i> | 244 659 | 158 686 | 244 659 | 0 | 0 | 158 686 | 147 523 | 158 686 | 0 | 0 | 147 523 |
| <i>Vehicles acquired under finance leases</i> | 0 | 14 322 | 0 | 0 | 0 | 14 322 | 11 080 | 14 322 | 0 | 0 | 11 080 |
| Assets under construction | 0 | 0 | 0 | 0 | 0 | 0 | 4 263 | 0 | 0 | 0 | 4 263 |
| Total | 245 100 | 173 674 | 245 100 | 0 | 0 | 173 674 | 163 212 | 173 401 | 0 | 0 | 163 485 |

Reclassifications predominantly include transfers of asset items between individual groups (IAS 16, IAS 17) relating to the financial leaseback of wagons and traction vehicles.

| Net book value (CZK '000) | Balance at 1 Jan 2014 | Balance at 31 Dec 2014 | Balance at 31 Dec 2015 |
|---|-----------------------|------------------------|------------------------|
| Land | 126 194 | 130 542 | 130 542 |
| Buildings | 733 065 | 727 826 | 752 213 |
| Individual movable assets | 13 490 411 | 13 556 283 | 13 611 254 |
| <i>Machinery, equipment, and furniture and fixtures</i> | 155 755 | 155 837 | 105 148 |
| <i>Vehicles</i> | 8 542 514 | 8 967 909 | 9 242 231 |
| <i>Vehicles acquired under finance leases</i> | 4 790 992 | 4 431 571 | 4 263 073 |
| Other | 1 150 | 966 | 802 |
| Other assets | 3 | 16 | 82 |
| Assets under construction | 139 092 | 207 646 | 111 497 |
| Prepayments | 21 519 | 10 | 84 911 |
| Total | 14 510 283 | 14 622 323 | 14 690 499 |

Real estate predominantly includes buildings and land. Land and buildings exclude the assets forming the railway route which are owned by the state.

Vehicles predominantly include rail vehicles (traction vehicles, freight cars) used for the operations of the railway freight transportation. These items are provisioned

as equal to the difference between the net book value and the recoverable value of CZK 158,603 thousand.

Principal additions to individual tangible movable assets in the year ending 31 December 2015 included inspection repairs (components) of wagons of CZK 246,718 thousand, major and general repairs (components) of traction vehicles of CZK 238,732 thousand, purchase of traction vehicles of the 163 line of CZK 233,000 thousand, technical improvements on wagons of CZK 170,959 thousand and purchase of wheel sets for wagons of CZK 89,603 thousand.

In the years ending 31 December 2015 and 2014, the Parent Company acquired tangible assets recognised in expenses in the amounts of CZK 25,829 thousand and CZK 25,663 thousand, respectively. 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.

At the end of 2015, the subsidiary Koleje Czeskie Sp. z o.o. purchased wagons with the aggregate value of CZK 72,542 thousand in the form of a leaseback.

In the year ending 31 December 2015, the Parent Company was awarded a grant from the Transport Operational Programme in the amount of CZK 105 thousand for financing tangible assets.

As of 31 December 2015, prepayments made for tangible fixed assets amount to CZK 85 thousand, where the major portion relates to the prepayment made for a portion of the repurchase value of assets acquired by the subsidiary Koleje Czeskie Sp. z o.o. in the form of finance lease.

16

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 |

14.1. ASSETS PLEDGED AS COLLATERAL

As of 31 December 2015 and 2014, no assets of the Group were pledged as collateral.

15. Intangible Assets

| Cost (CZK '000) | Balance at 1 Jan 2014 | Additions | Disposals | Reclassification | Revaluation | Balance at 31 Dec 2014 | Additions | Disposals | Reclassification | Revaluation | Balance at 31 Dec 2015 |
|---------------------------|--------------------------|----------------|----------------|------------------|-------------|---------------------------|----------------|----------------|------------------|-------------|---------------------------|
| Software | 441 996 | 56 782 | 89 046 | 0 | 12 | 409 743 | 105 718 | 835 | 0 | -93 | 514 533 |
| Valuable rights | 124 213 | 300 | 17 298 | 0 | 0 | 107 215 | 2 713 | 0 | 0 | 0 | 109 928 |
| Assets under construction | 50 798 | 136 148 | 56 893 | 0 | -25 | 130 028 | 101 111 | 161 848 | -95 | 28 | 69 224 |
| Total | 617 007 | 193 230 | 163 237 | 0 | -13 | 646 986 | 209 542 | 162 683 | -95 | -65 | 693 685 |

| Accumulated amortisation (CZK '000) | Balance at 1 Jan 2014 | Additions | Disposals | Reclassification | Revaluation | Balance at 31 Dec 2014 | Additions | Disposals | Reclassification | Revaluation | Balance at 31 Dec 2015 |
|--|--------------------------|---------------|---------------|------------------|-------------|---------------------------|---------------|------------|------------------|-------------|---------------------------|
| Software | 274 150 | 45 400 | 87 570 | 0 | 13 | 231 993 | 47 494 | 835 | 7 058 | 1 | 285 711 |
| Valuable rights | 79 271 | 11 462 | 4 093 | 0 | 0 | 86 640 | 6 765 | 0 | -7 058 | 0 | 86 347 |
| Total | 353 421 | 56 862 | 91 663 | 0 | 13 | 318 633 | 54 259 | 835 | 0 | 1 | 372 058 |

Reclassifications predominantly include transfers of asset items between individual groups of assets (IAS 38) relating to software and valuable rights.

| Net book value (CZK '000) | Balance at 1 Jan 2014 | Balance at 31 Dec 2014 | Balance at 31 Dec 2015 |
|------------------------------|--------------------------|---------------------------|---------------------------|
| Software | 167 845 | 177 750 | 228 822 |
| Valuable rights | 44 942 | 20 575 | 23 581 |
| Assets under construction | 50 798 | 130 028 | 69 224 |
| Total | 263 585 | 328 353 | 321 627 |

Amortisation costs were reported in the statement of profit or loss line "Depreciation and amortisation". The amortisation was calculated using useful lives of 3 to 8 years.

Intangible fixed assets predominantly include the SAP system and the operational business information system – PROBIS. Intangible assets additionally include 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 the Parent Company. Additions to software in the year ending 31 December 2015 primarily include the costs of adjustments and upgrades of the current systems, namely PROBIS in the amount of CZK 37,827 thousand, the SAP project of CZK 21,397 thousand, the DISC system (Dispatching Information System of Cargo) of CZK 21,701 thousand, the remaining value of the aggregate amount is attributable to other economic and operating tasks. Other licences were capitalised with the aggregate value of CZK 2,713 thousand.

In the year ending 31 December 2015, the Parent Company executed further development of the current systems (SAP, BI, PRIS) with the acquisition cost of CZK 44,675 thousand and an IT security project of CZK 24,838 thousand. The Company also commenced the OBIS project in the amount of CZK 20,421 thousand the development of which is also planned for 2016. In the year ending 31 December 2015, the aggregate investments in tangible fixed assets amounted to CZK 101,111 thousand. In the year ending 31 December 2015, the Parent Company received grants from the Transport Operational Programme in the amount of CZK 56,987 thousand for financing intangible assets.

Intangible fixed assets under construction predominantly include a further extension of software for the railway transportation and financial management of the Group.

16. Investments in Associates

16.1. INFORMATION ON ASSOCIATES

| Name of the entity (CZK '000) | Registered office | Value of investment as of 31 Dec 2015 | Value of investment as of 31 Dec 2014 |
|--|--|--|--|
| BOHEMIAKOMBI, spol. s r.o. | Opletalova 6, 11000 Prague 1 | 3 274 | 3 286 |
| Ostravská dopravní společnost, a.s. | U Tiskárny 616/9, 70200 Ostrava, Přívoz | 24 497 | 20 984 |
| RAILLEX a.s. | Trnkovo nám. 3, 15200 Prague 5 | 985 | 985 |
| Total | | 28 756 | 25 255 |

| Name of the entity | Principal activities | Investment as of 31 Dec 2015 | Investment as of 31 Dec 2014 |
|--|---|------------------------------------|------------------------------------|
| BOHEMIAKOMBI, spol. s r.o. | Mediation of transportation services except for the transportation by own vehicles | 30 % | 30 % |
| Ostravská dopravní společnost, a.s. | Railway transportation and lease of locomotives and railway vehicles | 20 % | 20 % |
| RAILLEX a.s. | Cargo handling and technical services in transportation | 50 % | 50 % |

16.2. SUMMARY OF FINANCIAL INFORMATION ON ASSOCIATES

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|---------------|---------------|
| Total assets | 432 915 | 465 692 |
| Total liabilities | 275 086 | 317 390 |
| Net assets | 157 829 | 148 302 |
| Share of the Company in associates' net assets | 39 984 | 40 484 |

| (CZK '000) | 2015 | 2014 |
|--|--------------|--------------|
| Total income | 1 397 919 | 1 643 364 |
| Profit for the period | 25 313 | 27 449 |
| Share of the Company in associates' profit for the period | 7 394 | 8 285 |

17. Inventories

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|--|----------------|----------------|
| Spare parts and other components for rail vehicles and locomotives | 39 989 | 38 213 |
| Other machinery, tools and equipment and their spare parts | 75 056 | 65 941 |
| Fuels, lubricants and other oil products | 3 630 | 3 685 |
| Work clothes, work shoes, protective devices | 1 193 | 1 249 |
| Other | 13 991 | 12 210 |
| Total cost | 133 859 | 121 298 |
| Write-down of inventories to their net realisable value | -3 864 | 0 |
| Total net book value | 129 995 | 121 298 |

Following the inventory count, the value of inventories decreased by CZK 3,864 thousand in the year ending 31 December 2015. The inventories were not impaired based on the inventory count in the year ending 31 December 2014.

18. Trade Receivables

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|--------------|------------------|------------------|
| Short-term | 1 694 801 | 1 633 421 |
| Total | 1 694 801 | 1 633 421 |

18.1. AGING OF TRADE RECEIVABLES

| (CZK '000) | Category | Before due date | Past due date | | | | | Total past due date | Total |
|-------------|------------|------------------|---------------|---------------|---------------|----------------|---------------|---------------------|------------------|
| | | | 1 – 30 days | 31 – 90 days | 91 – 180 days | 181 – 365 days | 365 and more | | |
| 31 Dec 2015 | Gross | 1 584 288 | 87 479 | 11 166 | 8 623 | 10 335 | 152 326 | 269 929 | 1 854 217 |
| | Allowances | 0 | -1 414 | -2 812 | -2 519 | -6 542 | -146 129 | -159 416 | -159 416 |
| | Net | 1 584 288 | 86 065 | 8 354 | 6 104 | 3 793 | 6 197 | 110 513 | 1 694 801 |
| 31 Dec 2014 | Gross | 1 525 334 | 86 234 | 23 967 | 10 331 | 14 481 | 131 337 | 266 350 | 1 791 684 |
| | Allowances | -20 785 | 0 | -2 901 | -863 | -16 484 | -117 230 | -137 478 | -158 263 |
| | Net | 1 504 549 | 86 234 | 21 066 | 9 468 | -2 003 | 14 107 | 128 872 | 1 633 421 |

19. Other Financial Assets

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|------------------------------------|---------------|---------------|
| Other non-current financial assets | 1 450 | 3 595 |
| Other current financial assets | 17 446 | 19 361 |
| Total | 18 896 | 22 956 |

Other financial assets predominantly include receivables for deficits and damage and receivables registered for recovery with the courts. Receivables registered for recovery through the courts in the years ending 31 December 2015 and 2014 decreased by CZK 82,564 thousand and CZK 84,122 thousand, respectively.

20. Other Assets

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|----------------|----------------|
| Total non-current assets | 567 | 53 296 |
| Prepayments made | 76 068 | 48 707 |
| Tax receivables (except for the corporate income tax) | 218 112 | 103 393 |
| Prepaid expenses | 29 821 | 32 501 |
| Other | 4 242 | 7 630 |
| Total current assets | 328 243 | 192 231 |
| Total | 328 810 | 245 527 |

21. Equity**21.1. 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 8,800,000 thousand.

On 2 June 2009, České dráhy, a.s., acting in the capacity of the General Meeting, adopted the resolution on the decrease in the share capital of ČD Cargo, a.s., in accordance with Section 213a of the Commercial Code, from CZK 8,800,000 thousand to CZK 8,494,000 thousand. As of 31 December 2015, the Company reports the share capital of CZK 8,494,000 thousand fully paid.

21.2. RESERVE AND OTHER FUNDS

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|-----------------------------------|----------------|----------------|
| Share premium | 197 658 | 197 658 |
| Statutory reserve fund | 128 539 | 88 621 |
| Cash flow hedging reserve | -43 055 | -82 331 |
| Foreign currency translation fund | 8 430 | 11 298 |
| Other | 99 | 94 |
| Total | 291 671 | 215 340 |

Allocations to the statutory reserve fund are made in accordance with the internal policies of the Parent Company.

21.2.1. Cash Flow Hedging Reserve

| (CZK '000) | 2015 | 2014 |
|--|----------------|----------------|
| Balance at the beginning of the year | -82 333 | -127 513 |
| Loss from revaluation | -29 547 | -62 862 |
| Reclassifications to profit or loss upon settlement | 78 037 | 118 639 |
| Total change in the cash flow hedging reserve | 48 491 | 55 777 |
| Relating income tax | -9 213 | -10 597 |
| Balance at the year-end | -43 055 | -82 333 |

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.

22. Loans and Borrowings

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|------------------|------------------|
| Payables from finance leases | 487 792 | 464 476 |
| Overdraft accounts | 0 | 53 |
| Issued bonds | 1 174 184 | 1 000 000 |
| Other received short-term loans and borrowings | 12 837 | 59 894 |
| Total short-term | 1 674 813 | 1 524 423 |
| Issued bonds | 1 000 000 | 1 175 695 |
| Other – received loans and borrowings – long-term | 27 794 | 42 055 |
| Payables from finance leases | 2 386 672 | 2 818 320 |
| Total long-term | 3 414 466 | 4 036 070 |
| Total | 5 089 279 | 5 560 493 |

Portions of long-term loans and borrowings that are repayable in a period shorter than 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.

22.1. 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 million with the term of the bond programme being ten years. The above resolution of the Czech National Bank took effect on 5 May 2011.

In 2011 and 2012, the following issues of bonds were placed under the bond programme:

| | |
|---|--------------------------|
| Administrator | Komerční banka, a.s. |
| Date of issue | 20 June 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 (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 the interest payment | 20 June each year |
| Date of the final maturity | 20 June 2016 |
| Date of the final maturity (use of the put option) | 20 June 2014 |

| | |
|-------------------------------------|----------------------------------|
| 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 the interest payment | 21 Dec each year |
| Date of the final maturity | 21 Dec 2016 |

| | |
|-------------------------------------|--|
| Administrator | UniCredit Bank Czech Republic and Slovakia |
| Date of issue | 26 November 2015 |
| Total nominal value | CZK 1,000,000,000 |
| Nominal value of the bond | CZK 5,000,000 |
| Interest rate | Fixed interest income, 1.40% |
| Issue rate | 99.617% |
| Payment of interest income | Annually retrospectively |
| Date of the interest payment | 26 Nov each year |
| Date of final maturity | 26 Nov 2020 |

The Parent Company, ČD Cargo, a.s., recorded calls for a premature redemption of part of the first issue of the bonds placed through KB, a.s. with the total nominal value of CZK 341.7 million within the due period. This amount was redeemed as of 20 June 2014.

The bonds issue at Československá obchodní banka of CZK 1,000 million was redeemed as of 22 December 2015.

In the year ending 31 December 2015, the 4th issue of bonds with the aggregate nominal value of CZK 1,000 million was placed through the administrator UniCredit Bank Czech Republic and Slovakia, a.s.

Bonds with the aggregate nominal value of CZK 2,158.3 million are currently issued. As of 31 December 2015, these bonds were classified as short-term and long-term bonds by their maturity dates in the financial statements.

22.2. FINANCE LEASE PAYABLES

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

| (CZK '000) | Minimum lease payments | | | Present value of minimum lease payments | | |
|--|------------------------|------------------|------------------|---|------------------|------------------|
| | 31 Dec 2015 | 31 Dec 2014 | 1 Jan 2014 | 31 Dec 2015 | 31 Dec 2014 | 1 Jan 2014 |
| Less than 1 year | 610 395 | 606 407 | 605 767 | 487 792 | 464 476 | 472 468 |
| From 1 to 5 years | 2 116 462 | 2 409 783 | 2 039 156 | 1 841 915 | 2 050 347 | 1 688 405 |
| 5 years and more | 586 865 | 845 186 | 1 111 903 | 544 757 | 767 973 | 1 033 637 |
| Total | 3 313 722 | 3 861 376 | 3 756 826 | 2 874 464 | 3 282 796 | 3 194 510 |
| Less future finance expenses | -439 258 | -578 580 | -562 316 | | | |
| Present value of minimum lease payments | 2 874 464 | 3 282 796 | 3 194 510 | 2 874 464 | 3 282 796 | 3 194 510 |
| In the statement of financial position as: | | | | | | |
| short-term loans | | | | 487 792 | 464 476 | 472 468 |
| long-term loans | | | | 2 386 672 | 2 818 320 | 2 722 042 |
| Total | | | | 2 874 464 | 3 282 796 | 3 194 510 |

The fair value of finance lease payables is calculated in Note 32.11.1.

23. Provisions

| (CZK '000) | Balance at 1 Jan 2014 | Charge | Use | Balance at 31 Dec 2014 | Charge | Use | Balance at 31 Dec 2015 |
|---|--------------------------|----------------|------------------|---------------------------|----------------|----------------|---------------------------|
| Provision for legal disputes | 89 644 | 22 714 | 52 189 | 60 169 | 51 | 17 529 | 42 691 |
| Provision for outstanding vacation days | 27 721 | 21 745 | 28 182 | 21 285 | 23 256 | 21 133 | 23 408 |
| Provisions for employees' benefits | 902 947 | 37 275 | 916 518 | 23 704 | 0 | 0 | 23 704 |
| Provisions for business risks | 109 947 | 58 882 | 54 468 | 114 361 | 9 528 | 3 751 | 120 138 |
| Provisions for restructuring | 249 973 | 0 | 69 652 | 180 321 | 18 746 | 59 380 | 139 687 |
| Provision for loss-making transactions | 0 | 525 450 | 0 | 525 450 | 54 215 | 0 | 579 665 |
| Other provisions ^{a)} | 29 773 | 91 466 | 62 834 | 58 405 | 70 628 | 83 397 | 45 636 |
| Total provisions | 1 410 006 | 757 532 | 1 183 843 | 983 695 | 176 424 | 185 190 | 974 929 |
| <i>long-term</i> | 64 100 | | | 635 323 | | | 672 151 |
| <i>short-term</i> | 1 345 906 | | | 348 372 | | | 302 778 |

^{a)} Other provisions include provisions for complaints, returns of empty wagons, damages and other provisions.

As of 31 December 2015, after having considered all existing legal analyses and results of negotiations in existing legal disputes and having assessed all potential risks, current developments in legal disputes and in accordance with the inherent level of prudence, management of the Parent Company has decided to retain the amount of the provision to cover potential expenses relating to potential risks for business transactions in the same amount as reported as of 31 December 2014, i.e. CZK 23,704 thousand.

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. As of 31 December 2015, the amount of the Parent Company's provision was calculated at CZK 119,769 thousand using an actuarial model. For details on this model, refer to Note 4.5.

As of 31 December 2012, management of the Parent Company decided to make organisational changes pursuant to the prepared restructuring plan, the main features of which were communicated within the Company. The future cash outflows associated with the restructuring were estimated at CZK 535,000 thousand in the plan. During the year ending 31 December 2014, this provision was used and specified, it amounted to CZK 180,321 thousand as of 31 December 2014. During the year ending 31 December 2015, the amount of the provision decreased by the use by CZK 59,380 thousand to the balance of CZK 139,687 thousand as of 31 December 2015. These funds will continue to be available to the Company to cover the costs relating to the restructuring in the following reporting period.

During the year, the Parent Company recognised a provision for loss-making transactions. The amount of the provision is determined on the basis of a reasonable estimate as equal to the future liability arising from the loss. The amount includes the difference between the discounted net anticipated income and discounted anticipated expenses. The provision amounts to CZK 525,450 thousand as of 31 December 2014. The value of the provision was subsequently updated, amounting to CZK 579,665 thousand as of 31 December 2015.

In the year ending 31 December 2014, the provision for business risks was decreased by CZK 916,518 thousand primarily due to:

- Conclusion of an agreement on an out-of-court settlement with SŽDC regarding the consumed traction energy during 2009 and settlement of damage due to traffic closures caused by SŽDC. The out-of-court settlement agreement was concluded for the total amount of CZK 375,811 thousand, of which CZK 61,786 thousand relates to the settlement of damage caused by the traffic closures and CZK 314,025 thousand relates to the price of purchased traction energy for 2009. Payables arising from these out-of-court settlements were recognised as "Other payables", divided into short-term and long-term parts; and
- Court ruling dated 15 January 2014 regarding the legal dispute for the damage due to SŽDC's traffic closures based on which ČD Cargo, a.s., is obliged to settle the payable of CZK 164,152 thousand to SŽDC.

24. Trade Payables

| Year (CZK '000) | Category | Before due date | Past due date (days) | | | | | Total past due date | Total |
|--------------------|------------|-----------------|----------------------|---------|----------|-----------|--------------|---------------------|-----------|
| | | | 1 – 30 | 31 – 90 | 91 – 180 | 181 – 365 | 365 and more | | |
| 31 Dec 2015 | Short-term | 2 149 940 | 20 239 | 1 557 | 72 | 326 | 545 | 22 739 | 2 172 679 |
| 31 Dec 2014 | Short-term | 1 860 971 | 129 086 | 7 070 | 4 291 | 5 708 | 833 | 146 988 | 2 007 959 |

Supplier invoices typically mature in 94 days.

25. Other Financial Liabilities

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|----------------|------------------|
| Hedging derivatives | 16 056 | 29 181 |
| Other | 548 728 | 612 060 |
| Long-term other financial liabilities | 564 784 | 641 241 |
| Hedging derivatives | 43 353 | 94 750 |
| Other | 368 944 | 355 657 |
| Short-term other financial liabilities | 412 297 | 450 407 |
| Total other financial liabilities | 977 081 | 1 091 648 |

In the year ending 31 December 2015, long-term other financial liabilities primarily include the long-term portion of a payable of the Parent Company to SŽDC of CZK 214,584 thousand arising from the concluded out-of-court agreement regarding the dispute about the price of traction energy during 2009 and a long-term portion of a payable to the Parent Company which relates to the settlement of damage due to SŽDC's traffic closures of CZK 42,220 thousand. The amount of CZK 22,799 thousand relates to the settlement of the payable arising from the settlement of damage due to SŽDC's traffic closures pursuant to the court ruling dated 15 January 2014.

In the year ending 31 December 2014, other financial liabilities to SŽDC amounted to CZK 331,966 thousand and included the long-term portion of a payable of the Parent Company arising from the concluded out-of-court agreement. Another long-term liability of the Parent Company to SŽDC arising from the settlement of damage due to traffic closures amounted to CZK 77,522 thousand (refer to Note 23 Provisions).

The short-term other financial liability of the Parent Company to SŽDC amounted to CZK 129,880 thousand as of 31 December 2015. The increase is attributable to reclassifying the long-term portion to the short-term portion at the date of the first instalment on 30 June 2015.

As of 31 December 2014, short-term other financial liabilities primarily included a short-term portion of a payable of the Parent Company to SŽDC of CZK 98,562 thousand.

The amount of CZK 43,845 thousand is the short-term portion of the payable arising from the conclusion of the out-of-court agreement regarding the dispute for the price of the consumed traction energy during 2009 and settlement of damage due to SŽDC's traffic closures. The amount of CZK 54,717 thousand relates to the settlement of the payable arising from the settlement of damage due to SŽDC's traffic closures pursuant to the court ruling dated 15 January 2014 (refer to Note 23 Provisions).

"Other" primarily includes a liability arising from supplier loans divided into a short-term and long-term portion.

26. Other Liabilities

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|------------------|----------------|
| Long-term other liabilities | 600 738 | 578 151 |
| Received prepayments | 3 298 | 2 015 |
| Payables to employees | 238 700 | 225 324 |
| Social security and health insurance payables | 105 645 | 102 234 |
| Other | 182 851 | 69 237 |
| Short-term other liabilities | 530 494 | 398 810 |
| Total other liabilities | 1 131 232 | 976 961 |

The line item "Long-term other liabilities" primarily includes deferred leaseback gains. The line item "Other" predominantly includes payables arising from VAT and deferred leaseback gains.

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

27. Related Party Transactions

27.1. INCOME GENERATED WITH RELATED PARTIES

| 2015 (CZK '000) | Sale of tangible FA | Sale of inventories | Sale of services | Other income | Financial income | Total |
|------------------------------------|---------------------|---------------------|------------------|--------------|------------------|---------------|
| České dráhy a.s. | 340 | 108 | 28 393 | 2 341 | 98 | 31 280 |
| ČD – Telematika, a.s. | 0 | 0 | 51 | 0 | 0 | 51 |
| ČD – Informační Systémy, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| DPOV, a.s. | 2 165 | 12 | 5 047 | 612 | 0 | 7 836 |
| ČD travel, s.r.o. | 0 | 0 | 0 | 0 | 0 | 0 |
| Dopravní vzdělávací institut, a.s. | 0 | 0 | 314 | 0 | 0 | 314 |
| Výzkumný Ústav Železniční, a.s. | 0 | 0 | 14 995 | 22 | 0 | 15 017 |
| RAILREKLAM, spol. s r.o. | 0 | 0 | 0 | 0 | 0 | 0 |
| JLV, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Smíchov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Masaryk Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Centrum Holešovice, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 2 505 | 120 | 48 800 | 2 975 | 98 | 54 498 |

| 2014 (CZK '000) | Sale of tangible FA | Sale of inventories | Sale of services | Other income | Financial income | Total |
|------------------------------------|---------------------|---------------------|------------------|--------------|------------------|---------------|
| České dráhy a.s. | 0 | 1 383 | 17 915 | 1 886 | 0 | 21 184 |
| ČD – Telematika, a.s. | 20 | 0 | 311 | 0 | 0 | 331 |
| ČD – Informační Systémy, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| DPOV, a.s. | 0 | 4 | 4 528 | 731 | 0 | 5 263 |
| ČD Travel, s.r.o. | 0 | 0 | 0 | 0 | 0 | 0 |
| Dopravní vzdělávací institut, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Výzkumný Ústav Železniční, a.s. | 0 | 0 | 11 462 | 0 | 0 | 11 462 |
| RAILREKLAM, spol. s r.o. | 0 | 0 | 0 | 0 | 0 | 0 |
| JLV, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Smíchov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Masaryk Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Centrum Holešovice, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 20 | 1 387 | 34 216 | 2 617 | 0 | 38 240 |

27.2. PURCHASE FROM RELATED PARTIES

| 2015 (CZK '000) | Assets | Material | Services | Other expenses | Fin. expenses | Total |
|------------------------------------|----------------|----------------|------------------|----------------|---------------|------------------|
| České dráhy a.s. | 248 505 | 608 488 | 1 011 959 | 7 784 | 0 | 1 876 736 |
| ČD – Telematika, a.s. | 4 174 | 2 025 | 27 097 | 0 | 0 | 33 296 |
| ČD – Informační Systémy, a.s. | 34 372 | 3 422 | 89 245 | 0 | 0 | 127 039 |
| DPOV, a.s. | 72 495 | 852 | 16 173 | 87 | 0 | 89 607 |
| ČD travel, s.r.o. | 0 | 0 | 17 525 | 0 | 0 | 17 525 |
| Dopravní vzdělávací institut, a.s. | 0 | 0 | 16 620 | 0 | 5 | 16 625 |
| Výzkumný Ústav Železniční, a.s. | 1 080 | 0 | 95 | 1 284 | 0 | 2 459 |
| RAILREKLAM, spol. s r.o. | 0 | 0 | 325 | 0 | 0 | 325 |
| JLV, a.s. | 0 | 0 | 1 161 | 0 | 0 | 1 161 |
| Smíchov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Masaryk Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Centrum Holešovice, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 360 626 | 614 787 | 1 180 200 | 9 155 | 5 | 2 164 773 |

| 2014 (CZK '000) | Assets | Material | Services | Other expenses | Fin. expenses | Total |
|------------------------------------|----------------|----------------|------------------|----------------|---------------|------------------|
| České dráhy a.s. | 33 297 | 672 434 | 971 024 | 8 593 | 34 | 1 685 382 |
| ČD – Telematika, a.s. | 47 915 | 1 645 | 13 696 | 579 | 0 | 63 835 |
| ČD – Informační Systémy, a.s. | 41 838 | 1 273 | 107 545 | 0 | 0 | 150 656 |
| DPOV, a.s. | 78 233 | 1 432 | 17 586 | 65 | 0 | 97 316 |
| ČD Travel, s.r.o. | 0 | 0 | 14 833 | 0 | 0 | 14 833 |
| Dopravní vzdělávací institut, a.s. | 0 | 0 | 17 106 | 0 | 0 | 17 106 |
| Výzkumný Ústav Železniční, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| RAILREKLAM, spol. s r.o. | 0 | 0 | 0 | 0 | 0 | 0 |
| JLV, a.s. | 0 | 0 | 1 156 | 0 | 0 | 1 156 |
| Smíchov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Masaryk Station Development, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Centrum Holešovice, a.s. | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 201 283 | 676 784 | 1 142 946 | 9 237 | 34 | 2 030 284 |

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

Sales

In the year ending 31 December 2015, the Company sold tangible fixed assets to ČD, a.s., and DPOV, a.s. in the amounts of CZK 340 thousand and CZK 2,165 thousand, respectively.

In the year ending 31 December 2014, the Company sold tangible fixed assets to ČD Telematika, a.s. in the amount of CZK 20 thousand.

Purchases

| Purchases (CZK '000) | Intangible assets | | Property, plant and equipment | |
|---------------------------------|-------------------|----------------|-------------------------------|----------------|
| | 2015 | 2015 | 2014 | 2014 |
| ČD, a.s. | 276 | 248 229 | 54 | 33 243 |
| ČD – Telematika a.s. | 674 | 3 500 | 0 | 47 915 |
| ČD – Informační Systémy, a.s. | 34 372 | 0 | 41 439 | 399 |
| Výzkumný Ústav Železniční, a.s. | 0 | 1 080 | 0 | 0 |
| DPOV, a.s. | 0 | 74 495 | 0 | 78 233 |
| Total | 35 322 | 327 304 | 41 493 | 159 790 |

Purchases of fixed assets from DPOV, a.s. include purchases of railway vehicles components – performance of significant periodical repairs.

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

| 31 Dec 2015 (CZK '000) | Receivables | Payables |
|------------------------------------|---------------|----------------|
| České dráhy a.s. | 10 803 | 482 674 |
| ČD – Telematika, a.s. | 6 | 6 387 |
| ČD – Informační Systémy, a.s. | 0 | 58 228 |
| DPOV, a.s. | 1 394 | 30 201 |
| ČD travel, s.r.o. | 0 | 6 079 |
| Dopravní vzdělávací institut, a.s. | 0 | 1 345 |
| Výzkumný Ústav Železniční, a.s. | 3 656 | 1 344 |
| RAILREKLAM, spol. s r.o. | 0 | 0 |
| JLV, a.s. | 0 | 0 |
| Smíchov Station Development, a.s. | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 |
| Masaryk Station Development, a.s. | 0 | 0 |
| Centrum Holešovice, a.s. | 0 | 0 |
| Total | 15 859 | 586 258 |

| 31 Dec 2014 (CZK '000) | Receivables | Payables |
|------------------------------------|--------------|----------------|
| České dráhy a.s. | 4 032 | 203 574 |
| ČD – Telematika, a.s. | 9 | 5 359 |
| ČD – Informační Systémy, a.s. | 0 | 79 050 |
| DPOV, a.s. | 1 293 | 69 597 |
| ČD Travel, s.r.o. | 0 | 5 989 |
| Dopravní vzdělávací institut, a.s. | 0 | 2 147 |
| Výzkumný Ústav Železniční, a.s. | 1 474 | 0 |
| RAILREKLAM, spol. s r.o. | 0 | 0 |
| JLV, a.s. | 0 | 131 |
| Smíchov Station Development, a.s. | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 |
| Masaryk Station Development, a.s. | 0 | 0 |
| Centrum Holešovice, a.s. | 0 | 0 |
| Total | 6 808 | 365 847 |

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.

27.5. LOANS TO RELATED PARTIES

In the past, the Parent Company concluded a loan contract and contract for the sale of a railway siding with RAILLEX, a.s. (in which ČD Cargo holds 50%). The short-term portion of the outstanding loan including interest amounted to CZK 2,436 thousand as of 31 December 2014. The short-term receivable from the sale of the railway siding including interest amounted to CZK 1,587 thousand. Both items were settled during 2015.

27.6. BONUSES TO KEY MANAGEMENT MEMBERS

Directors and other members of key management received the following bonuses in the reporting period:

| (CZK '000) | 2015 | 2014 |
|----------------------------------|---------------|---------------|
| Short-term employee benefits | 45 194 | 45 656 |
| Post-employment benefits | 0 | 11 953 |
| Other long-term employee bonuses | 72 | 0 |
| Total | 45 266 | 57 609 |

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.

27.7. 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 2014 and 2015. The costs for the years ending 31 December 2014 and 2015 are disclosed in Note 7.

The income of the Company predominantly includes sales from intrastate vehicle transports of CZK 13,203 thousand.

Expenses and income of the Group resulting from the transactions conducted with SŽDC for the years ending 31 December 2015 and 2014 were as follows:

| 2015 (CZK '000) | Expenses | Income |
|--|------------------|---------------|
| Operation of the railway route | 2 022 | 0 |
| Use of the railway route and allocated route capacity – freight transportation | 1 494 980 | 0 |
| Other | 112 804 | 26 738 |
| Total | 1 609 806 | 26 738 |

| 2014 (CZK '000) | Expenses | Income |
|--|------------------|---------------|
| Operation of the railway route | 2 455 | 0 |
| Use of the railway route and allocated route capacity – freight transportation | 1 505 017 | 0 |
| Use of traction electricity | 240 812 | 0 |
| Other | 115 123 | 10 139 |
| Total | 1 863 407 | 10 139 |

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

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|-----------------------|-------------|-------------|
| Receivables | 6 615 | 4 716 |
| Payables | 901 846 | 980 691 |
| Prepayments made | 13 781 | 1 615 |
| Estimated payables | 47 281 | 17 602 |
| Estimated receivables | 1 133 | 3 828 |

27.8. TRANSACTIONS WITH THE ČEZ GROUP

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

| 2015 (CZK '000) | Expenses | Income |
|--|--------------|----------------|
| Operation of the railway route | 235 | 0 |
| Use of the railway route and allocated route capacity – freight transportation | 1 122 | 0 |
| Other | 6 960 | 422 456 |
| Total | 8 317 | 422 456 |

As of 31 December 2014, the expenses incurred in relation to the ČEZ Group amounted to CZK 6,269 thousand. Income generated by the Company in relation to the ČEZ Group amounted to CZK 509,625 thousand.

Given the above activities, the Group records the following receivables from and payables to the ČEZ Group:

| (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|-----------------------|-------------|-------------|
| Receivables | 71 893 | 67 126 |
| Payables | 203 | 166 |
| Prepayments made | 0 | 1 897 |
| Estimated receivables | 47 | 0 |

28. 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 '000) | 31 Dec 2015 | 31 Dec 2014 |
|----------------------------------|----------------|----------------|
| Cash on hand and cash in transit | 2 451 | 1 910 |
| Cash at bank | 959 116 | 837 968 |
| Cash on the cash-pooling account | 3 518 | 4 026 |
| Total | 965 085 | 843 904 |

29. Contracts for Operating Leases**29.1. THE GROUP AS A LESSOR**

The Company acts as a lessor in all operating leases. Operating leases relate 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 2014 amounted to CZK 461,902 thousand.

The Group as a lessee has not concluded any irrevocable lease contracts, contingent lease contracts or onerous contracts.

30. Contractual Obligations Relating to Expenses

As of the balance sheet date, the Group concluded contracts for the purchase of property, plant and equipment and investment property in the amount of CZK 1,342,949 thousand, of which CZK 729,037 thousand relates to supplies agreed for 2015 and CZK 326,993 thousand relates to supplies agreed for the following years. The remaining amount of CZK 286,920 thousand was paid as of 31 December 2015. A significant part of the obligations relating to expenses of CZK 1,189,856 thousand includes investments in railway vehicles.

31. Contingent Liabilities and Contingent Assets

31.1. BANK GUARANTEES ISSUED

Bank guarantees as of 31 December 2015 issued by Komerční banka, a.s. from the liability limit of CZK 50 million.

■ List of active bank guarantees provided by ČD Cargo, a.s. as of 31 December 2015

| In favour of | Type of guarantee | Amount | Currency | Until | Reason for the issuance of 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 2016 | 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 670/19, 186 00 Prague 8, Karlín, Corporate ID 27626130 | Lease guarantee | 16 517 056 | CZK | 30 June 2016 | 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. |

31.2. RECEIVED SECUREMENT FROM ORDERS

| Name of the order | Applicant – name | Required securements | Securement paid on |
|--|--|----------------------|--------------------|
| Supplies of brake pads | "Association of suppliers: Euro-Metall Kft, Eisenwerk Arnstadt GmbH" | CZK 7,000,000.00 | 18 Nov 2015 |
| Scrapping of 8 wagons from MU Choťovice-Převýšov | PV RECYKLING s.r.o. | CZK 288,415.50 | 25 Sept 2015 |

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.

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).

The Parent Company 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

| Financial assets (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|------------------|------------------|
| Cash and bank accounts | 961 567 | 839 878 |
| Financial derivative instruments used in hedge accounting | 824 | 0 |
| Other financial derivative instruments | 61 | 0 |
| Loans and receivables | 1 712 812 | 1 656 377 |
| Total | 2 675 264 | 2 496 255 |

| Financial liabilities (CZK '000) | 31 Dec 2015 | 31 Dec 2014 |
|---|------------------|------------------|
| Financial derivative instruments used in hedge accounting | 53 978 | 101 645 |
| Other financial derivative instruments | 5 431 | 22 285 |
| Trade payables, finance leases measured at amortised cost | 8 179 631 | 8 536 171 |
| Total | 8 239 040 | 8 660 101 |

Other financial derivative instruments are classified as financial assets/liabilities at fair value reported in profit or loss.

Income from individual categories of financial assets is as follows:

| Financial assets (CZK '000) | 2015 | 2014 | Reported in the statement of profit or loss line |
|-----------------------------------|------------|--------------|--|
| Interest on cash in bank accounts | 708 | 2 105 | Other gains |
| Total | 708 | 2 105 | |

Impairment losses on financial assets are presented in the Note "Trade receivables" (Note 18) and "Other financial assets" (Note 19). 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 and cash flow 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.

32.5. CURRENCY RISK MANAGEMENT

The Group undertakes transactions denominated in foreign currencies; exposures to exchange rate fluctuations consequently arise. These transactions predominantly include income from international transportation of goods and provision of services. The Group seeks to maintain the proportion of long-term funding in the foreign currency unhedged against the currency risk at the maximum level of 70%.

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 2015 (CZK '000) | EUR | USD | Other | Total |
|------------------------|-----------|--------|-------|-----------|
| Financial assets | 1 430 531 | 3 358 | 8 836 | 1 442 725 |
| Financial liabilities | 990 798 | 10 904 | 8 728 | 1 010 430 |

| 31 Dec 2014 (CZK '000) | EUR | USD | Other | Total |
|------------------------|-----------|-------|-------|-----------|
| Financial assets | 1 344 030 | 2 797 | 3 917 | 1 350 744 |
| Financial liabilities | 999 132 | 1 | 6 705 | 1 005 838 |

| 1 Jan 2014 (CZK '000) | EUR | USD | Other | Total |
|-----------------------|-----------|-------|---------|-----------|
| Financial assets | 1 323 353 | 2 552 | 212 964 | 1 538 869 |
| Financial liabilities | 535 470 | 0 | 137 523 | 672 993 |

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; and
- Changes in the fair value of concluded financial derivatives.

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

| (CZK '000) | 2015 | 2014 |
|---|---------------|---------------|
| Translation of items denominated in foreign currencies at the end of the period | 16 323 | 12 118 |
| Change in the fair value of derivatives at the end of the period | -12 931 | 0 |
| Total impact on the profit for the period | 3 392 | 12 118 |
| Change in the fair value of derivatives at the end of the period | 31 941 | 54 961 |
| Total impact on other comprehensive income | 31 941 | 54 961 |

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

| Sale (CZK '000) | Average currency exchange rate | Foreign currency | Nominal value | Fair value |
|-----------------|--------------------------------|------------------|---------------|------------|
| 31 Dec 2015 | 26,950 | EUR | 24 000 | 548 |
| 31 Dec 2014 | 27,182 | EUR | 55 000 | -31 271 |

■ Foreign currency options – collar

| Sale (CZK '000) | Average currency exchange rate | Foreign currency | Nominal value | Fair value |
|-----------------|--------------------------------|------------------|---------------|------------|
| 31 Dec 2015 | 26,50 – 27,15 | EUR | 12 000 | -518 |
| 31 Dec 2014 | - | - | - | - |

The Group concluded no outstanding foreign currency forwards and options for the purchase of foreign currency in the years ending 31 December 2014 and 2015.

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 rate; and
- 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 '000) | 2015 | 2014 |
|--|---------------|----------------|
| Interest from loans and lease with variable rate for the period | -46 400 | -103 594 |
| Change in the present value of long-term provisions at the end of the period | 63 230 | 63 462 |
| Change in the fair value of derivatives at the end of the period | 10 565 | 26 760 |
| Total impact on the profit for the period | 26 395 | -13 372 |
| Change in the fair value of derivatives at the end of the period | 12 477 | 20 846 |
| Total impact on other comprehensive income | 12 477 | 20 846 |

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 using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

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

■ IRS

| 31 Dec 2015 | Average contracted fixed interest rate | Principal in CZK thousand | Fair value of assets (liabilities) in CZK thousand |
|------------------|--|---------------------------|--|
| Less than 1 year | 3,265% | 106 156 | -10 433 |
| 1 to 5 years | 3,265% | 303 793 | -13 094 |
| 5 years and more | 3,265% | 12 560 | -65 |
| Total | | | -23 592 |

| 31 Dec 2014 | Average contracted fixed interest rate | Principal in CZK thousand | Fair value of assets (liabilities) in CZK thousand |
|------------------|--|---------------------------|--|
| Less than 1 year | 3,265 % | 102 938 | -13 158 |
| 1 to 5 years | 3,265 % | 327 521 | -22 221 |
| 5 years and more | 3,265 % | 95 018 | -1 387 |
| Total | | | -36 766 |

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.

■ Hedging of the Bonds Rate

In the year ending 31 December 2015, the Company made no hedging of bond rates.

| 31 Dec 2014 | Average contracted fixed interest rate | Principal in CZK thousand | Fair value of assets (liabilities) in CZK thousand |
|------------------|--|---------------------------|--|
| Less than 1 year | 2,94 % | 1 000 000 | -13 466 |
| Total | | | -13 466 |

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. These are trading derivatives.

| 31 Dec 2015 | Hedged range | Principal in CZK thousand | Fair value of assets (liabilities) in CZK thousand |
|------------------|-----------------|---------------------------|--|
| Less than 1 year | 1,13 % - 3,13 % | 94 059 | -2 534 |
| 1 to 5 years | 1,13 % - 3,13 % | 384 576 | -2 896 |
| 5 years and more | 1,13 % - 3,13 % | 0 | 0 |
| Total | | | -5 430 |

| 31 Dec 2014 | Hedged range | Principal in CZK thousand | Fair value of assets (liabilities) in CZK thousand |
|------------------|---------------|---------------------------|--|
| Less than 1 year | 1,13% - 3,13% | 88 337 | -3 246 |
| 1 to 5 years | 1,13% - 3,13% | 300 854 | -5 283 |
| 5 years and more | 1,13% - 3,13% | 64 233 | -291 |
| Total | | | -8 820 |

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.

32.7. 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; and
- 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; and
- Changes in prices of purchases of unhedged use of commodities.

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 '000) | 2015 | 2014 |
|--|----------------|----------------|
| Costs of oil consumption for the period | -43 334 | -50 572 |
| Change in the fair value of derivatives at the end of the period | 0 | 0 |
| Total impact on the profit for the period | -43 334 | -50 572 |
| Change in the fair value of derivatives at the end of the period | 7 694 | 10 684 |
| Total impact on other comprehensive income | 7 694 | 10 684 |

32.7.2. Commodity Derivatives

The Parent Company used a commodity swap to hedge the price of oil.

The table shows outstanding commodity contracts for the purchase of oil as of 31 December 2015:

| Purchase of oil | Hedged average price (USD/mt) | Volume of contracts (mt) | Fair value (CZK '000) |
|-----------------|-------------------------------|--------------------------|-----------------------|
| 31 Dec 2015 | 12 713,00 | 8 400 | -29 592 |
| 31 Dec 2014 | 16 751,43 | 8 400 | -33 609 |

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.

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 carrying amount of financial assets 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 credit quality of receivables that are not past their due dates or otherwise impaired is good and corresponds to the carrying value.

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 Company assesses the available funds and cash flows and liquidity development. Pursuant to these assessments, the Company decides on an optimal use of operating financial sources, consisting primarily of overdraft loans and the cash-pool limit. In order to strengthen its financial stability, the Company secures long-term financial sources on a continuous basis. As of 31 December 2015, the Company issued bonds in the aggregate volume of CZK 2,158.3 million. In addition, the Group has a promissory notes programme available in the aggregate amount of CZK 1.5 billion and has contracted the possibility of drawing funds of up

to CZK 400 million beyond the cashpooling limit from the Parent Company. During the years ending 31 December 2014 and 2015, the promissory notes programme and drawing beyond the cashpooling 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 2015 (CZK '000) | Less than 1 month | 1 – 3 months | 3 months to 1 year | 1 year – 5 years | 5 years and more | Total |
|------------------------------------|-------------------|------------------|--------------------|------------------|------------------|------------------|
| Non-interest bearing | 874 457 | 980 902 | 729 618 | 564 718 | 65 | 3 149 760 |
| Finance lease liabilities | 50 952 | 101 858 | 457 585 | 2 123 759 | 579 570 | 3 313 724 |
| Variable interest rate instruments | 0 | 0 | 671 831 | 0 | 0 | 671 831 |
| Fixed interest rate instruments | 1 223 | 2 435 | 561 341 | 1 089 343 | 0 | 1 654 342 |
| Total | 926 632 | 1 085 195 | 2 420 375 | 3 777 820 | 579 635 | 8 789 657 |

| 31 Dec 2014 (CZK '000) | Less than 1 month | 1 – 3 months | 3 months to 1 year | 1 year – 5 years | 5 years and more | Total |
|------------------------------------|-------------------|------------------|--------------------|------------------|------------------|------------------|
| Non-interest bearing | 1 207 761 | 909 821 | 340 784 | 641 173 | 68 | 3 099 607 |
| Finance lease liabilities | 51 009 | 101 975 | 453 423 | 2 409 785 | 845 186 | 3 861 378 |
| Variable interest rate instruments | 48 801 | 2 720 | 1 077 659 | 690 102 | 0 | 1 819 282 |
| Fixed interest rate instruments | 0 | 0 | 19 694 | 566 259 | 0 | 585 953 |
| Total | 1 307 571 | 1 014 516 | 1 891 560 | 4 307 319 | 845 254 | 9 366 220 |

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 2015 (CZK '000) | Less than 1 month | 1 – 3 months | 3 months to 1 year | 1 year – 5 years | 5 years and more | Total |
|------------------------|-------------------|----------------|--------------------|------------------|------------------|------------------|
| Non-interest bearing | 1 436 492 | 847 900 | 389 422 | 1 450 | 0 | 2 675 264 |
| Total | 1 436 492 | 847 900 | 389 422 | 1 450 | 0 | 2 675 264 |

| 31 Dec 2014 (CZK '000) | Less than 1 month | 1 – 3 months | 3 months to 1 year | 1 year – 5 years | 5 years and more | Total |
|------------------------------------|----------------------|-----------------|-----------------------|---------------------|---------------------|------------------|
| Non-interest bearing | 2 051 756 | 371 058 | 69 846 | 0 | 0 | 2 492 660 |
| Fixed interest rate instruments | 0 | 0 | 0 | 3 595 | 0 | 3 595 |
| Total | 2 051 756 | 371 058 | 69 846 | 3 595 | 0 | 2 496 255 |

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 '000) | 31 Dec 2015 | 31 Dec 2014 |
|----------------------------|-------------|-------------|
| Cashpool: | | |
| loan facility at | 600 000 | 600 000 |
| balance at | 600 000 | 600 000 |
| Overdraft loans: | | |
| loan facility at | 1 210 000 | 1 200 000 |
| balance at | 1 210 000 | 1 200 000 |
| Promissory note programme: | | |
| loan facility at | 1 500 000 | 1 500 000 |
| balance at | 1 500 000 | 1 500 000 |

32.10. STRATEGY FOR THE GROUP'S FUNDING IN SUBSEQUENT YEARS

32.10.1. Finance Leases

In 2015, a new finance lease was concluded with Koleje Czeskie in the amount of CZK 83,114 thousand. In view of the planned investments, the Parent Company is anticipated to continue utilising finance leases in the future.

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 1.2 billion 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 million. The stratification of the lending to several financing entities results in the risk of the termination of the funding being sufficiently diversified. The subsidiary ČD Logistics a.s. has also a limit of CZK 10 thousand in the form of an overdraft loan.

32.10.3. Promissory Note Programme

The Group has the possibility to use the approved promissory note programme if needed. This programme is currently not used.

32.10.4. Possibility of a Loan Being Provided by ČD, a.s.

The Company has contracted the possibility of drawing funds of up to CZK 400 million from the Parent Company beyond the cashpooling limit. During the years ending 31 December 2014 and 2015, 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 Company'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 billion. In 2012, another two tranches as part of the second issue of bonds were placed with the total nominal value of CZK 500 million. 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. Funding in the form of bonds increases the liquidity and financial stability of the Company. In 2016, the Parent Company anticipates refinancing the maturing bonds through a new placement of bonds with the same nominal value.

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. 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.

The fair value of the lease as of 31 December 2015 amounts to CZK 3,275,501 thousand. 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 2015 amounts to CZK 2,195,069 thousand. The fair value of bonds is recalculated based on the up-to-date issue rate communicated by individual banks.

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); and
- 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 2015, and 31 December 2014 are included in Level 2.

33. Post Balance Sheet Events

No events occurred subsequent to the balance sheet date that would have a material impact on the financial statements.

34. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 30 March 2016.

17

Related Party Transactions Report

The report of the Statutory Body of the Company on relations between the related parties prepared 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 Register of Companies held by the Municipal Court in Prague, File B, Insert 12844, prepared this report for the reporting period from 1 January 2015 to 31 December 2015 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 Court.

Article I.

Structure of relations between the Controlling 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 2015 to 31 January 2015
- Ludvík Urban, Vice-chairman of the Board of Directors from 1 January 2015 to 31 January 2015
- Michal Štěpán, member of the Board of Directors from 1 January 2015 to 31 January 2015
- František Bureš, member of the Board of Directors from 1 January 2015 to 31 January 2015
- Roman Štěřba, member of the Board of Directors from 1 January 2015 to 31 January 2015 (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

Recorded at the Commercial Register in Prague, Section B, File 12844

- Ivan Bednárik, Chairman of the Board of Directors from 1 January 2015 to 31 January 2015
- Bohumil Rampula, member of the Board of Directors from 1 January 2015 to 31 January 2015
- Zdeněk Škvařil, member of the Board of Directors from 1 January 2015 to 31 January 2015 (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., 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
- Centrum Holešovice a.s., Corporate ID: 27892646, with its registered office at Revoluční 767/25, Prague 1, 110 00, recorded at the Municipal Court in Prague, File B, Insert 11830
- 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

Centrum Holešovice a.s. (as specified above) only met the statutory criteria for an entity controlled by the same Controlling Entity until 25 November 2015 when the Controlling Entity discontinued its equity investment in Centrum Holešovice a.s.

(The Controlled Entity, the Controlling Entity and other entities controlled by the Controlling Entity are hereinafter referred to as "related entities".)

The structure of mutual relations between related entities can be described as follows: the Controlling Entity exercises its shareholder rights based on the applicable Articles of Association (in joint stock companies) or Deeds of Association (in limited liability companies). Specifically with regard to the Controlled Entity, the Controlling Entity is its sole shareholder and exercises its shareholder rights through decisions made as part of the general meeting of the Controlled Entity and the Controlled

Entity implements these decisions in its conditions. In the ČD Group, the Controlled Entity provides the freight railway transportation of goods with a set of related services. Through the Controlled Entity, the Controlling Entity is able to indirectly exercise its influence on the subsidiaries of the Controlled Entity. Related parties enter into standard business and obligations relations.

Through the Controlled Entity, the Controlling Entity also can indirectly exercise its influence in the subsidiaries of the Controlled Entity.

Article II.

List of activities in the reporting period at the initiative or in the interest of the Controlling Entity or related parties regarding the assets exceeding 10% of the equity of the Controlled Entity

Given that 10% of the equity totalling CZK 7,233,682 thousand of the Controlled Entity as identified from the most recent set of financial statements amounts to CZK 723,368 thousand, no such activities were noted in the year ending 31 December 2015.

Article III.

Contracts and Agreements Effective between Related Entities

During the relevant reporting period (year ending 31 December 2015), 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 |
| Centrum Holešovice, a.s. | 0 | 0 | 0 | 0 | 0 |
| ČD-Informační Systémy, a.s. | 21 | 0 | 1 | 0 | 22 |
| České dráhy a.s. | 0 | 1 | 17 | 53 | 71 |
| ČD – Telematika, a.s. | 1 | 0 | 0 | 0 | 1 |
| ČD Reality, a.s. | 0 | 0 | 0 | 0 | 0 |
| ČD travel, s.r.o. | 0 | 0 | 0 | 1 | 1 |
| Dopravní vzdělávací institut, a.s. | 1 | 0 | 0 | 0 | 1 |
| DPOV, a.s. | 2 | 1 | 0 | 2 | 5 |
| RailReal a.s. | 0 | 0 | 0 | 0 | 0 |
| RAILREKLAM, spol. s r.o. | 1 | 0 | 0 | 0 | 1 |
| Smíchov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 |
| Výzkumný Ústav Železniční, a.s. | 1 | 0 | 0 | 1 | 2 |
| JLV, a.s. | 0 | 0 | 0 | 1 | 1 |
| Žižkov Station Development, a.s. | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 27 | 2 | 18 | 58 | 105 |

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 2015) 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 thousand | Purchases of ČD Cargo, a.s. in CZK thousand |
|------------------------------------|--|--|
| České dráhy a.s. | 31 280 | 1 876 736 |
| ČD Telematika, a.s. | 51 | 33 296 |
| Výzkumný Ústav Železniční, a.s. | 15 017 | 2 459 |
| DPOV, a.s. | 7 836 | 89 607 |
| ČD – Informační Systémy, a.s. | 0 | 127 039 |
| Dopravní vzdělávací institut, a.s. | 314 | 16 625 |
| ČD travel, s.r.o. | 0 | 17 525 |
| Smíchov Station Development, a.s. | 0 | 0 |
| Žižkov Station Development, a.s. | 0 | 0 |
| Centrum Holešovice a.s. | 0 | 0 |
| RailReal, a.s. | 0 | 0 |
| RAILREKLAM spol. s r.o. | 0 | 325 |
| JLV, a.s. | 0 | 1 161 |
| TOTAL | 54 498 | 2 164 773 |

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 2015 to 31 December 2015:

- 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 2015;
- In the reporting period from 1 January 2015 to 31 December 2015, 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 2015 to 31 December 2015, 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 2015 to 31 December 2015, 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. and presented to the auditor, who audits the financial statements pursuant to specific legislation. The report will be filed in the Collection of Documents maintained by the Register of Companies held by the Municipal Court in Prague.

In Prague on 30 March 2016

Signature of the Chairman of the Board of Directors and a member of the Board of Directors of the Controlled Entity ČD Cargo, a.s.:



Ivan Bednárik
Chairman of the Board of Directors



Bohumil Rampula
Member of the Board of Directors

18

List of Used Abbreviations

| | |
|-----------------------------------|--|
| AEO | Authorised Economic Operator |
| BOZP | Occupational health and safety (OHS) |
| ČD | České dráhy, a.s. |
| ČDC | ČD Cargo, a.s. |
| ČIŽP | Czech Environmental Inspection |
| ČOV | Waste water treatment plant |
| DKV | Rail vehicle yard |
| Eas, Zaes, Falls, Roos, Ua | Business series of freight wagons |
| GŘ | General Directorate |
| GVD | Train diagram |
| HZS | Fire brigade |
| IFRS | International Financial Reporting Standards |
| ISR | European central system for the monitoring of movements of freight wagons and consignments |
| IT | Information technologies |
| KV | Rail vehicle |
| MU | Extraordinary event |
| OKV | Rail vehicle repair plant |
| PJ | Operating unit |
| PRIS | Operational information system |
| PROBIS | Operational and business information system |
| ŘP | Operations control |
| SOKV | Rail vehicle repair service centres |
| SŽDC | Railway Infrastructure Administration, state organisation |
| Tkm | Ton-kilometre |
| UIC | International Union of Railways |
| ÚDIV | Central forming of trains |
| ŽDP | Rail Transport Company |
| ŽKV | Railway vehicles |
| ŽP | The environment |
| Žst | Railway stations |

19

Identification and Contact Information

Business name: ČD Cargo, a.s.

Registered office: Praha 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

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Fax: +420 9722 42 101

Data box: 8tscdpq

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