České dráhy, a.s.

Consolidated Financial Statements
for the years ended 31 December 2021 and 2020

Independent Auditor's Report

To the shareholder of České dráhy, a.s.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of České dráhy, a.s., with its registered office at Nábřeží L. Svobody 1222, Prague 1 (the "Company") and its subsidiaries (together the "Group") as at 31 December 2021 and 31 December 2020, and of the Group's consolidated financial performance and consolidated cash flows for the years ended 31 December 2021 and 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statements of financial position as at 31 December 2021 and 31 December 2020;
- the consolidated statements of profit and loss for the years ended 31 December 2021 and 31 December 2020;
- the consolidated statements of comprehensive income for the years ended 31 December 2021 and 31 December 2020;
- the consolidated statements of changes in equity for the years ended 31 December 2021 and 31 December 2020;
- the consolidated cash flows statements for the years ended 31 December 2021 and 31 December 2020; and
- the notes to the consolidated financial statements including significant accounting policies and other explanatory information.

These consolidated financial statements have been prepared for the purpose of raising additional debt finance.

Basis for opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic (together the "Audit regulations"). These standards consist of International Standards on Auditing as supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

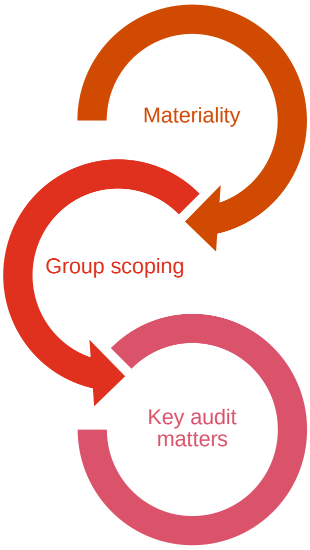
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Our audit approach

Overview



Overall materiality for the Group

2021: CZK 385 million

2020: CZK 364 million

We have identified seven entities and one subgroup which were subject to our audit based on their size or level of risk. We have cooperated with component auditors from PwC network in Poland, Slovakia and Germany. The audited group entities represent approximately 99% of the Group's revenues for 2021 and 2020.

Methods, significant assumptions and other information used to measure the provision for legal disputes related to regulation of market competition.

Methods, significant assumptions and data used to determine the recoverable amount of property, plant and equipment.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits, we also addressed the risk of management override of internal controls including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

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

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

Overall Group materiality	2021: CZK 385 million 2020: CZK 364 million
How we determined it	Materiality for the Group was determined as approximately 1% of total revenues.
Rationale for the materiality benchmark applied	We considered profit before tax as a possible basis for materiality calculation, however, due to its year-on-year fluctuation, we decided to use revenues, which is a more stable indicator.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Methods, significant assumptions and data used to estimate the provision for legal disputes related to regulation of market competition. In November 2016, proceedings were initiated by the European Commission (hereinafter “EC”) regarding a possible violation of Article 102 of the Treaty on the Functioning of the European Union (hereinafter “TFEU”) on alleged abuse of the Company's dominant position on the Prague-Ostrava route as a response to the entry of a new competing rail carrier. In 2020, EC issued a statement of objections to the detriment of the Company. The Group's management has assessed the provision for litigation, including the assessment of the probable outcome, which is based on a number of estimates and assumptions as at the balance sheet date and is therefore subject to considerable uncertainty. Based on the amount of the proceeds to which the potential breach relates, the estimated duration of the	We performed the following procedures: • We obtained an overview of significant legal disputes from management of the Group. • We received confirmation letters from law firms. • We held discussions with the Company's Legal Department and some external legal advisors. • We verified the assumptions used to estimate the provisions for legal disputes. • We tested the accuracy and completeness of the input data used to calculate the

potential breach and the opinion of external consultants on the estimated percentage likely to be applied to the relevant revenues in the range of 5 to 10%, a provision of CZK 700 million has been recognised as at 31 December 2021 and 31 December 2020 which corresponds to the estimated costs to settle the fine for the alleged infringement and related expenses.

In June 2016, EC performed the local investigation in the headquarter of the Company based on a suspicion of a cartel agreement made for mutual sales of rolling stock contrary the Article 101 of TFEU. EC has not yet issued a statement of objections. Based on the nature of information and documents requested by EC from the Company during 2021, the Group's management considered that the statement of objections could be issued as early as in 2022. Therefore, the Group's management further analysed the up-to-date communication with EC and attempted to evaluate a potential liability and assess a provision for legal disputes, including assessment of probable outcome which was based on a number of estimates and assumptions at the end of the reporting period and was therefore subject to significant uncertainty. Based on the amount of revenues to which the potential infringement relates, the estimated duration of the potential infringement and the opinion of external advisors on the estimated percentage likely to be applied to the relevant revenues, a provision of CZK 1,000 million was recorded as at 31 December 2021 (nil as at 31 December 2020), which corresponds to the estimated costs to settle the fine for the alleged infringement and related expenses.

For further information on the provision for litigation, see Note 28.1 of the consolidated financial statements.

provisions and mathematical accuracy of the submitted provision calculations.

- We assessed whether the disclosures in the consolidated financial statements related to the provisions for legal disputes met the disclosure requirements of the relevant standards (IAS 37 and IAS 1).

Methods, significant assumptions and data used to estimate the recoverable amount of property, plant and equipment.

Due to the negative effects of the Covid-19 pandemic, the Group's management concluded that impairment indicators existed as at 31 December 2021 and 31 December 2020 for the Passenger transport cash-generating unit that includes the rolling stock, other stand-alone movables used to operate passenger rail transport and the allocated part of corporate assets. The recoverable amount of the cash-generating unit was determined as its value in use. Certain assumptions used to determine the recoverable

In connection with the assessment of the recoverable amount of the Passenger transport cash-generating unit, we performed the following procedures:

- We evaluated the assumptions of the future cash flows which were based on estimated revenues, operating expenses and capital expenditures for replacement of fixed assets.

amount depend on judgement of the Group's management, in particular:

- the estimated future cash flows in the Group's most up-to-date budgets and plans ("business plans");
- the growth rate used for the period beyond the time interval included to these business plans; and
- the discount rate used to determine the present value of the future cash flows.

Based on physical observation and internal analyses, the Group's management identified fixed assets for which a significant doubt about their future usability exists. In April 2022, the Group's management decided on decommissioning the series 380 locomotives from the fleet after 2025. Management considered this decision to be an adjusting post balance sheet event, because the decision reflected the status and conditions of those fixed assets, budgets, plans and strategies that have not been significantly changed since 31 December 2021. The recoverable amount of these assets was estimated as their fair value less cost to sell. The fair value was estimated on the basis of market value of locomotives with comparable usage and technical parameters, taking into account differences in technical equipment, service availability, maintenance requirements, aging, etc. The estimated fair value in the range of CZK 45-50 million per one locomotive represents the best estimate of the Group's management. In 2021, an impairment loss of CZK 1,110 million was recognised on the series 380 locomotives. As at 31 December 2021, accumulated impairment losses for these locomotives amounted to CZK 1,609 million.

For further information on the impairment of assets see Note 16.1 of the consolidated financial statements.

- We compared the input data with the Company's long-term plan approved by the Company's Board of Directors.
- We verified the mathematical accuracy of the discounted cash flow model.
- We compared the actual results for 2021 with the previous year's budget in order to evaluate the accuracy of the forecasts prepared by the Group's management.

With the support of our valuation experts, we:

- tested determination of the discount rate based on a comparison of the input information used against externally available information and we tested whether the differences are within an acceptable range;
- considered an adequacy of the applied long-term growth rate by comparing it with the expected growth rate for the passenger transport industry for the period beyond the time interval covered by the Company's long-term plan.

We assessed the disclosures in the consolidated financial statements related to the possible impairment of assets whether they meet the disclosure requirements of the relevant standards (IAS 36 and IAS 1).

In connection with the verification of the recoverable amount of the series 380 locomotives, we performed the following procedures:

- We held discussions with the client's internal specialists in the area of passenger and freight rolling stock.
- We evaluated the assumptions used by the Group's management to estimate the market value of the assets.
- We evaluated adequacy of the input data used for the impairment loss calculation and verified the mathematical accuracy of the calculation.
- We assessed the disclosures in the consolidated financial statements related to the impairment loss whether they meet the disclosure requirements of the relevant standards (IAS 36 and IAS 1).

How we tailored our group audit scope

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

The Group operates mainly in railway transport of passengers and cargo and in the related services in the Czech Republic and Central Europe. The consolidated financial statements include companies listed in the consolidated financial statements, including the ČD Cargo subgroup. The Company alone together with ČD Cargo a.s. are the largest entities.

In our audit we determined the scope of work, which was considered necessary for individual components and the ČD Cargo subgroup. The audit scope was driven by criteria such as the size and complexity of the group entities as well as the assessed level of audit risk.

Audit procedures related to the entities located in the Czech Republic were performed by the group audit team; the procedures related to foreign subsidiaries were performed by component auditors from the PwC network on the basis of instructions issued by the group audit team. We have established an adequate level of communication with the component auditors in order to obtain an adequate basis for our opinion on the Group as a whole. This communication included regular exchange of information obtained during the audit and discussions of the key audit tests and procedures.

The scope of the work described above covers 99% of the Group's revenues (2020: 99%), 88% of the Group's loss before tax (2020: 89%) and 99% of the Group's total assets (2020: 99%). We consider the remaining entities as not being significant to the Group.

Responsibilities of the board of directors, supervisory board and audit committee of the Company for the consolidated financial statements

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

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

The supervisory board of the Company is responsible for overseeing the financial reporting process.

The audit committee of the Company is responsible for monitoring the consolidated financial statements' preparation process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

We communicate with the board of directors and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement showing that we have complied with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

14 June 2022

PricewaterhouseCoopers Audit, s.r.o.
represented by

Václav Prýmek

Milan Zelený
Statutory Auditor, Licence No. 2319

Consolidated Financial Statements for the years ended 31 December 2021 and 2020

prepared in accordance with IFRS as adopted by the EU

Name of the company:	**České dráhy, a.s.**
Registered office:	**Nábřeží L. Svobody 1222, 110 15 Prague 1**
Legal form:	**Joint Stock Company**
Corporate ID:	**70994226**

Components of Consolidated Financial Statements for the years ended 31 December 2021 and 2020 prepared under IFRS as adopted by the EU:

Consolidated Statements of Profit and Loss

Consolidated Statements of Comprehensive Income

Consolidated Statements of Financial Position

Consolidated Statements of Changes in Equity

Consolidated Cash Flow Statements

Notes to the Consolidated Financial Statements

Consolidated Financial Statements were authorised for issue on 14 June 2022

Statutory Body of the Entity	**Signature**
Michal Krapinec Chairman of the Board of Directors Lukáš Svoboda Member of the Board of Directors	

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

		Year ended 31 Dec 2021 CZK million	Year ended 31 Dec 2020*) CZK million
CONTINUING OPERATIONS			
Revenue	6	38,534	35,915
Other operating income	7	1,822	1,279
Cost of services, raw materials and energy	8	(15,708)	(15,458)
Employee benefit costs	9	(14,808)	(14,902)
Depreciation and amortisation	10	(9,049)	(7,748)
Other operating costs	11	(1,847)	(1,941)
Loss from operating activities		**(1,056)**	**(2,855)**
Finance costs	12	(1,349)	(2,044)
Finance income	13	705	586
Share of the profit of associates and joint ventures	20	17	7
Loss before tax		**(1,683)**	**(4,306)**
Income tax expense	14	(155)	(15)
Loss for the period from continuing operations		**(1,838)**	**(4,321)**
DISCONTINUED OPERATIONS			
Profit from discontinued operations	15	202	186
Profit / (Loss) for the period		**(1,636)**	**(4,135)**
Attributable to the owners of the Company		(1,655)	(4,154)
Attributable to the non-controlling interests		19	19

*) revised, see Note 15.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

		Year ended 31 Dec 2021 CZK million	Year ended 31 Dec 2020 CZK million
Loss for the period		**(1,636)**	**(4,135)**
Actuarial remeasurements of employee defined benefit obligations		49	17
Revaluation of investments in equity instruments at fair value through other comprehensive income		1	(14)
Other comprehensive income for the period (items that are not subsequently reclassified to profit or loss)		**50**	**3**
Foreign exchange gains less losses from translation of foreign operations		(40)	(17)
Change in cash flow hedge reserve	26.2.3	2,091	(487)
Change in cost of hedging reserve	26.2.4	35	21
Related income tax credit/ (expense)		(42)	13
Other comprehensive income/(loss) for the period (items that may be reclassified to profit or loss in subsequent periods)		**2,044**	**(470)**
Other comprehensive income/(loss) for the period after tax		**2,094**	**(467)**
Total comprehensive income/(loss) for the period		**458**	**(4,602)**
Attributable to the owners of the Company		439	(4,621)
Attributable to the non-controlling interests		19	19

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 AND 31 DECEMBER 2020

		31 Dec 2021 CZK million	31 Dec 2020 CZK million
Property, plant and equipment	16	81,029	74,775
Investment property	17	475	621
Goodwill	18	141	141
Intangible assets	18	1,109	1,100
Right-of-use assets	19	4,957	4,480
Investments in joint ventures and associates	20	209	200
Deferred tax asset	14	14	12
Other financial assets	23	2,301	1,211
Other assets	24	28	8
Total non-current assets		**90,263**	**82,548**
Inventories	21	2,231	2,221
Trade receivables	22	4,004	3,167
Prepaid income tax		69	15
Other financial assets	23	439	222
Other assets	24	2,746	1,795
Cash and cash equivalents	32	3,434	5,751
Non-current assets and disposal groups held for sale	15	338	-
Total current assets		**13,261**	**13,171**
TOTAL ASSETS		**103,524**	**95,719**
Share capital	26	20,000	20,000
Other capital reserves	26	19,506	17,454
Accumulated deficit		(2,687)	(757)
Equity attributable to the owners of the Company		**36,819**	**36,697**
Non-controlling interests	1.3.2	51	628
Total equity		**36,870**	**37,325**
Loans, borrowings and lease liabilities	27	44,635	42,850
Deferred tax liability	14	1,746	1,688
Provisions	28	211	255
Other financial liabilities	29	213	192
Other liabilities	30	117	231
Total non-current liabilities		**46,922**	**45,216**
Trade payables	16	9,498	4,761
Loans, borrowings and lease liabilities	27	3,664	2,698
Current income tax payable		48	49
Provisions	28	2,716	2,134
Other financial liabilities	29	675	410
Other liabilities and contract liabilities	30	3,033	3,126
Liabilities related to non-current assets and disposal groups held for sale	15	98	-
Total current liabilities		**19,732**	**13,178**
TOTAL LIABILITIES		**103,524**	**95,719**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

		Other capital reserves						
	Share capital	Share premium	Cash flow hedge reserve	Other reserves *)	Retained earnings/ (Accumulated losses)	Equity attributable to the owners of the Company	Non-controlling interests	Total equity
	in CZK million	in CZK million	in CZK million	in CZK million	in CZK million	in CZK million	in CZK million	in CZK million
Balance as at 1 January 2020	**20,000**	**16,440**	**1,026**	**423**	**3,429**	**41,318**	**621**	**41,939**
Comprehensive income/(loss)								
Loss for the period	-	-	-	-	(4,154)	(4,154)	19	(4,135)
Other comprehensive income/(loss) for the period	-	-	(474)	(6)	13	(467)	-	(467)
Total comprehensive income/(loss) for the period	**-**	**-**	**(474)**	**(6)**	**(4,141)**	**(4,621)**	**19**	**(4,602)**
Transactions with owners								
Allocation to the reserve fund	-	-	-	45	(45)	-	-	-
Dividends paid	-	-	-	-	-	-	(12)	(12)
Total transactions with owners for the period	**-**	**-**	**-**	**45**	**(45)**	**-**	**(12)**	**(12)**
Balance as at 31 December 2020	**20,000**	**16,440**	**552**	**462**	**(757)**	**36,697**	628	**37,325**
Comprehensive income/(loss)								
Loss for the period	-	-	-	-	(1,655)	(1,655)	19	(1,636)
Other comprehensive income/(loss) for the period	-	-	2,049	45	-	2,094	-	2,094
Total comprehensive income/(loss) for the period	-	-	**2,049**	**45**	**(1,655)**	**439**	19	**458**
Transactions with the owners								
Allocation to the reserve fund	-	-	-	14	(14)	-	-	-
Purchase of non-controlling interest **)	-	-	-	10	(261)	(251)	(596)	(847)
Other	-	-	-	(66)	-	(66)	-	(66)
Total transactions with the owners for the period	**-**	**-**	**-**	**(42)**	**(276)**	**(317)**	**(596)**	**(913)**
Balance as at 31 December 2021	**20,000**	**16,440**	**2,601**	**465**	**(2,687)**	**36,819**	**51**	**36,870**

*) Other reserves are described in Note 25.2.
**) More information on the impact of the change in the non-controlling interest in ČD-Telematika a.s. is provided in Note 1.3.2.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

		Year ended 31 Dec 2021 CZK million	Year ended 31 Dec 2020 CZK million
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		**(1,636)**	**(4,135)**
Income tax expense	14	203	59
Dividend income	7	(2)	(3)
Finance costs – interest expense	12	1,112	1,091
Gain on the sale and disposal of non-current assets	7	(216)	(170)
Depreciation and amortisation of non-current assets	10	7,803	7,731
Impairment losses	10	1,233	46
Change in provisions	27	546	1,743
Foreign exchange losses/(gains)		(540)	376
Share of the profit of joint ventures and associates	20	(17)	(7)
Other items		125	63
Cash flows from operating activities before changes in working capital		**8,611**	**6,794**
Decrease/(increase) in trade receivables	22	(999)	53
Increase in inventories	21	(95)	(337)
Increase in other assets	23, 24	(356)	(502)
Increase/(decrease) in trade payables		503	(971)
Decrease in other payables and contract liabilities	29, 30	(270)	(180)
Total changes in working capital		**(1,217)**	**(1,937)**
Cash flows from operating activities before interest, dividends and tax		**7,394**	**4,857**
Interest paid	12	(1,090)	(1,065)
Income tax paid	14	(209)	(135)
Dividends received	7	7	8
Net cash flows from operating activities		**6,102**	**3,665**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment	16	(10,465)	(7,476)
Proceeds from disposal of property, plant and equipment	7	261	240
Payments for investment property	17	(3)	(5)
Payments for intangible assets	18	(218)	(243)
Received interest income	13	30	71
Net cash flows used in investment activities		**(10,395)**	**(7,413)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings	31	5,518	3,899
Repayments of loans and borrowings	31	(1,356)	(1,830)
Repayment of principal of lease liabilities	31	(1,129)	(1,006)
Purchase of non-controlling interests	1.3.2	(847)	-
Dividends paid		-	(12)
Net cash flows from financing activities		**2,186**	**1,051**
Net decrease in cash and cash equivalents		**(2,107)**	**(2,697)**
Cash and cash equivalents at the beginning of the period		5,751	8,436
Effects of changes in foreign exchange rates		(72)	12
Cash and cash equivalents at the end of the period	25	**3,572**	**5,751**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

1. GENERAL INFORMATION

1.1. General information

České dráhy, a.s. (hereinafter "the Company" or "ČD") was established on 31 March 2002 under Act No. 77/2002 Coll. on the joint stock company České dráhy, the state organisation Správa železniční dopravní cesty (Railway Route Administration) and the Changes to Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll. On 1 January 2003, the state organisation České dráhy discontinued its activities and ČD and the state organisation Správa železniční dopravní cesty were formed as its legal successors. As at that date, the Company was recorded in the Commercial Register. Subsequently, on 1 January 2020, the amendment to the Railways Act changed the name of Správa železniční dopravní cesty (SŽDC) to Správa železnic, státní organizace (Railway Administration, the state organization, hereinafter “SŽ”).

The Company is the Parent Company of the České dráhy Group. The České dráhy Group (hereinafter “the Group”) consists of České dráhy a.s. (“the Parent Company”) and subsidiaries listed in Note 1.3. The consolidated financial statements have been prepared as at and for the years ended 31 December 2021 and 31 December 2020. The reporting period is the calendar year, i.e., from 1 January 2021 to 31 December 2021 and from 1 January 2020 to 31 December 2020.

The sole shareholder of the Company is the Czech Republic. The Company’s share capital is CZK 20,000 million. The Company’s registered office is at Nábřeží L. Svobody 1222, Prague 1.

1.2. Principal activity

The Group’s main business activity is operating of railway transport. Other activities of the Group include mainly property management. In addition, the Group is engaged in other activities relating to its principal business activity.

The assets comprising the railway infrastructure do not belong to the Group, but to the state. The right to operate these state assets is exercised by SŽ. SŽ secures the operability and servicing of the railway infrastructure.

1.3. Definition of the consolidation group

1.3.1. Entities included in the consolidation

Name of the entity	Registered office	Corporate ID	Ownership percentage *)		Degree of influence
			31 Dec 2021	31 Dec 2020	
České dráhy, a.s.	Prague 1, Nábřeží L. Svobody 12/1222	70994226			
ČD - Telematika a.s.	Prague 3, Pernerova 2819/2a	61459445	100 **)	70.96	Control
Výzkumný Ústav Železniční, a.s.	Prague 4, Novodvorská 1698	27257258	100	100	Control
DPOV, a.s.	Přerov, Husova 635/1b	27786331	100	100	Control
ČD Cargo, a.s.	Prague 7, Jankovcova 1569/2c	28196678	100	100	Control
ČD - Informační Systémy, a.s.	Prague 3, Pernerova 2819/2a	24829871	100	100	Control
Dopravní vzdělávací institut, a.s.	Prague 8, Prvního pluku 621/8a	27378225	100	100	Control
ČD travel, s.r.o.	Prague 1, 28. října 372/5	27364976	51.72	51.72	Control
CD Cargo Germany GmbH	Germany – Frankfurt am Main, Niddastrasse 98-102	HRB 73576	100	100	Control
CD Cargo Austria GmbH	Austria – Wien, Rotenturmstraße 22/24	FN 291407s	100	100	Control
CD Cargo Poland Sp. z o.o.	Poland – Warsaw, Grzybowska 4/3	140769114	100	100	Control
CD Cargo Slovakia, s.r.o.	Slovakia – Bratislava, Seberíniho 1	44349793	100	100	Control
CD Cargo Hungary Korlátolt Felelősségű Társaság	Hungary - 4150 Püspökladány, Keleti sor utca 26-4	09-09-031990	100	100	Control
ČD Cargo Adria d.o.o.	Croatia - Zagreb, Savska cesta 32	081371623	100	-	Control
Auto Terminal Nymburk, s.r.o. v likvidaci	Prague 7, Jankovcova 1569/2c	24234656	-	100	Control
ČD Cargo Logistics, a.s.	Prague 1, Opletalova 1284/37	27906931	100	100	Control
Terminal Brno, a.s.	Brno, K terminálu 614/11	28295374	66.93	66.93	Control
ČD-DUSS Terminál, a.s.	Lovosice, Lukavecká 1189	27316106	51	51	Control
ODP-software, spol.s r.o.	Prague 3, Pernerova 2819/2a	61683809	100	100	Control
ČD relax s.r.o.	Prague 1, 28. října 372/5	05783623	51.72	51.72	Control
CHAPS spol. s r.o.	Brno, Bráfova 1617/21	47547022	100	100	Control
ČSAD SVT Praha, s.r.o.	Prague 8, Křižíkova 4-6	45805202	100	100	Control
SVT Slovakia s.r.o.	Banská Bystrica, Partizánska cesta 97	36620602	80	80	Control
INPROP, s.r.o.	Žilina, Rosinská cesta 12	31609066	100	100	Control
Smart Ticketing s.r.o.	Prague 3, Pernerova 2819/2a	02033011	-	100	Control
Tramex Rail s.r.o.	Blansko, Brněnská 1748/21b	26246422	100	100	Control
VUZ Slovakia, s.r.o.	Slovakia - Bratislava, Seberíniho 1	53156587	100	-	Control

*) Ownership percentage is the same as the voting rights percentage
**) There was a change in the designated companies in 2021, see Note 1.3.2.

The following entities are not controlled by the Group, therefore they are not consolidated:

Name of the entity	Registered office	Corporate ID	Ownership percentage		Degree of influence
			31 Dec 2021	31 Dec 2020	
Smíchov Station Development, a.s.	Prague 8, U Sluncové 666/12a	27244164	51 **)	51 **)	Joint control
Žižkov Station Development, a.s.	Prague 8, U Sluncové 666/12a	28209915	51 **)	51 **)	Joint control
Masaryk Station Development, a.s.	Prague 1, Na Florenci 2116/15	27185842	34.00	34.00	Significant influence
JLV, a.s.	Prague 4, Chodovská 228/3	45272298	38.79	38.79	Significant influence
RAILLEX, a.s.	Prague 2, Belgická 196/38	27560589	50	50	Joint control
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 921/6	45270589	30	30	Significant influence
Ostravská dopravní společnost, a.s.	Ostrava, U Tiskárny 616/9	60793171	50	50	Joint control
Ostravská dopravní společnost - Cargo, a.s.	Ostrava, U Tiskárny 616/9	05663041	20	20	Significant influence
Smart Ticketing s.r.o.	Prague 3, Pernerova 2819/2a	02033011	50	-	Joint control

*) Ownership percentage is the same as the voting rights percentage.
**) In accordance with the Articles of Association of these entities, the unanimous consent of the parties sharing control is required for important decisions to be taken.

The following table shows the main activities of the companies included in the consolidation.

Name of the entity	Principal activity
ČD - Telematika a.s.	Provision of telecommunication services, software and advisory services
Výzkumný Ústav Železniční, a.s.	Research, development and testing of rail vehicles and infrastructure facilities
DPOV, a.s.	Inspections, repairs, modernisation and renovation of railway vehicles
ČD Cargo, a.s.	Brokerage of services in freight transportation and shipping
ČD - Informační Systémy, a.s.	Provision of telecommunication services, software and advisory services
Dopravní vzdělávací institut, a.s.	Organisation of professional courses, training and other educational events, language courses
ČD travel, s.r.o.	Travel agency and provision of travel services
CD Cargo Germany GmbH	Brokerage of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping
CD Cargo Austria GmbH	Brokerage of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping
CD Cargo Poland Sp. z o.o.	Brokerage of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping
CD Cargo Slovakia, s.r.o.	Brokerage of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping
CD Cargo Hungary Korlátolt Felelősségű Társaság	Rail freight transport, wholesale of raw materials and fuels, storage and other
ČD Cargo Adria d.o.o.	Rail freight transport, wholesale brokerage of raw materials and fuel, storage and other
ČD Cargo Logistics, a.s.	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
Smíchov Station Development, a. s.	Design, renovations, modernisation and development of the Smíchovské railway station
Žižkov Station Development, a. s.	Design, renovations, modernisation and development of the Žižkov railway station
Masaryk Station Development, a. s.	Development of the Masaryk railway station
JLV, a.s.	Provision of accommodation and catering services
RAILLEX, a.s.	Handling of cargo and technical services in transportation, shipping
BOHEMIAKOMBI, spol. s r.o.	Brokerage of services in transportation except for transportation by own vehicles
Ostravská dopravní společnost, a.s.	Operation of railway transportation and lease of railway vehicles and railway wagons
ODP-software, spol.s r.o.	Development and support of mobile POS systems for trains passengers service and systems with contactless cards
ČD relax s.r.o.	Travel agency activity with a specific focus only on fitness and recovery stays for employees of ČD Group
Ostravská dopravní společnost - Cargo, a.s.	Operation of rail transport and rental of railway traction vehicles and railway wagons
CHAPS spol. s r.o.	Development, maintenance and operation of IT applications and systems
ČSAD SVT Praha , s.r.o.	Development and operation of information systems for transport
SVT Slovakia s.r.o.	Development and operation of information systems for transport
INPROP, s.r.o.	Design and solutions of information system for inventory management
Smart Ticketing s.r.o.	Activities related to Information technology
Tramex Rail s.r.o.	Development, production, installation and servicing of electronic equipment and components for railway applications for rolling stock
VUZ Slovakia, s.r.o.	Research and development in the field of transport, brokerage

The Company and its subsidiaries are hereinafter referred to as the “Group”.

The Group includes the ČD Cargo Group, which consists of ČD Cargo, a.s. and its subsidiaries.

1.3.2. Changes in the composition of the Group

On 24 June 2021, České dráhy, a.s. became the sole shareholder of ČD - Telematika a.s. as a result of the acquisition of a minority interest (29.04%).

The following table presents the impact of the change in the Company's ownership interest in ČD-Telematika a.s.

	(CZK million)
Carrying value of acquired non-controlling interest	596
Paid to the owners of the non-controlling interest	847
Decrease in equity attributable to the owners of the Company	**(251)**

All other changes in the composition of the Group had immaterial impact to the Group's consolidated financial statements.

1.4. Details on co-owned subsidiaries with significant non-controlling interests

Subsidiary	Ownership interests held by non-controlling interests		Profit belonging to non-controlling interests in CZK million		Accumulated non-controlling interests in CZK million	
	31 Dec 2021	31 Dec 2020*)	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
ČD – Telematika a.s.	0.00 %	29.04 %	16	14	0	580

*) the ownership interest coincides with the share of voting rights held by non-controlling interests (CZK million)

ČD – Telematika a.s.	31 Dec 2020
Non-current assets	1,788
Current assets	1,831
Non-current liabilities	488
Current liabilities	1,135
Total equity	1,996
Equity attributable to the owners of the Company	1,416
Non-controlling interests	580

(CZK million)	The year ended 31 Dec 2021	The year ended 31 Dec 2020
Revenue	1,007	1,775
Costs	(972)	(1,728)
Profit for the period	**35**	**47**
Profit attributable to the owners of the Company	25	33
Profit attributable to the non-controlling interests	10	14
Total profit	**35**	**47**
Total comprehensive income attributable to the owners of the Company	25	33
Total comprehensive income attributable to the non-controlling interests	10	14
Total comprehensive income	**35**	**47**
Net cash flows from operating activities	(194)	(24)
Net cash flows used in investment activities	54	(296)
Net cash flows from financing activities	(15)	(72)
Net cash flow	**(155)**	**(392)**

1.5. Impact of Covid-19 on the consolidated financial statements for the year ended 31 December 2021 and 31 December 2020

The existence of the novel coronavirus causing the Covid-19 disease was confirmed in early 2020 and has spread globally. The pandemic and especially the restrictive measures taken in order to mitigate the health impacts have caused disruptions to businesses and economic activities and have affected the Group's operations in the years ended 31 December 2021 and 31 December 2020.

The first half of 2020 was characterized by the Covid-19 pandemic. As a result of this pandemic, countries around the world have imposed restrictions on leaving homes, ordered business to shut down and imposed entry bans. The measures placed severe restrictions on public life, and travel restrictions meant a sharp decline in passenger numbers since March 2020. In addition, the threat of unemployment and the expected decline in income caused households to reduce their spending. Demand was rising again since May 2020, however, began to decline in the last quarter of 2020 due to the deteriorating epidemiological situation.

In 2020, revenues from passenger transport decreased by approximately CZK 4.5 billion due to a fall in demand from passengers. In the area of regional transport, steps and measures have been taken promptly, which partially helped reducing economic losses caused mainly by the decline in passenger numbers.

In 2021, passenger transport was negatively affected by the ongoing Covid-19 pandemic (the drop in sales against the plan was 15% in domestic transport and 14% in international transport). The consequences of the pandemic affected the transport market throughout the whole year, due to restrictive measures taken in order to mitigate the health impacts (especially in the first half of the year), which disrupted business and economic activities and thus significantly reduced the mobility and numbers of passengers both in domestic and international transport. Revenues from passenger transport increased by CZK 692 million compared to 2020, however, still have not reached pre-pandemic level.

The freight transport was also negatively impacted by Covid-19 pandemic in 2020. It faced not only a decline in demand but also complications in international transport including numerous safety and hygienic measures. Decrease of performance in most transported commodities of ČD Cargo was fully in line with industry economic development and with restrictions of the flow of goods from / to China and throughout Europe. Loss of revenues from freight transportation was approximately 1,1 billion CZK and was partially eliminated by expansion of ČD Cargo brand abroad, as well by a number of austerity measures aiming primarily at more effective use of operational capacities and labour productivity boost.

During 2021 there was no significant impact of Covid-19 pandemic on the freight transport segment.

Following the anticipated impact of the Covid-19 pandemic, the Group created a provision for onerous contracts in the amount of CZK 150 million as at 31 December 2021 and CZK 291 million as at 31 December 2020 (note 28.3).

In 2021, in connection with the Covid-19 pandemic, the Group received a grant of CZK 558 million from the Ministry of Transport (hereinafter “MT”) as a compensation for the losses incurred by the Passenger transport segment between March and June 2020 from operations of regional transport outside of the scope of the public service obligations and from operation of transregional and long-distance transport. Further, in 2021 the Group received the grant from MT within the Covid - Uncovered Costs program in the amount of CZK 40 million (Note 32.5).

In addition, the Group continued to implement cost-saving measures to mitigate the effects of the crisis caused by the Covid-19 disease. In connection with the cutting personnel costs, the Group in the first half of the year continued with the partial unemployment scheme for selected employees, according to the Section 209 of the Labour Code for the necessary period and concluded an agreement with the state to receive a contribution to cover part of personnel costs paid by the Group under the partial unemployment scheme (Antivirus program) in the amount of CZK 80 million in 2021 and CZK 173 million in 2020 (Note 32.5).

Impairment tests are usually performed on an annual basis. As at 31 December 2021 and 31 December 2020, the Group reviewed whether there were any new impairment indicators present due to the uncertainty caused by Covid-19. No further significant adjustment to accounting estimates has been deemed necessary. Possible future impacts on the measurement of individual assets and liabilities are monitored and analysed on an ongoing basis.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of compliance

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

2.2. Basis of preparation of the consolidated financial statements

The Group prepared these consolidated financial statements for purposes of raising additional debt finance.

There are the following differences between these consolidated financial statements and the audited consolidated financial statements for the year ended 31 December 2021 authorised for issue on 27 April 2022:

- correction of a clerical classification error in the Segment revenues (note 5.2) and the Breakdown of revenue (note 6.1).
- change of presentation of PPE impairment charge in the Segment expenses (note 5.2).
- more detailed presentation of unrecognised deferred tax asset and recognised deferred tax assets and liabilities (note 14.3).

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

The accounting policies used in the preparation of these financial statements are presented below. Accounting policies are consistent in the reporting period with the accounting policies used in previous periods, if not stated otherwise.

The preparation of consolidated financial statements in accordance with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying accounting policies. Areas with a high degree of judgment or complexity, or areas with assumptions or estimates significant for these financial statements are described in the Note 4.

The going concern basis of the Group

At the time of approval of the consolidated financial statements, the Group's management has a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future. Therefore, these financial statements have been prepared on a going concern basis and do not include any adjustments to the carrying amounts and classifications of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate.

2.3. Basis of consolidation

The consolidated financial statements incorporate financial information of the Company and entities controlled by the Company (subsidiaries). Control is achieved when the Group has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the three elements of control stated above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group’s voting rights in an investee are sufficient to give it power, including:

- the size of the Group’s holding of voting rights relative to the size and dispersal of holdings of the other vote holders;
- potential voting rights held by the Group, by other voting rights holders or by other parties;
- rights arising from other contractual arrangements;

– any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ends when the Group loses control of the subsidiary. Specifically, the income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and consolidated statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

The profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. The total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

2.4. Business combinations

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

Identifiable assets acquired and liabilities assumed are recognised at their fair value, with the following exceptions:

- deferred tax assets or liabilities, and assets and liabilities related to arrangements of the employee benefits are recognized and measured in accordance with IAS 12 Income Taxes, or IAS 19 Employee Benefits, respectively,
- liabilities or equity instruments related to share-based payments agreements in the acquiree, or agreements on share-based payments of the Group replacing the share-based payment arrangements in the acquiree are measured at the acquisition date in accordance with IFRS 2 Share-based Payment.

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

Non-controlling interests, which represent current ownership interests of third parties and entitle the holders to the proportionate share of the acquiree's net assets in case of liquidation may be initially measured at fair value or at proportionate share of non-controlling interest on the recognized identifiable net assets acquired. The measurement basis can be selected individually for each specific acquisition. Other types of non-controlling interests are measured at fair value.

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

Subsequent accounting for changes in the fair value of contingent consideration, that cannot be considered as changes within the measurement period, depend on the classification of contingent consideration. Contingent consideration that is classified as equity is not remeasured at the date of the subsequent financial statements and its subsequent payment is charged to equity. Contingent consideration classified as an asset or liability is revalued to profit or loss at the date of the subsequent financial statements.

If the business combination is achieved in stages, the shares in the acquired entity, previously owned by the Group, are revalued to fair value at the acquisition date (i.e., the date when the Group acquires control) and any resulting gain or loss is recognized in profit or loss. Amounts related to holding shares in the acquiree before the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, if such an approach was appropriate in the event of the sale of these shares.

If the initial accounting for a business combination is not complete by the end of the reporting period in which the combination occurred, the Group presents the outstanding item at their provisional amounts. Provisional amounts are adjusted during the “measurement period” (see above) or additional assets and liabilities are captured, in order to reflect new information obtained about new facts and circumstances that existed at the acquisition date and which, if it were known, affected the amounts provided at that date. The completion period may not exceed one year from the acquisition date.

2.5. Revenue recognition

2.5.1. *Revenue from contracts with customers*

In the first phase, all contracts with customers are analysed in order to identify obligations towards the customer. Subsequently, the transaction price is determined and, in case of several identified performance obligations, is allocated according to their relative standalone selling prices. Consequently, revenue is recognised at the appropriate amount for each performance obligation at a certain point in time or over time of the contract term (it may be recognised over several reporting periods). Revenues are reported net of value added tax and are further reduced by expected returns from customers, rebates and other similar discounts.

The Group recognizes revenue when the performance obligation is satisfied by transferring a promised service or good (asset) to a customer, which means that once a customer obtains control of that asset. Revenue is recognized in the amount of the transaction price allocated to the performance obligation. The received payment is initially recognised as a contract liability that is subsequently released to revenue as the performance obligation is satisfied.

Revenue from passenger transport is recognised in the period in which transport services are provided taking into account a stage of completion of a service (e.g., validity period of long-term travel documents). Revenue from domestic and international freight transport is recognised when a service is provided with respect to a stage of completion of individual transactions determined by the actual day/kilometres of transport performed in the referred period to the total number of day/kilometres of transport.

In contrast to domestic one, international transport also includes the settlement process of proceeds and revenues from foreign carriers and sellers of international tickets. In some cases, such settlements may be delayed by a few months. For this reason, revenue as of a date a service has been provided is estimated based on the information available to the Group.

In addition to selling tickets and similar documents, a significant part of revenue from transport includes revenue from the usage of passenger cars in the RIC mode („Regolamento Internazionale delle Carrozze”), based on the Convention for the Reciprocal Use of Wagons in International Traffic, with the settlement on a quarterly basis. Therefore, in this case revenue is also estimated.

Revenues from orderers such as the Ministry of Transport and the regions are key revenues and are included in the Passenger transportation segment.

For passenger transport revenues, the Group applies practical expedient in accordance with IFRS 15.B16 and recognizes revenues in the amount it has a right to invoice.

The transaction price has a fixed and a variable considerations. The fixed part represents the transaction price without consideration of fees and penalties. The variable component exists in the form of fees and penalties associated with the failure of the Group to fulfil the contractual obligation in relation to customers i.e., breach of timetable, damages to the transported goods, etc. In case of the variable component, the revenue is recognised to the extent to which it is highly probable that the revenue will not be subject to reversal in future.

2.5.2. Other income

Dividend income is recognized when there is a right to receive payment and the receipt of such payment is probable.

Interest income is recognised when it is probable that the economic benefits will flow into the Group and the amount of income could be measured reliably. Interest income 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. If a financial asset is considered credit-impaired, interest income is calculated based on the asset's amortised cost (i.e., the gross carrying amount less the loss allowance).

2.6. Lease

2.6.1. The Group as a lessee

At the inception date of a contract, the Group assesses whether it is a lease contract or contains an embedded lease. The Group recognises a right-of-use asset and a corresponding lease liability in respect of all lease contracts in which the Group is a lessee, except of short-term leases (with a lease term of 12 months or less and containing no purchase options) and low-value asset lease (such as laptops and personal computers, small items of office furniture and phones). For these leases, the Group recognizes lease payments as operating expenses on a straight-line basis over the term of a lease.

At the commencement date of the lease, the lease liability is initially measured at the present value of lease payments to be made over the lease term that are not yet paid at that date. The lease payments are discounted using the interest rate implicit in a lease or, if this rate is not available, incremental borrowing rate is used.

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

- fixed lease payments less any receivables from lease incentives;
- variable lease payment that are based on an index or a rate, initially measured using an index or rate as at the commencement date;
- amounts expected to be payable by the Group as guaranteed residual value;
- exercise price of a purchase option if the lessee is reasonably certain that the option will be exercised; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising this option.

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

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

- there is a change in a lease term or if there is a material event or change in circumstances that led to a change in the assessment of an option to purchase the underlying asset. In such a case, the lease liability is remeasured by discounting the revised lease payments using the revised discount rate.
- there is a change in lease payments resulting from a change in an index or a rate or change in the amounts expected to be payable under guaranteed residual value. In this case, the lease liability is remeasured by discounting the revised lease payments using the unchanged discount rate.

- a lease contract is modified, and the modification is considered to be a separate lease. In this case, the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using the revised discount rate as at on the effective date of the modification.

Lease liabilities are presented in Loans, borrowings and lease liabilities in the consolidated statement of financial position.

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

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

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

At the end of each reporting period, the Group assesses whether there is any indication that right-of-use assets are impaired and recognizes any identified impairment losses in accordance with the rules described in Note 2.12 Property, plant and equipment.

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

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

2.6.2. The Group as a lessor

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

If the Group is the intermediate lessor, it accounts for the main lease and the sublease as two separate contracts. Subleases are classified as finance leases or operating leases by reference to the right-of-use asset arising from the principal lease.

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

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

After initial measurement, the Group regularly assesses the estimated unguaranteed residual value and recognizes an allowance for expected credit losses from lease receivables, in accordance with the accounting policies for financial assets carried at amortized cost.

Income from finance lease is calculated based on the gross carrying value of lease receivables, except for credit-impaired financial assets, for which interest income is calculated on the basis of their net carrying value, i.e., after deducting the allowance for expected credit losses.

2.7. Foreign currencies

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

Transactions denominated in foreign currencies are translated and recorded at the fixed exchange rate announced by the Czech National Bank on the date of the transaction. If the current exchange rate does not change significantly over time, the Group uses average exchange rate of this period for a longer period of time - usually one month. At the date of the consolidated financial statements, monetary items denominated in foreign currencies are translated to Czech crowns at the Czech National Bank exchange rate as at that date. Non-monetary items that are measured at historical cost in a foreign currency are not remeasured for changes in foreign exchange rates after initial recognition.

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 other comprehensive income and reclassified to profit or loss when the hedged underlying items affect profit or loss.

For the purposes of presentation of the consolidated financial statements, the assets and liabilities of the Group's foreign subsidiaries and associates are translated to CZK using exchange rates prevailing at the date of the consolidated financial statements. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in the consolidated statement of comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

2.8. Borrowing costs

Borrowing costs directly attributable to acquisition, construction or production of qualifying assets (i.e., 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 the assets are substantially ready for their intended use or sale.

Investment income earned on 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 incurred.

2.9. Grants

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

Grants whose primary condition is that the Group should purchase, construct or otherwise acquire fixed assets, are recognised as a reduction of cost of those fixed assets in the consolidated statement of financial position.

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

2.10. Employee benefit costs

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

Employee benefit liabilities and provisions reported in the consolidated statement of financial position represent their present value and are calculated using the incremental method. Additions to these liabilities and provisions are expensed in the reporting period in which services, that entitle the employees to such benefits, have been rendered.

The provision for long-term employee benefits is determined using the Projected Unit Credit Method, with an actuarial valuation at the end of each reporting period. Gains or losses arising from adjustments and changes in actuarial assumptions for post-employment defined benefit obligations are included in other comprehensive income, changes in the provision for other long-term benefits are recognised in profit or loss.

2.11. Taxation

The income tax includes current tax and deferred tax.

2.11.1. Current tax

Current tax calculation is based on taxable profit for the year. The taxable profit differs from the profit recorded in the consolidated statement of profit and loss as it does not include items of income or expense that are taxable or deductible in other years, and items that are not taxable or deductible. The Group's current tax is calculated using tax rates in accordance with the legislation that has been enacted or substantively enacted by the end of the reporting period.

2.11.2. Deferred tax

Deferred tax is recognised based on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used to calculate 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. In accordance with the initial recognition exemption, deferred tax asset or deferred tax liability are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination, if the transaction, when initially recorded, affects neither accounting nor taxable profit.

The carrying amounts of deferred tax assets are 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 deferred tax 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.

Deferred income tax assets are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

2.11.3. Current tax payables and deferred tax for the period

Current and deferred tax are recognised as expenses 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 tax is also recognised outside of profit or loss.

2.12. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated impairment losses and, in case of buildings and equipment, less accumulated depreciation. Freehold land is not depreciated.

Assets under 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 depreciation of other assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, applying the straight-line method. Freight rolling stock is depreciated using the component method of depreciation. Freight wagons and traction vehicles without components are depreciated to the estimated residual value. Components of this freight rolling stock are depreciated based on their performance, according to the actual kilometres ran. 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.

The following useful lives were used in the depreciation calculation:

	Number of years
Constructions	20 – 50
Vehicles	
Locomotives	20 – 35
Passenger cars	20 – 30
Freight wagons (without components)	25 – 33
Components	2 – 15
Optical fibres	25 and 50
Equipment	8 – 20

Property, plant and equipment items are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of these assets. Gain or loss arising on the disposal or retirement 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.

The Group capitalises major (periodical) repairs of rolling stock. The costs of repairs are recorded as a separate asset (component) and are depreciated over the useful life of repairs. The depreciation period of the components is determined for the series of rolling stock and component types.

Average useful life:

	Number of years
First substantial repair of units	4
First substantial repair of vehicle	6
Major repair of vehicle	11

Strategic spare parts (exchangeable units) are reported within Vehicles. Other spare parts that meet the conditions for classification in accordance with IAS 16 are reported within Assets under construction.

2.13. Investment property

Investment property, namely property held to earn rental income and/or for capital appreciation (including property under construction for future use as investment property), is initially measured at cost, including transaction costs associated with its acquisition. Subsequent to initial recognition, the Group measures its investment property using the cost model; the carrying amounts are decreased by accumulated depreciation and impairment.

Investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its sale. Gains and losses on derecognition of the property (determined as the difference between the net disposal proceeds and the carrying amount of the asset) are included in profit or loss in the period in which the property is derecognised.

The depreciation method and useful life are determined by the Group for investment property in accordance with the property included in the Constructions category (see Note 2.12).

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 the estimated useful lives of assets. 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.

The following useful lives were used in the amortisation calculation:

	Number of years
Software	3 – 10
Software licenses	6 – 10
Contractual relations	5
Customer relations	5
Know-how	10
Trademarks	10

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

2.15. Goodwill

Goodwill is initially measured at the amount corresponding to the difference between the consideration increased by the value of any non-controlling interest and by the fair value of any previously held interest and the net amount of acquired identifiable assets acquired and assumed liabilities and contingent liabilities. After initial recognition, goodwill is recognised at cost less accumulated impairment losses. Recognised goodwill is tested for impairment. This test is performed at least once a year or more often if there are indicators of possible impairment of goodwill. At the acquisition date, goodwill is allocated to those cash-generating units that are expected to benefit from the synergies resulting from the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are substantially independent of cash inflows from other assets. The impairment of goodwill is set by determining the recoverable amount of those cash-generating units to which goodwill has been allocated. If the recoverable amount of such cash-generating unit is lower than its carrying amount, impairment loss is recognised. Recognised goodwill impairment losses cannot be reversed later. In case of a partial sale of a cash-generating unit to which goodwill has been allocated, the carrying amount of goodwill related to the sold part of the cash-generating unit is included in profit or loss on disposal. The amount of derecognised goodwill is determined based on the relative values of the sold part of the cash-generating unit in comparison with the part that remains in the Group's ownership.

2.16. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of tangible and intangible assets to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of such assets is estimated in order to determine the amount of possible impairment. When it is impossible to determine the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are also allocated to individual cash-generating units, if reasonable and consistent basis of allocation can be determined. Otherwise, corporate assets are allocated to the smallest group of cash-generating units for which it is possible to determine a reasonable and consistent basis for allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least once a year and when there is any indication that the asset might be potentially impaired.

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

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

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

2.17. Investments in joint ventures and associates

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

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 decisions relating to relevant activities of the entity into which the investment was made, but it is not control or joint control over such entity. In this case, the Group ordinarily controls 20-50 % of voting rights.

The economic results, assets and liabilities of joint ventures and associates are incorporated in these consolidated financial statements by using the equity method. Under the equity method, investments in joint ventures and associates on initial recognition are carried at cost in the consolidated statement of financial position and are subsequently adjusted for the Group's share of profit or loss and other comprehensive income of the associate or joint venture. If the Group's share of losses of the associate or joint venture exceeds the Group's investment in the associate or joint venture, the Group will stop to show its share of further losses. Additional losses are recognised only when the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The Group will stop using the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held-for-sale. If the Group retains an interest in the former associates and joint ventures and the retained share is a financial asset, the Group recognises all the retained interest at fair value at that date and the fair value is considered carrying amount at initial recognition of the financial asset in accordance with IFRS 9. The difference between the carrying amount of the former associate or joint venture at the date of termination of use of the equity method and the fair value of the retained interest in the former associate or joint venture is included when determining the gain or loss on the sale of associate or joint venture. The Group also accounts for all amounts recognised in other comprehensive income in relation to that former associate or joint venture in the same way as if the associate or joint venture directly disposed of the related assets or liabilities. Therefore, a gain or loss previously recognised in other comprehensive income by an associate or a joint venture would be reclassified to profit or loss upon disposal of the related assets or liabilities, the Group reclassifies the gain or loss from other comprehensive income to profit or loss (as a reclassification adjustment) when it terminates the use of the equity method for that investment.

The Group continues to apply the equity method when the investment in an associate becomes an investment in a joint venture or if an investment in a joint venture becomes an investment in an associate. These changes in ownership do not trigger revaluation to fair value. If the Group reduces its ownership interest in an associate or joint venture, but continues to use the equity method, then the previously recognised portion of the gain or loss in other comprehensive income is reclassified to the profit or loss, should the gain or loss be reclassified into profit or loss at the sale of the related assets or liabilities.

If the Group‘s entities trade with a joint venture or an associate of the Group, profits or losses arising from those transactions with joint venture or associate are recognised in the consolidated financial statements of the Group to the extent of interest in a joint venture or an associate that does not belong to the Group.

2.18. Inventories

Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined using the weighted average method. The net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Spare parts that meet the conditions of classification in accordance with IAS 16 are recognised as Property, plant and equipment (Note 2.12).

2.19. Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering 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.

In cases when some or all of the expenditure required to settle a provision are expected to be reimbursed by another party, an asset is recognized when it is certain that the reimbursement will be received by the Group and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised valid expectations 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 triggered by the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Group.

A provision can be used only for expenditures for which the provision was originally recognised. Change in a provision is recognised in profit or loss for a specific expense category; the unused portion of the provision is recognised in Other operating income.

Current liabilities arising from onerous contracts are recognized and measured as provisions. Onerous contract is understood as a Group’s contract under which the unavoidable costs of meeting obligations under the contract exceed the envisaged economic benefits expected to be received under such a contract. The costs of fulfilling the contract include both the incremental costs of fulfilling the contract and the allocation of other costs that are directly related to fulfilling a contract.

2.20. Financial instruments

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

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets or liabilities other than those measured at fair value through profit or loss are added upon initial recognition to the fair value of financial assets or deducted from the fair value of financial liabilities, respectively. The exceptions are transaction costs that are directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss which are recognised immediately in profit or loss.

Financial assets are classified into the following three categories: financial assets at amortised cost, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income. The classification depends on the Group’s business model and the nature of the contractual cash flows of the particular financial asset.

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

2.20.1. Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest income / expense over the relevant period. The effective interest rate is the rate that exactly discounts expected future cash inflow/outflow (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) with the exception for expected credit losses through the expected life of the debt instrument, to their gross amortised cost at initial recognition.

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

2.20.2. Financial assets at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income include equity investments not held for trading. The Group includes among these assets equity investments that are not traded on an active market.

Investments in equity instruments measured at fair value through other comprehensive income are initially measured at fair value increased by transaction costs. They are subsequently measured at fair value, whereas gains and losses from changes in fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve.

Dividend income from equity investments is recognised in profit or loss when the Group has a right to receive dividends.

2.20.3. Financial assets at amortised cost

Loans and receivables (including bank balances) are financial assets held within the business model which objective is to collect contractual cash flows that are solely payments of the principal and interest on the outstanding principal. Hence, the Group measures these assets at amortised cost applying the effective interest method less any allowance for expected credit losses. These assets are recognised when the cash, goods or services are provided directly to a debtor by the Group with no intention of trading the receivable.

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

2.20.4. Financial assets at fair value through profit or loss

Financial assets which are not measured at amortized cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

The Group reports in this category financial derivatives presented under Other financial assets.

Financial assets measured at fair value through profit or loss are measured at fair value at the end of each reporting period, and all gains or losses of fair value are recognized in profit or loss to the extent that they are not part of the hedging relationship (see the hedge accounting policy). The method of determining fair value is described in Note 36.3.

2.20.5. Expected credit losses on financial assets

Financial assets, other than those at fair value through profit or loss, are reduced by an allowance for expected credit losses as at the asset recognition and at subsequent measurement.

Full model (3-stage impairment model): the financial asset is initially categorised within Stage 1, where credit loss allowance is recognised at an amount equal to 12-month expected credit losses. During the useful life of an asset, the Group considers if there is significant increase in credit risk. If significant increase in credit risk is identified, the financial asset is reclassified to Stage 2, where the credit loss allowance is recognised at a lifetime expected credit loss. In case of a counterparty default, such asset is reclassified to Stage 3, where interest income on financial assets is recognised by applying the initial effective interest rate to the amortised cost net of allowances for expected credit losses.

For the purpose of determining expected credit losses, the Group applies the simplified approach in accordance with IFRS 9, which allows the assessment of the lifetime expected loss for all short-term trade receivables, contractual assets and receivables from financial leases.

The simplified model is applied for current trade receivables not containing a significant financing component and financial lease receivables. The Group recognises the allowances for receivables assessed on a portfolio basis based on the impairment matrix including historical inputs reflecting future expectations.

For receivables assessed on an individual basis, the Group considers the following factors that affect the debtor’s ability to meet its obligations:

- 30 and more days past due date,
- Forward looking information,
- Knowledge of a customer,
- Payment morale.

Based on historic experience, the Group uses the following criteria for default determination:

- If information gathered from external sources indicates that a debtor will not be able to pay its creditors in full (bankruptcy, insolvency proceedings).
- If the financial asset is more than 90 days past due and the Group has no evidence that the delay in payments is not sufficient criterion for default determination.

2.20.6. 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 substantially retains 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 substantially retains 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 an asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. Upon derecognition of an investment in an equity instrument, that the Group recognizes at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss but is transferred to retained earnings.

2.20.7. Financial liabilities at fair value through profit or loss

Financial liabilities are classified as financial liabilities at fair value through profit or loss when they are either held for trading or designated as measured at fair value through profit or loss.

This category includes financial derivative instruments recognised under other financial liabilities.

Financial liabilities at fair value through profit or loss are measured at fair value, with any resulting gain or loss on changes in fair value being recognized in profit or loss (unless they are part of a designated hedging relationship - see hedge accounting policies). The fair value is determined as described in Note 36.3.

2.20.8. Financial liabilities measured at amortised cost

Financial liabilities that are not held for trading or designated as financial liabilities at fair value through profit or loss are subsequently measured at amortised cost applying the effective interest method.

Loans are initially recognized at fair value less transaction costs. In subsequent periods, loans are carried at amortized cost using the effective interest rate method.

2.20.9. Derecognition of financial liabilities

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

2.20.10. Derivative financial instruments

The Group enters into a variety of financial derivative contracts to manage its exposure to interest rate, currency and commodity risks.

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

Derivatives that do not meet the criteria for hedging derivatives are recorded by the Group at fair value through profit or loss.

A derivative with a positive fair value is recorded as a financial asset, while a derivative with a negative fair value is recorded as a financial liability. Derivatives are not offset in the consolidated financial statements unless the Group has an enforceable right to set-off and intends to exercise it.

2.20.11. Hedge accounting

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

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Since the inception, the Group documents and monitors on an ongoing basis, whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. The Group monitors the hedge ratio, sources of ineffectiveness and credit risk impact. Hedge accounting corresponds to the Group’s risk management strategy. Under IFRS 9, the Group recognises the basis spreads separately from cross-currency interest rate swaps as cost of hedging.

If a hedging relationship ceases to meet the hedge effectiveness requirement associated with the hedging ratio, but the risk management objectives for that hedging relationship remain the same, the Group adjusts the hedging ratio for that hedging relationship (i.e., rebalances the hedging) to meet the required criteria.

2.20.12. Cash flow hedges

The effective part of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in the cash flow hedging reserve. The Group recognises cost of hedging separately if the criteria of cost recognition through other comprehensive income have been met. The gain or loss relating to the ineffective part 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 consolidated 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 only when the hedging relationship no longer qualifies for hedge accounting (fully or partially), after considering any rebalancing of the hedging relationship or when the hedging instrument expires or is sold, terminated, or exercised. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedging reserve at that time remains in equity and is remeasured through profit or loss when the forecast transaction is recognised. When a forecast transaction is no longer expected to occur, gain or loss accumulated in the cash flow hedging reserve is reclassified immediately to profit or loss.

2.20.13. Fair value hedge

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

The Group terminates hedge accounting only when the hedging relationship (or part of it) ceases to meet the qualification criteria (after rebalancing, if relevant), i.e., upon expiration of the hedging instrument or upon its sale, termination or implementation of the contract in question. The termination of hedge accounting is accounted for prospectively. The adjustment to the carrying amount of the hedged item that reflects fair value and arises from the hedged risk is amortized to profit or loss from the date of the adjustment.

2.20.14. Financial derivatives held for trading

All derivative transactions that the Group concludes are acquired 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 recorded as derivatives held for trading. The change in 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 the annual period ended 31 December 2021

During the year ended 31 December 2021, the following standards, amendments and interpretations, (relevant to the Group's activities) became effective:

Amendments, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 9, IFRS 7, IAS 39, IFRS 4 and IFRS 16 - Amendments to IFRS 9, IFRS 7, IAS 39, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform - Phase 2	1 January 2021
IFRS 16 - Amendments IFRS 16 – Covid-19-Related Rent Concessions	1 June 2020

The adoption of the abovementioned amendments during the period did not have a significant impact on the disclosures or amounts presented in these financial statements. The Group analysed the possible impact of the interest rate benchmark reform and concluded that the reform was not yet relevant to the Group.

During the year ended 31 December 2020, the following standards, amendments and interpretations became effective:

Amendments, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 3 - Amendments to IFRS 3 – *Definition of a Business*	1 January 2020
IAS 1, IAS 8 – Amendments to IAS 1 and IAS 8 – *Definition of 'Material'*	1 January 2020
IFRS 9, IFRS 7, IAS 39 – Amendments to IFRS 9, IFRS 7 and IAS 39 *Interest Rate Benchmark Reform*	1 January 2020
Various IFRS - *Amendments to References to the Conceptual Framework in IFRS Standards*	1 January 2020

The adoption of the abovementioned standards, amendments and interpretations during the period did not have a significant impact on the disclosures or amounts presented in these financial statements.

The amendment to IFRS 9, IFRS 7 and IAS 39 issued following the interest rate benchmark reforms concerns the hedge accounting requirements in the period before the reforms were enacted. It applies to all hedging relationships that are directly affected by the interest rate benchmark. The hedging relationship is directly affected, if the reform causes uncertainty about the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. This amendment has no impact on the Group's financial statements. Although the Group has entered into interest rate hedging transactions with the PRIBOR rate hedged, all these transactions terminated during 2021 and as at 31 December 2020 the settlement rates were already fixed.

3.2. Standards and interpretations used prior to the effective date

The Group has applied the Amendment to IAS 37 - Onerous Contracts - Cost of Fulfilling a Contract before its effective date (effective for annual periods beginning on or after 1 January 2022) for the provision for onerous contracts. The Amendment to IAS 37 specifies that the 'costs of fulfilling' a contract comprises the costs that relate directly to the contract. When creating a provision for onerous contracts, among these costs the Group includes incremental costs of fulfilling a contract (e.g., direct labour costs, material consumption) as well as the allocation of other costs that relate directly to fulfilling contracts (e.g., allocation of depreciation charge for items used in fulfilling the contract). The amendment to IAS 37 was initially applied in the consolidated financial statements for the year ended 31 December 2020 and had no impact on the opening balances of equity as at 1 January 2020.

3.3. Standards and interpretations issued but not yet used

As at the date of the financial statements, the following standards and interpretations were published (that were relevant to the Group's activities), but were not yet effective or applied by the Group before its effective date.

Amendments, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 3 - Amendments to IFRS 3 - *Reference to the Conceptual Framework*	1 January 2022
IFRS 10, IAS 28 - Amendment to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures*	Date will be determined*)
IAS 1 - Amendments to IAS 1 - *Classification of Liabilities as Current or Non-current*	1 January 2023*)
IAS 1 - Amendments to IAS 1 and IFRS Practice Statement 2 - *Disclosure of Accounting Policies*	1 January 2023
IAS 8 - Amendments to IAS 8 - *Definition of Accounting Estimates*	1 January 2023
IAS 12 - Amendment to IAS 12 - *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction*	1 January 2023*)
IAS 16 - Amendments to IAS 16 - *Proceeds before Intended Use*	1 January 2022
Various standards - *Annual Improvements to IFRS Standards 2018-2020 Cycle*	1 January 2022

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

The management of the Group expects that the adoption of these standards, amendments and interpretations will not have a significant impact on the Group in the following periods.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In application of the Group’s accounting policies, which are described in Note 2, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not clearly evident 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 key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are presented below.

4.1 Key sources of estimation uncertainty

4.1.1. *Impairment of assets*

The Group assesses the recoverable amount of all assets when there are indicators of their impairment (with the exception of intangible assets with indefinite useful lives or intangible assets under construction, which recoverable amount is assessed annually). This assessment is based on expected assumptions and may change in the future depending on the development of the current situation and the availability of information. Impairment of property, plant and equipment is disclosed in Note 16.1.

4.1.2. *Provisions for legal disputes and business risks*

The Group is involved in a number of regulatory, court and out-of-court commercial disputes. Where the criteria for the recognition of provisions have been met, the Group creates provisions for these disputes on the basis of the best available information and estimates. However, the actual outcome of the disputes may differ from these estimates. Information regarding legal disputes is disclosed in Notes 27 and 35.1.

4.1.3. *Leasing – rental period*

The Group uses an estimate to determine the lease term of contracts concluded for indefinite period. This estimate is made with respect of the period and termination conditions of individual contracts. For the contracts with indefinite duration assessed on the basis of a portfolio approach, the Group has determined the estimated lease term as a period of 5 years for buildings and 3 years for freight railway vehicles, as considering past experience, it is reasonably certain that these leases will not be terminated by the Group during this estimated lease term.

In addition, each significant contract is also assessed separately based on individual contract provisions, economic situation on the market of a given asset, as well as the past experience with the lessor, and thus the lease terms is adjusted accordingly.

Contracts with SŽ for the lease of premises at railway stations are concluded for individual areas (seven large framework contracts). When measuring individual leased premises under the same contract, the Group used aggregation into portfolios under the framework contracts because of the insignificance of these individual rental premises. Due to the fact that these contracts were concluded with SŽ for 50 years, they are evaluated in the same way as contracts with indefinite duration and the estimated lease term is therefore set at 5 years for the purposes of lease term determination. Lease contracts contains an early termination clause, however the Group uses it primarily in the event of termination of transport at a given location.

4.2. Judgements used in the application of accounting policies

4.2.1. *Payments from the public service orderers*

The Group receives payments from the regional budgets and the Ministry of Transport’s budget for railway transport as the provision of public services. The Group also receives payments from the budget of Ministry of Transport for the provision of transport services at discounted prices for selected population groups (students, pensioners, individuals with reduced mobility). The Group recognises these payments as revenue from contracts with customers.

In case of payments from the orderers, the essence of the contractual relation with the regions or the Ministry of Transport is the order of transport service availability in a given location or on a specified line. This service is provided by the Group regardless a number of passengers using a transportation service. This is not a grant since the contract for the transport service availability has been competed among a number of parties interested in providing that service and the subject of the service is not transport of specific individuals, but public transportation availability. Payment for the provision of the service is received by the company which wins a tender and ensures the service by its own means, in compliance with the competed conditions.

The preferential prices for different categories of customers (students, pensioners, individuals with reduced mobility) are measures where a customer uses the service (passenger transport) and pays only part of its price and the remaining part is paid by a third party (in this case the state). It is not a grant to the carrier since in fact it is a direct subsidy of a market price to the population groups and not an economic incentive to influence behaviour of a carrier in a particular way.

5. SEGMENT INFORMATION

5.1. Activities that generate revenue for reportable segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, which is the Board of Directors of the Company, in order to allocate resources to appropriate segments and to assess their performance. In 2021, the Group set aside a new reportable segment, Certification and testing, in accordance with the terms of IFRS 8. For better comparability, balances as at 31 December 2020 have been reclassified. The Group’s reportable segments under IFRS 8 are therefore as follows:

- Passenger transport – other information on rail passenger transport is disclosed in Note 6.
- Freight transport – other information on rail freight transport is disclosed in Note 6.
- Property management – the segment provides the management and operations of real estate owned by the Group, including internal and external leases.
- Certification and testing - the segment provides research, development and testing in the field of rolling stock and infrastructure equipment.

5.2. Segment revenues and expenses

The analysis of the Group's results by reportable segments in the format in which the report is presented to the chief operating decision maker is as follows.

(CZK million)

2021	Passenger transport	Freight transport	Property management	Certification and testing[1]	Total of reportable segments	Others[2]	Elimination[3]	Total
Revenue								
out of which revenues from external customers outside the Group	**23,303**	**12,401**	**-**	**698**	**36,402**	**1,405**	**-**	**37,807**
Revenue from passenger transport	6,593	-	-	-	6,593	-	-	6,593
Revenue from freight transport	-	11,518	-	-	11,518	-	-	11,518
Revenue from the orderers	16,529	-	-	-	16,529	-	-	16,529
Revenue from other services	181	883	-	698	1,762	1,405	-	3,167
out of which revenues in the Group	**202**	**82**	**-**	**15**	**299**	**3,496**	**(3,795)**	**-**
Revenue from passenger transport	5	-	-	-	5	-	(5)	-
Revenue from other services	197	82	-	15	294	3,496	(3,790)	-
Total revenue from contracts with customers	**23,505**	**12,483**	**-**	**713**	**36,701**	**4,901**	**(3,795)**	**37,807**
Rental income outside the Group	-	364	363	-	727	-	-	727
Rental income in the Group	-	52	58	-	110	-	(110)	-
Total rental income	**-**	**416**	**421**	**-**	837	**-**	**(110)**	**727**
Total revenue	**23,505**	**12,899**	**421**	**713**	**37,538**	**4,901**	**(3,905)**	**38,534**
Traction costs	(2,578)	(1,043)	-	-	(3,621)	-	7	(3,614)
Payment for the use of the railway infrastructure	(1,787)	(880)	-	-	(2,667)	-	1	(2,666)
Consumption of material, energy and services	(5,159)	(3,624)	(325)	(161)	(9,269)	(3,455)	3,296	(9,428)
Total purchased consumables and services	**(9,524)**	**(5,547)**	**(325)**	**(161)**	**(15,557)**	**(3,455)**	**3,304**	**(15,708)**
Employee benefit costs	(9,191)	(4,524)	(214)	(131)	(14,060)	(1,181)	433	(14,808)
Depreciation and amortisation	(5,199)	(2,246)	(105)	(62)	(7,612)	(309)	118	(7,803)
Impairment[4]	(1,200)	(17)	(16)	-	(1,233)	(12)	12	(1,233)
Other operating income	1,143	401	265	6	1,815	538	(558)	1,795
Other operating expenses	(1,416)	(333)	(37)	(12)	(1,798)	(98)	63	(1,833)
Profit/(Loss) on operating activities	**(1,882)**	**633**	**(11)**	**353**	**(907)**	**384**	**(533)**	**(1,056)**
Finance costs	(1,045)	(289)	(6)	-	(1,340)	(42)	33	(1,349)
Finance income	676	44	22	1	743	5	(26)	722
Profit/(Loss) before tax	**(2,251)**	**388**	**5**	**354**	**(1,504)**	**347**	**(526)**	**(1,683)**
Income tax expense	-	(99)	-	(68)	(167)	7	5	(155)
Profit/(Loss) for the period from continuing operations	**(2,251)**	**289**	**5**	**286**	**(1,671)**	**354**	**(521)**	**(1,838)**
Profit/(Loss) from discontinued operations	-	-	-	-	-	202	-	202
Profit/(Loss) for the period	**(2,251)**	**289**	**5**	**286**	**(1,671)**	**556**	**(521)**	**(1,636)**

[1] In the audited consolidated financial statements for the year ended 31 December 2021 authorised for issue on 27 April 2022, the amount of revenues from external customers outside the Group and the amount of revenues in the Group in the Certification and testing segment were accidentally swapped. In these consolidated financial statements this clerical error has been corrected.
[2] The 'Others' column includes income and expense of all subsidiaries apart from ČD Cargo Group and Výzkumný Ústav Železniční, as well as income and expenses of the Company which do not belong to Passenger transport and Property management segments.
[3] The 'Elimination' column includes eliminations of intragroup relations.
[4] Impairment includes impairment losses on PPE, investment property and assets held for sale, expected credit losses on receivables, write-off of inventories to the net realizable value. In the audited consolidated financial statements for the year ended 31 December 2021 authorised for issue on 27 April 2022, impairment losses of PPE were presented in Depreciation and amortization.

(CZK million)

2020[5]	Passenger transport	Freight transport	Property management	Certification and testing[6]	Total of reportable segments	Others[7]	Elimination[8]	Total
Revenue								
out of which revenues from external customers outside the Group	**21,555**	**11,731**	**-**	**546**	**33,832**	**1,321**	**-**	**35,153**
Revenue from passenger transport	5,901	-	-	-	5,901	-	-	5,901
Revenue from freight transport	-	11,008	-	-	11,008	-	-	11,008
Revenue from the orderers	15,449	-	-	-	15,449	-	-	15,449
Revenue from other services	205	723	-	546	1,474	1,321	-	2,795
out of which revenues in the Group	**250**	**71**	**-**	**19**	**340**	**3,163**	**(3,503)**	**-**
Revenue from passenger transport	6	-	-	-	6	-	(6)	-
Revenue from other services	244	71	-	19	334	3,163	(3,497)	-
Total revenue from contracts with customers	**21,805**	**11,802**	**-**	**565**	**34,172**	**4,484**	**(3,503)**	**35,153**
Rental income outside the Group	-	451	311	-	762	-	-	762
Rental income in the Group	-	13	45	-	58	-	(58)	-
Total rental income	**-**	**464**	**356**	**-**	**820**	**-**	**(58)**	**762**
Total revenue	**21,805**	**12,266**	**356**	**565**	**34,992**	**4,484**	**(3,561)**	**35,915**
Traction costs	(2,472)	(1,169)	-	-	(3,641)	-	8	(3,633)
Payment for the use of the railway infrastructure	(1,612)	(883)	-	-	(2,495)	-	2	(2,493)
Consumption of material, energy and services	(5,216)	(3,506)	(341)	(192)	(9,255)	(3,113)	3,036	(9,332)
Total purchased consumables and services	**(9,300)**	**(5,558)**	**(341)**	**(192)**	**(15,391)**	**(3,113)**	**3,046**	**(15,458)**
Employee benefit costs	(9,343)	(4,517)	(179)	(114)	(14,153)	(1,146)	397	(14,902)
Depreciation and amortisation	(5,259)	(2,056)	(85)	(58)	(7,458)	(348)	82	(7,724)
Impairment[9]	139	(229)	29	-	(61)	16	(1)	(46)
Other operating income	411	636	106	14	1,167	439	(334)	1,272
Other operating expenses	(1,221)	(620)	(68)	(12)	(1,921)	(73)	82	(1,912)
Profit/(Loss) on operating activities	**(2,768)**	**(78)**	**(182)**	**203**	**(2,825)**	**259**	**(289)**	**(2,855)**
Financial expense	(1,770)	(269)	(22)	(1)	(2,062)	(49)	67	(2,044)
Financial income	571	71	18	1	661	14	(82)	593
Profit/(Loss) before tax	**(3,967)**	**(276)**	**(186)**	**203**	**(4,226)**	**224**	**(304)**	**(4,306)**
Income tax expense	-	28	-	(39)	(11)	2	(6)	(15)
Profit/(Loss) for the period from continuing operations	**(3,967)**	**(248)**	**(186)**	**164**	**(4,237)**	**226**	**(310)**	**(4,321)**
Profit/(Loss) from discontinued operations	-	-	-	-	-	186	-	186
Profit/(Loss) for the period	**(3,967)**	**(248)**	**(186)**	**164**	**(4,237)**	**412**	**(310)**	**(4,135)**

[5] The period has been revised with respect to the new reported segment of Certification and testing and reporting of discontinued operations in 2021, see Note 15.
[6] In the audited consolidated financial statements for the year ended 31 December 2021 authorised for issue on 27 April 2022, the amount of revenues from external customers outside the Group and the amount of revenues in the Group in the Certification and testing segment were accidentally swapped. In these consolidated financial statements this clerical error has been corrected.
[7] The 'Others' column includes income and expense of all subsidiaries apart from ČD Cargo Group and Výzkumný Ústav Železniční, as well as income and expenses of the Company which do not belong to Passenger transportation and Property management segment.
[8] The 'Elimination' column includes eliminations of intragroup relations.
[9] Impairment includes impairment losses on PPE, investment property and assets held for sale, expected credit losses on receivables, write-off of inventories to the net realizable value. In the audited consolidated financial statements for the year ended 31 December 2021 authorised for issue on 27 April 2022, impairment losses of PPE were presented in Depreciation and amortization.

6. REVENUE

6.1 Breakdown of revenue

		(CZK million)
	2021	2020 *)
REVENUE FROM CONTRACTS WITH CUSTOMERS		
Passenger transport segment	**23,303**	**21,555**
Revenue from passenger transport - fare	6,593	5,901
Domestic passenger transport	4,816	4,509
International passenger transport	1,777	1,392
Revenue from passenger transport - payments from public service orderers	16,529	15,449
Payment from the state budget	4,362	4,272
Payment from the regional budgets	12,167	11,177
Revenue from other services	181	205
Freight Transport segment	**12,401**	**11,731**
Revenue from freight transport	11,518	11,008
Revenue from domestic freight transport	4,029	3,964
Revenue from foreign freight transport	7,489	7,044
Revenue from freight transport - Germany	2,190	2,338
Revenue from freight transport - Austria	1,063	1,018
Revenue from freight transport - Slovakia	990	858
Revenue from freight transport - Poland	1,184	724
Revenue from freight transport – other countries	2,062	2,106
Other revenue from freight transport	659	541
Other revenue from domestic freight transport	452	411
Other revenue from foreign freight transport	207	130
Other transport related services	224	182
Certification and testing segment **)	**698**	**546**
Revenue from other services	698	546
Not assigned to segments **)	**1,405**	**1,321**
Sale of other services	1,405	1,321
Sale of other services recognised over time	1,405	1,321
Sales of telematics services	984	946
Sales of railway testing services	15	19
Sales of other own services	406	356
Total revenue from contacts with customers	**37,807**	**35,153**
RENTAL INCOME		
Property management segment	363	311
Freight transport segment	364	451
Total rental income	**727**	**762**
Total revenue	**38,534**	**35,915**

*) Revised, see Note 15.

****)** In the audited consolidated financial statements for the year ended 31 December 2021 authorised for issue on 27 April 2022, the amount of revenues from external customers outside the Group and the amount of revenues in the Group in the Certification and testing segment were accidentally swapped that resulted in classification error between Certification and testing segment and Not assigned to segments. In these consolidated financial statements this clerical error has been corrected.

Other revenue from freight transport includes mainly revenues from services performed in railway stations and siding services.

Payments from public service orderers relate to regional and long-distance domestic passenger transportation.

The Group provides transport services in public railway transport for a stated (rectified) price and assures transport services in the specified categories of passenger trains on the railway network of the Czech Republic. The scope of these services and the compensation (revenue of the Group) are specified in contacts with the state and the regional authorities.

In 2021, the Group operated long-distance transport under public service contracts concluded with the Ministry of Transport of the Czech Republic. The decisive volume of services was provided under a newly concluded contracts valid from 15 December 2019 for a period of 10 years.

Since the 2020/21 timetable, the Group has operated a total of 21 long-distance transport lines on the basis of 7 public service contracts, which represents 82.1% of services ordered as a public service by the Ministry of Transport of the Czech Republic.

In regional transport, most contracts have been concluded and valid since 2020, the year when it was necessary to focus great attention on their proper performance. As of the date of these consolidated financial statements, 38 contracts have been concluded with the regions. The vast majority of newly concluded contracts were implemented in the regime of so-called market consultation and subsequent direct assignment. An exception is the contract with the South Moravian Region, which was concluded within the standard tender procedure, and the contract with the Pilsen Region for the P2 operating set, which is effective from December 2021.

Most of the year 2021 was associated with the COVID-19 pandemic and subsequent crisis measures. In the area of regional transport, steps and measures were taken promptly, which partially helped reducing economic losses caused mainly by the decline in passenger numbers. Due to the fact that contracts with 6 regions (Olomouc, South Moravian, Ústí nad Labem, Zlín, Liberec and Pilsen Regions) are concluded in the so-called gross regime, where the risk of sales is borne by the regions, the economic effects of a drop in revenues from passengers on ČD were eliminated in these regions. In addition, a new agreement with the Hradec Králové Region has been effective since 12 December 2021, where the so-called system of shared sales risk was set up, where the region shares the risk and opportunities of sales in half, which will further reduce sales risk for ČD in 2022.

Significant transactions with the main customers with government participation are presented in Note 31.6

6.2. Contract liabilities and refund liabilities

The Group recognises the following contract liabilities and refund liabilities (see also Note 29) related to revenue from contracts with customers:

(CZK million)

Contract liabilities related to revenue from contracts with customers	31 Dec 2021	31 Dec 2020
Prepaid products – i.e., kilometric bank, annual ticket	139	142
Prepayments received	48	85
Contract liabilities from telecommunication services	148	172
Other contract liabilities	13	38
Total contract liabilities	**348**	**437**

(CZK million)

Refund liabilities	31 Dec 2021	31 Dec 2020
Liabilities from rebates and claims	29	29
Other refund liabilities	206	33
Total refund liabilities	**235**	**62**

6.2.1. Revenues from contract liabilities

		(CZK million)
	2021	2020
Revenues included in the opening balance of contract liabilities		
Revenue from passenger transportation - fare	130	188
Sale of other services	295	288
Total	**425**	**476**

6.2.2. Remaining contract liabilities

Passenger transport services are usually completed within a few hours and paid for just before the service is provided. In case of prepaid tickets, a contract liability is recognized. As at 31 December 2021, the Group has concluded more than 40 contracts with public service orderers (Ministry of Transport and the regions). Validity of these contracts varies individually from 1 to 15 years. According to these contracts, the Group is obliged to provide transport services to the specified extent. Income is recognised in the amount that the Group has a right to invoice. The orderers usually pay a fixed amount based on the payment schedule. If services provided by the Group exceed payments, a receivable is recognized due to the fact that a right to payment is unconditional, and only the passage of time is required before the payment is due. Receivables are usually due within 15-30 days. If payments exceed services provided, a liability is recognized. The Group does not disclose the allocated transaction price under practical expedient from IFRS 15.121. Transport revenue is disclosed in Note 6.1.

7. OTHER OPERATING INCOME

		(CZK million)
	2021	2020 *)
Gain from disposal of property, plant and equipment and investment property	216	170
Gain on disposal of redundant assets	204	167
Compensations for shortage and damage	100	89
Contractual penalties and default interest	118	30
Dividends received	2	3
Foreign exchange gains - operational	235	477
Release of provisions (Note 28)	116	24
Release of credit loss allowance on trade receivable	27	-
Reversal of write-off of inventory to net realizable value	-	7
Income from grants	609	27
Income from litigation	1	53
Sales from special trains	35	23
Other	159	209
Total other operating income	**1,822**	**1,279**

*) Revised, see Note 15.

Income from grants mainly represent grants from the Ministry of Transport in the amount of CZK 558 million as compensation of losses incurred in the first wave of the Covid-19 pandemic that hit railway operations in 2020 and also the grant of CZK 40 million from the Covid – Uncovered Costs program.

The category Other includes primarily sales from rolling stock performance and income from easement.

8. COST OF SERVICES, RAW MATERIALS AND ENERGY

(CZK million)

	2021	2020
Traction costs	(3,614)	(3,633)
Traction fuel (diesel)	*(1,420)*	*(1,333)*
Traction electricity	*(2,194)*	*(2,300)*
Payment for the use of railroads	(2,666)	(2,493)
Infrastructure capacity allocation	(110)	(85)
Other services, raw materials and energy	(9,318)	(9,247)
Consumed material	*(1,788)*	*(1,700)*
Consumed other energy	*(422)*	*(420)*
Consumed fuel	*(65)*	*(58)*
Repairs and maintenance	*(742)*	*(1,162)*
Travel costs	*(191)*	*(182)*
Telecommunication, data and postal services	*(310)*	*(206)*
Low value rent or short-term rent	*(366)*	*(150)*
*RIC vehicle charges***)	*(304)*	*(230)*
*RIV vehicle charges **)*	(324)	(276)
Transportation charges	(1,640)	(1,859)
Substitute bus service	(180)	(135)
Services of dining and sleeping carriages	(131)	(113)
Services associated with the use of buildings	(298)	(301)
Operational cleaning of rolling stock	(505)	(455)
Border area services	(563)	(520)
Advertising and promotion costs	(90)	(130)
Commission for the sale fares paid to other carriers, resellers	(53)	(47)
Operation, maintenance and other IT-related services	(106)	(113)
Performances of fire brigade service	(2)	(1)
Services in the field of ecology	(36)	(45)
Railway rolling stock repair services	(338)	(350)
Telematics services	(513)	(419)
Expert opinions	(76)	(76)
Consulting and auditing services	(103)	(135)
Other services	*(172)*	(64)
Total cost of services, raw materials and energy	**(15,708)**	**(15,458)**

*) Revised, see Note 15.
**) RIC and RIV vehicle charges are fees for the inclusion of foreign cars in the Group's trains in the Czech Republic, which are billed in the RIC (Regolamento Internazionale delle Carrozze) and RIV (Regolamento Internazionale Veicoli) regimes in accordance with the Conventions on the Mutual Use of Passenger Cars and Freight Wagons in the international transport.

Other services include mainly training costs, preventive health care, commission for sales of train tickets abroad and other services.

Consulting and auditing services include audit and non-audit services provided by the PwC network companies. Total remuneration for these services is presented below:

(CZK million)

	2021	2020
Statutory audit of annual financial statements	(5)	(5)
Other non-audit services	(4)	(5)
Total	**(9)**	**(10)**

9. EMPLOYEE BENEFIT COSTS

(CZK million)

	2021	2020 *)
Payroll costs	(10,634)	(10,551)
Severance pays	(105)	(182)
Statutory social security and health insurance	(1,037)	(1,015)
Payments to post-employment defined contribution schemes	(2,843)	(2,902)
Other social costs	(94)	(95)
Other staff costs	(95)	(157)
Total staff costs	**(14,808)**	**(14,902)**

*) Revised, see Note 15.

Other social costs include mainly meal allowances. Other staff costs include mainly allowances for health recovery stays or remuneration to the members of the statutory bodies.

In 2021, Payroll costs were reduced by the government grant within the Antivirus program in the amount of CZK 80 million (2020: CZK 173 million).

10. DEPRECIATION AND AMORTISATION

		(CZK million)
	2021	2020 *)
Depreciation of property, plant and equipment	(6,507)	(6,577)
Depreciation of investment property	(20)	(26)
Depreciation of right-of-use assets	(987)	(821)
Amortisation of intangible assets	(289)	(300)
Impairment losses on property, plant and equipment, investment property and assets held for sale (Note 16.1)	(1,246)	(24)
Total depreciation and amortisation	**(9,049)**	**(7,748)**

*) Revised, see Note 15.

In 2021, Depreciation of property plant and equipment, was reduced by CZK 21 million (2020: increased by CZK 43 million), which relates to the allocation of costs of creation and use of a provision for onerous contracts. (Note 28.3)

11. OTHER OPERATING EXPENSES

		(CZK million)
	2021	2020 *)
Expected credit loss on receivables (Note 36.8)	-	(29)
Write-off of inventories to net realizable value	(14)	-
Costs of contractual fines and default interest	(5)	(5)
Taxes and fees	(17)	(22)
Insurance	(199)	(196)
Foreign exchange losses - operational	(239)	(436)
Shortages and damages	(65)	(77)
Expenses for uniforms and personal protective equipment	(48)	(40)
Provision for legal disputes relating to other operating expenses (Note 28.1)	(1,000)	(697)
Reimbursement of employee expenses	(16)	(17)
Damage compensation	(71)	(4)
Fines and penalties	(29)	(234)
Other expenses	(144)	(184)
Total other operating expenses	**(1,847)**	**(1,941)**

*) Revised, see Note 15.

12. FINANCE COSTS

		(CZK million)
	2021	2020
Interest on bank overdrafts and loans	(99)	(26)
Interest on issued bonds	(743)	(746)
Interest on lease liabilities	(80)	(104)
Interest on secured loans	(44)	(66)
Other interest expense	(215)	(176)
Less: amounts included in the cost of qualifying assets	79	32
Unwinding of the discount of provisions for liabilities and charges	(10)	(5)
Foreign exchange losses on loans, borrowings and lease liabilities	(107)	(879)
Bank charges	(11)	(11)
Other finance costs	(119)	(63)
Total finance costs	**(1,349)**	**(2,044)**

Other interest expense represents cash flow hedge expenses reclassified from other comprehensive income during the period.

The capitalisation rate of interest costs in 2021 is 2.02% p. a. (2020: 2.00 % p. a.).

13. FINANCE INCOME

		(CZK million)
	2021	2020
Foreign exchange gains on loans, borrowings and lease liabilities	674	510
Interest received	31	71
Other finance income	-	5
Total finance income	**705**	**586**

14. INCOME TAX

14.1 Income tax recognised in profit or loss

		(CZK million)
	2021	2020 *)
Tax for the current year recognised in the statement of profit and loss	(147)	(55)
Deferred tax recognised in the statement of profit and loss	(6)	41
Current income tax related to previous periods	(2)	(1)
Total income tax expense related to continuing operations	**(155)**	**(15)**

*) Revised, see Note 15.

Reconciliation of the total tax charge for the year to accounting loss multiplied by the applicable tax rate:

		(CZK million)
	2021	2020 *)
Loss for the period before tax	**(1,683)**	**(4,306)**
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected tax (expense) / credit	**320**	**818**
Adjustments:		
Effect of the unrecognised deferred tax asset	(219)	(592)
Impact of different tax rates in other countries	(20)	(6)
Non-taxable income – release of provision for penalties (Note 28)	30	-
Other non-taxable income	18	27
Tax deductible research and development expenses not included in the deferred tax	3	4
Tax non-deductible expenses - shortages and damages	(22)	(8)
Tax non-deductible payroll expenses	(37)	(30)
Tax non-deductible expenses – fines	(190)	(176)
Other tax non-deductible expenses	(36)	(51)
Current income tax related to previous periods	(2)	(1)
Income tax recognised in profit or loss	**(155)**	**(15)**

*) Revised, see Note 15.

14.2 Income tax recognised in other comprehensive income

		(CZK million)
	2021	2020
Change in cash flow hedge fund	(42)	13
Total income tax recognised in other comprehensive income	**(42)**	**13**

14.3 Deferred tax

Recognised deferred tax assets and liabilities are calculated as follows:

		(CZK million)
	31 Dec 2021	31 Dec 2020
Deferred tax assets		
Non-current assets	2,421	518
Provisions	616	874
Receivables	31	100
Borrowing costs	48	79
Other	23	25
Basis for calculation of deferred tax	**3,139**	**1,596**
Corporate income tax rate	19%	19%
Total deferred tax assets – recognised	596	303
Set-off of deferred tax liabilities pursuant to set-off provisions	(582)	(291)
Net deferred tax assets – recognized	**14**	**12**
Deferred tax liabilities		
Non-current assets	(9,772)	(9,889)
Derivatives	(2,374)	(420)
Financial assets in fair value through other comprehensive income	(109)	(109)
Basis for calculation of deferred tax	**(12,255)**	**(10,418)**
Corporate income tax rate	19%	19%
Total deferred tax liabilities – recognised	(2,328)	(1,979)
Set-off of deferred tax liabilities pursuant to set-off provisions	582	291
Net deferred tax liabilities - recognised	**(1,746)**	**(1,688)**

Due to low expected future taxable profits, the utilisation of deferred tax asset of the Parent Company is uncertain. The unrecognised deferred tax asset as at 31 December 2021 and 31 December 2020 was calculated as follows:

		(CZK million)
	31 Dec 2021	31 Dec 2020
Deferred tax asset		
Non-current assets	3,886	4,500
Provisions	258	505
Receivables	61	27
Borrowing costs	592	884
Contractual penalties	38	28
Inventories	41	51
Payables to employees	135	117
Other	-	3
Basis for calculation of deferred tax	**5,011**	**6,116**
Corporate income tax rate	19%	19%
Deferred tax asset – unrecognised	**952**	**1,162**

The tax effect of temporary difference movements is calculated as follows:

(CZK million)

	1 Jan 2021	Deferred tax recognised in profit or loss	Deferred tax recognised in other comprehensive income	Reclassification to discontinued operations	31 Dec 2021
Deferred tax assets					
Non-current assets	98	362	-	-	460
Provisions	166	(39)	-	(10)	117
Receivables	19	(13)	-	-	6
Borrowing costs	15	(6)	-	-	9
Other	5	(1)	-	-	4
Total deferred tax assets - recognised	**303**	**303**	**-**	**(10)**	**596**
Deferred tax liabilities					
Non-current assets	(1,878)	53	(33)	2	(1,856)
Derivatives	(80)	(362)	(9)	-	(451)
Financial assets in fair value through other comprehensive income	(21)	-	-	-	(21)
Total deferred tax liabilities - recognised	**(1,979)**	**(309)**	**(42)**	**2**	**(2,328)**

(CZK million)

	1 Jan 2020	Deferred tax recognised in profit or loss	Deferred tax recognised in other comprehensive income	31 Dec 2020
Deferred tax assets				
Non-current assets	7	91	-	98
Provisions	152	14	-	166
Receivables	11	8	-	19
Borrowing costs	-	15	-	15
Other	-	5	-	5
Total deferred tax assets – recognized	**170**	**133**	**-**	**303**
Deferred tax liabilities				
Non-current assets	(1,875)	(17)	15	(1,878)
Derivatives	(4)	(74)	(2)	(80)
Financial assets in fair value through other comprehensive income	(21)	-	-	(21)
Total deferred tax liabilities – recognized	**(1,900)**	**(91)**	**13**	**(1,979)**

15. DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

15.1 Sale of part of the business in the area of telematics

The Group plans to sell the part of the business of the subsidiary ČD-Telematika in the first half of 2022. This concerns the sale of the part of maintenance, service and other activities that relate to electronic communication operations in connection with the railway telecommunication property of SŽ.

15.2 Analysis of profit and cash flows from discontinued operations

The following table shows the profit from discontinued operations:

(CZK million)

	The year ended 31 Dec 2021	The year ended 31 Dec 2020
Revenue	541	527
Costs and expense	(291)	(297)
Profit before tax	250	230
Income tax expense	(48)	(44)
Total profit from discontinued operations	**202**	**186**

(CZK million)

	The year ended 31 Dec 2021	The year ended 31 Dec 2020
Cash flows generated from operating activities	151	121
Cash flows from investing activities	(38)	(19)
Cash flows from financing	-	-
Net cash flows from discontinued operations	**113**	**102**

15.3 Non-current assets and disposal groups held for sale

The following table shows the amount of disposal group of assets and liabilities held for sale as at 31 December 2021 (Note 15.1):

(CZK million)

	31 Dec 2021
Property, plant and equipment	101
Deferred tax asset	8
Inventories	5
Trade receivables	76
Other assets	10
Cash and cash equivalents	138
Total assets	**338**
Trade payables	28
Provisions	9
Other liabilities and contract liabilities	13
Income tax liabilities	48
Liabilities related to assets held for sale	**98**
Net assets	**240**

16. PROPERTY, PLANT AND EQUIPMENT

(CZK million)

	Land	Constructions	Equipment	Vehicles for own use *)	Vehicles leased out	Components	Assets under construction	Prepay-ments	Total
Cost									
Balance as at 1 Jan 2020	5,691	14,918	4,851	95,060	3,212	24,833	2,308	1,148	152,021
Additions	3	106	103	2,116	-	3,957	2,015	465	8,765
Disposals	(42)	(67)	(91)	(521)	-	(2,634)	(208)	76	(3,487)
Reclassification	2	113	152	75	39	266	(752)	-	(105)
Balance at 31 Dec 2020	**5,654**	**15,070**	**5,015**	**96,730**	**3,251**	**26,422**	**3,363**	**1,689**	**157,194**
Additions	10	138	115	5,740	-	4,324	1,514	3,059	14,900
Disposals	(27)	(68)	(137)	(868)	-	(5,267)	(267)	(346)	(6,980)
Reclassification	(25)	862	201	342	210	428	(1,493)	(271)	254
Reclassification to assets held for sale	(12)	(62)	(86)	(5)	-	-	(28)	-	(193)
Balance at 31 Dec 2021	**5,600**	**15,940**	**5,108**	**101,939**	**3,461**	**25,907**	**3,089**	**4,131**	**165,175**
Accumulated depreciation and impairment									
Balance as at 1 Jan 2020	93	8,330	3,509	**51,889**	**1,732**	13,074	453	-	79,080
Depreciation	-	334	277	3,010	203	2,714	3	-	6,541
Impairment loss	6	-	7	452	-	-	4	-	469
Reversal of impairment	(28)	(2)	(7)	(408)	-	-	-	-	(445)
Disposals	-	(51)	(85)	(498)	-	(2,566)	-	-	(3,200)
Reclassification	-	(23)	4	301	(298)	(7)	(3)	-	(26)
Balance as at 31 Dec 2020	**71**	**8,588**	**3,705**	**54,746**	**1,637**	**13,215**	**457**	**-**	**82,419**
Depreciation	-	303	271	2,949	266	2,738	1	-	6,528
Impairment loss	8	4	7	1,728	-	-	4	-	1,751
Reversal of impairment	-	-	(7)	(497)	-	-	(1)	-	(505)
Disposals	-	(55)	(136)	(792)	-	(5,118)	(1)	-	(6,102)
Reclassification	-	145	18	163	(307)	171	(43)	-	147
Reclassification to assets held for sale	-	(12)	(75)	(5)	-	-	-	-	(92)
Balance as at 31 Dec 2021	**79**	**8,973**	**3,783**	**58,292**	**1,596**	**11,006**	**417**	**-**	**84,146**
Net book value									
Balance as at 1 Jan 2020	5,598	6,588	1,342	43,171	1,480	11,759	1,855	1,148	72,941
Balance as at 31 Dec 2020	5,583	6,482	1,310	41,984	1,614	13,207	2,906	1,689	74,775
Balance as at 31 Dec 2021	5,521	6,967	1,325	43,647	1,865	14,901	2,672	4,131	81,029

*) Vehicles purchased under secured loan agreements are presented within “Vehicles”. Their net book value is CZK 3,738 million as at 31 December 2021 and CZK 3,739 million as at 31 December 2020.

Reclassifications include particularly transfers of assets between individual groups (IAS 16, IAS 40) and transfer (activation) of assets under construction to individual categories of Property, plant and equipment (Land, Constructions, Equipment, Vehicles).

Strategic spare parts (exchangeable units) with acquisition cost of CZK 155 million and net book value of CZK 59 million as at 31 December 2021 are recognised in the Vehicles (31 December 2020: acquisition cost of CZK 119 million and net book value of CZK 61 million). Other spare parts with net book value of CZK 863 million as at 31 December 2021 are recognised in the Assets under construction (31 December 2020: CZK 892 million).

The most significant additions from 1 January 2020 to 31 December 2021 include the acquisition and modernization of rolling stock as part of the renewal of the Parent Company's fleet. Due to the long-term nature of acquisition of this type of assets, significant balances are recognised in the Assets under construction.

Trade payables includes payables from the acquisition of fixed assets in the amount of CZK 5,307 million as at 31 December 2021 (31 December 2020: CZK 787 million). Significant year-on-year increase in these payables connects to significant purchases of rolling stock at the end of 2021 and the invoices not due until 2022.

Additions in the area of freight transport are disclosed in the following table:

		(CZK million)
	2021	2020
Technical improvement of traction vehicles	607	392
Repairs of R and D type (components) of traction vehicles	575	621
Traction vehicles of the TRAXX 388 series	459	-
Overhaul repairs (components) of freight wagons	526	404
Traction vehicles of the 744 series	217	7
Freight wagons of the Eanos series	193	447
Freight wagons of the Sgnss series	186	-
Freight wagons of the Sggrrs series	-	108
Traction vehicles of the 753.6 series	-	127
Wheelsets (components) for freight wagons	95	181
Technical inspections (components) for freight wagons	89	93
Car body components to freight wagons	44	93
Freight wagons of the Zacns series	-	41
Other	90	111
Total	**3,081**	**2,625**

Significant additions in the area of telematics include purchase of geometric plans to mark the serviceability of the railway high-speed transmission network in the total amount of CZK 64 million and components for CWDM and DWDM technologies in the total value of CZK 42 million.

In 2021, the Parent Company provided advances of CZK 1,045 million for the supply of EMU240 electric trains for regional transport, CZK 1,505 million for the supply of 230 km / h passenger cars, CZK 590 million for the supply of ten DMU120 diesel trains for regional transport and CZK 181 million for the equipment of electric locomotives by mobile part of ETCS. In 2020, the Parent Company provided an advance of CZK 538 million for the supply of nineteen EMU160 electric trains.

The Parent Company records grant promises in the amount of CZK 398 million for electric trains for the Pilsen and Karlovy Vary regions, which are recognised in Other assets (Note 24).

In the area of acquisition and modernization of rolling stock, since 2010 ČD has implemented nineteen grant project plans within the Regional Operational Programs (hereinafter referred to as the "ROP") in the individual regions in the total amount of more than CZK 7.6 billion. Based on the findings of the Audit body of the Ministry of Finance the Group had to return some grants (Note 28.4). As a result of the returned grants, the Parent Company records an increase in the acquisition price of the Assets under construction in the amount of CZK 68 million as at 31 December 2021 (31 December 2020: CZK 336 million) and an increase in the acquisition price of Vehicles in the amount of CZK 311 million as at 31 December 2021 (31 December 2020: CZK 43 million). For the detail of the respective impairment loss refer to Note 16.1.2.

During 2021, the ČD Cargo Group partially used the grant advance received for the implementation of the European Train Control System (ETCS) for equipped locomotives of 742, 363 and 163 series, in total of CZK 342 million. Further, the ČD Cargo Group received a grant for the equipment of cars by „LL car blocks" (so-called silent brake blocks) in the amount of CZK 19 million.

Operating lease agreements in which the Group acts as a lessor and which relate to movable property are described in Note 33.

16.1 Impairment loses recognised in the reporting period

16.1.1 *Asset impairment analysis*

Passenger transport

As at the balance sheet date, the Group's management assessed if there were any indications of impairment of non-financial assets. Due to the negative effects of the Covid-19 pandemic, the Group's management concluded that impairment indicators exist for the Passenger transport cash-generating unit where the Group's management includes rolling stock (locomotives, passenger cars, other rolling stock including leased and recognised as Right of use assets), other stand-alone movables used to operate passenger rail transport and the allocated part of corporate assets. This group of assets is tested for potential impairment as one cash-generating unit as it is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of the cash-generating unit was determined as the value in use. Value in use was determined based on the present value of future cash flows per cash-generating unit for the next ten years. The ten-year period reflects the assumptions for short- to medium-term market development and is used by the management as it allows to better reflect the planned investment program than the shorter period. The ČD's management is confident that due to the character of the railway transport it is able to forecast future cash flows over the whole ten-year period with sufficient reliability. Cash flows beyond the ten-year period have been extrapolated using a steady growth rate. This growth rate is in line with the long-term average growth rate for the sector in which the Company operates (passenger transport).

The calculation of future expected cash flows is based on an estimate of revenues, direct and indirect operating expenses and expenditures for replacement of fixed assets for the period of 2022-2031. Revenues from the sale of services are projected on the basis of the expected collection of fares and the contracted payments from public service orderers (the state and the regions), according to the expected return to 'normal' after the period affected by Covid-19 and also according to the expected payments from the state. Operating expenses are estimated based on the current structure of the Group and adjusted for expected development and cost-saving measures in the area of operating and personnel costs. Capital expenditures are based on the historical experience of the Group's management, planned development of passenger transport and commitments arising from contracts with public service orderers. In general, the projections of the above-mentioned components of expected future cash flows take into account the expected economic development, competition and other market factors, regulation, as well as the Group's strategy.

The discount rate reflects the level of risk specific to the cash-generating unit as assessed by the Group's management. The basis for calculating the discount rate is the weighted average cost of capital (WACC) calculated based on the Capital Asset Pricing Model (CAPM). To calculate the recoverable amount, the cash flows expressed in nominal values were estimated and discounted using a discount rate of 7.25% (2020: 7.1%). Estimated future operating cash flows and estimated capital expenditures for the ten-year period and for the calculation of residual value (perpetuity) were taken from the long-term plans of discounted cash flows of ČD for the period of 2022-2031 with perpetuity outlook that has been approved by the ČD's Board of Directors.

The expected growth rate is derived from the expected future development of the market, gross domestic product, the level of wages and interest rates and the expected economic growth of the country. A growth rate of 3% (2020: 2%) was used to calculate the recoverable amount.

The analysis performed as of 31 December 2021 confirmed that the recoverable amount of the cash-generating unit exceeds its carrying amount by CZK 5,423 million (2020: CZK 11,826 million).

Sensitivity analysis of impairment tests

When testing the recoverable amount of the cash-generating unit, a sensitivity analysis of the test results to changes in following significant parameters used in the model was performed: the estimated future operating cash flows, the estimated capital expenditures for replacement of fixed assets, the discount rate used for calculating the present value of future cash flows and the growth rate.

31 December 2021:

	Operating cash flows for perpetuity		Estimated capital expenditures for perpetuity		Discount rate		Growth rate	
Parameter value	CZK 6,000 million		CZK 8,000 million		7.25%		3%	
	Increase by 10%	Decrease by 10%	Decrease by 10%	Increase by 10%	Decrease by 50 basis points	Increase by 50 basis points	Increase by 100 basis points	Decrease by 100 basis points
Increase/ (decrease) of recoverable amount	7,380	(7,380)	9,840	(9,840)	13,690	(10,655)	23,584	(14,500)
Impairment Yes/No	No	Yes	No	Yes	No	Yes	No	Yes
Value of impairment	-	(1,956)	-	(4,416)	-	(5,232)	-	(9,076)

31 December 2020:

	Operating cash flows for perpetuity		Estimated capital expenditures for perpetuity		Discount rate		Growth rate	
Parameter value	CZK 4,335 million		CZK 7,929 million		7.1%		2%	
	Increase by 10%	Decrease by 10%	Decrease by 10%	Increase by 10%	Decrease by 50 basis points	Increase by 50 basis points	Increase by 100 basis points	Decrease by 100 basis points
Increase/ (decrease) of recoverable amount	3,693	(3,693)	8,339	(8,339)	10,424	(6,890)	17,750	(11,833)
Impairment Yes/No	No	No	No	No	No	No	No	Yes
Value of impairment	-	-	-	-	-	-	-	(1,204)

The recoverable amount of the cash-generating unit would equal its carrying value, had the key assumptions been/ changed as follows:

31 December 2021:

	Operating cash flows for perpetuity	Estimated capital expenditures for perpetuity	Discount rate	Growth rate
Parameter value	CZK 6,000 million	CZK 8,000 million	7.25%	3%
Parameter value where recoverable amount would equal carrying value	CZK 5,560 million	CZK 8,440 million	7.5%	2.68%

31 December 2020:

	Operating cash flows for perpetuity	Estimated capital expenditures for perpetuity	Discount rate	Growth rate
Parameter value	CZK 4,335 million	CZK 7,929 million	7.1%	2%
Parameter value where recoverable amount would equal carrying value	CZK 3,090 million	CZK 8,940 million	7.6%	1.12%

Freight transport

The Group's management also assessed asset impairment indicators for freight rolling stock in connection with the Covid-19 pandemic impact. Assets from the fleet of wagons and locomotives were tested by comparing the current carrying and market value of individual vehicles. Fair value of these assets was determined in line with IFRS 13 requirements for level 3 assets. As part of impairment testing, the estimated market value of these assets was decreased by estimated costs to sell and compared with their carrying amount. The freight wagons' market value was determined by an external valuation expert based on a sample of vehicles from each interval of vehicles that the Group uses and that are characterised by different operational and technical parameters (for wagons intended for further use), or as recoverable amount of physical liquidation of freight wagons based on their weight and a current price of scrap in proportion that corresponds with the fleet structure and its expected further use (for wagons intended for scraping). The locomotives' market value was determined by comparing the operational and technical parameters of the locomotive series including their remaining useful lives with the most similar new locomotives currently traded on the market (for locomotives intended for further use) or as recoverable amount of physical liquidation based on their weight and a current price of scrap (for locomotives intended for scraping). The model confirmed that the market value of these assets as of 31.12.2021 and 31.12.2020 significantly exceeded their carrying amount.

16.1.2 *Other impairment losses*

Furthermore, based on physical observation and internal analyses, the Group's management identified fixed assets for which significant doubt about their future usability exists. Impairment losses were recognized for these items in the amount of the difference between the carrying value and the estimated recoverable amount. The recoverable amount of the series 680 tilting trains (Pendolino) and the series 380 locomotives was estimated as their fair value less cost to sell. Therefore, the recoverable amount of these rolling stock items was determined regardless of the cash-generating unit to which they belong. The fair value of the series 680 trains was determined on the basis of expert opinion. As at 31 December 2021, accumulated impairment losses for these trains amounted to CZK 387 million (31 December 2020: CZK 414 million). In April 2022, the ČD's management decided on decommissioning the series 380 locomotives from the fleet after 2025. The fair value of the series 380 locomotives was estimated on the basis of market value of locomotives with comparable usage and technical parameters, taking into account differences in ageing, technical equipment, service availability, maintenance requirements, etc. The estimated fair value in the range of CZK 45-50 million per unit presents the best estimate of the Group's management. In 2021, the impairment loss of CZK 1,110 million was recognised. As at 31 December 2021, accumulated impairment losses for these locomotives amounted to CZK 1,609 million (31 December 2020: CZK 522 million). The assets belong to the Passenger transportation segment.

Another significant impairment loss item is the "Returned ROP grants" title. The accumulated impairment loss for this title is determined at the total value of the returned grants and amounted to CZK 377 million as at 31 December 2021 (31 December 2020: CZK 379 million). The asset belongs to the Passenger transportation segment.

Impairment losses and their reversal are presented in Depreciation and amortisation in the consolidated statement of profit and loss.

16.2 Pledged assets

The Group has borrowings that are collateralised with the assets with the net book value of CZK 3,738 million as of 31 December 2021 and CZK 3,739 million as of 31 December 2020.

17. INVESTMENT PROPERTY

The value of investment property:

(CZK million)

	2021	**2020**
Balance at the beginning of the year	621	606
Additions from subsequent capitalised expenses	3	5
Depreciation	(20)	(26)
Disposals	(2)	(13)
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	105	70
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	(222)	(25)
Increase/(decrease) in impairment loss	(10)	4
Balance at the end of the year	**475**	**621**

(CZK million)

	Balance as at 31 December 2021	Balance as at 31 December 2020	Balance as at 1 January 2020
Cost	1,142	1,409	1,362
Accumulated depreciation and impairment	(667)	(788)	(756)
Net book value	**475**	**621**	**606**

The Group includes in the investment property real estate where at least 50 % of its useful area is leased to an external lessee.

The estates are located around the railroads, in train stations and depots of rolling stock. The Group applies market approach to determine the fair value of its land and income approach to determine the fair value of its buildings.

When calculating the fair value of a building, firstly the annual rental income from the building is calculated as a multiple of the size of a property, occupancy as per a particular type of premises and external annual rent as per individual type of premises. Secondly, the fair value of the building is calculated as the annual rental income less the costs incurred on the building during the year and divided by the capitalization rate for the given location (yield). Yield is updated annually based on an expert opinion and is calculated as the sum of net earned revenues (net rent) divided by the sum of achieved market prices of comparable real estate. To determine the fair value of real estates as at 31 December 2021 and 31 December 2020, depending on type of real estate and its location, yield in the range of 6-10% was used.

In respect of land, the fair value is calculated by multiplying the market price for m2 for the specific locality and the size of the land. The market price for m2 is determined each year by an expert based on the latest land price maps.

The estimated Investment property fair value amounted to CZK 6,130 million as at 31 December 2021 (31 December 2020: CZK 4,396 million). Investment property is classified as Level 3 in terms of the method of determining fair value.

Operating lease agreements in which the Group acts as a lessor and which relate to investment property are described in Note 33.

18. INTANGIBLE ASSETS AND GOODWILL

(CZK million)

	Internally generated software	Software licences	Assets under construction	Contractual relations and customer relations	Know - how and trademarks	Total
Cost						
Balance as at 1 Jan 2020	2,737	807	214	189	11	3,958
Additions	170	27	109	-	-	306
Disposals	(8)	-	-	-	-	(8)
Reclassification	143	15	(158)	-	-	-
Balance as at 31 Dec 2020	**3,042**	**849**	**165**	**189**	**11**	**4,256**
Additions	100	3	195	-	-	298
Disposals	(88)	(3)	10	-	-	(81)
Reclassification	117	9	(126)	-	-	-
Reclassification to assets held for sale	(6)	-	-	-	-	(6)
Balance as at 31 Dec 2021	**3,165**	**858**	**244**	**189**	**11**	**4,467**
Accumulated amortisation						
Balance as at 1 Jan 2020	2,054	728	-	78	4	2,864
Amortisation	225	35	-	39	1	300
Disposals	(8)	-	-	-	-	(8)
Balance as at 31 Dec 2020	**2,271**	**763**	**-**	**117**	**5**	**3,156**
Amortisation	228	21	-	39	1	289
Disposals	(80)	(1)	-	-	-	(81)
Reclassification to assets held for sale	(6)	-	-	-	-	(6)
Balance as at 31 Dec 2021	**2,413**	**783**	**-**	**156**	**6**	**3,358**
Net book value						
Balance as at 1 Jan 2020	683	79	214	111	7	1,094
Balance as at 31 Dec 2020	771	86	165	72	6	1,100
Balance as at 31 Dec 2021	752	75	244	33	5	1,109

The amortisation costs were reported in Depreciation and amortisation in the consolidated statement of profit and loss.

Intangible assets of the Parent Company mainly include software called DISOD, PARIS, APS, In-karta, POP, UNIPOK, IS OPT and KASO which is used in business activities.

Intangible assets of ČD Cargo, a.s. include mainly the SAP system and operational business roles under the PROBIS project. Further, software consists of the information system supporting the activities of a freight carrier, SAP software development, Microsoft Enterprise Agreement license, OPT software, software to support the office agenda and other software used in ČD Cargo, a.s. As at 31 December 2021, the intangible assets of ČD Cargo, a.s. include royalties (licenses) with the total net book value of CZK 47 million. 2021 additions to Internally generated software consist mainly of modifications and upgrades of existing systems: Dispatching information system under the Integrated Train project and Altworx software used to monitor and evaluate the use of basic capacities of ČD Cargo, a.s. (operating personnel, traction vehicles and freight wagons).

The value of goodwill:

		(CZK million)
	Goodwill	Total
Balance as at 1 Jan 2020	141	141
Balance as at 31 Dec 2020	141	141
Balance as at 31 Dec 2021	141	141

Goodwill impairment analysis

The Group recognises goodwill from acquisition of interest in the CHAPS group by the ČD – Informační Systémy, a.s.

The impairment analysis was performed on the basis of the discounted cash flow method, which determined the value of the assets of CHAPS and its subsidiaries.

The calculation of future expected cash flows is based on estimated revenues and direct and indirect operating expenses for the period of 2022-2026. The projection of expected future cash flows takes into account expected economic development, competition and other market factors, as well as CHAPS strategy.

The discount rate expresses the level of risk in a given sector as assessed by the Group's management. The basis for the discount rate calculation is the WACC value calculated based on the capital asset pricing model ("CAPM"). To calculate the recoverable amount, estimated cash flows expressed in nominal values were discounted using a discount rate of 12.64% (2020: 12.64%).

The expected growth rate is derived from the expected future development of the market, gross domestic product, wage and interest rate levels and the expected economic growth of the country. A growth rate of 3 % (2020: 2 %) was used to calculate the recoverable amount.

The analysis performed as at 31 December 2021 confirmed that the recoverable amount of CHAPS and its subsidiaries exceeds its carrying value (net assets and goodwill value) by CZK 341 million (2020: CZK 269 million).

Sensitivity analysis of impairment test

When testing the goodwill value determined by the discounted cash flow method, the sensitivity of the test results to changes in the following significant parameters used in the model has been performed: expected future cash flows, a discount rate for calculating the present value of future cash flows and a growth rate.

A change in expected future cash flows according to the model by 20 % with other parameters remain unchanged would lead to a change in the recoverable amount by CZK 93 million (2020: CZK 80 million). A change in the discount rate by 1 % with other parameters remain unchanged would lead to a change in the recoverable amount by CZK 47 million (2020: CZK 40 million). A change in the growth rate by 1 % with other parameters remain unchanged would lead to a change in the recoverable amount by CZK 35 million (2020: CZK 28 million).

19. RIGHT-OF-USE ASSETS

The Group leases land, administrative premises, railway station buildings, locomotives, wagons, cars and equipment. Lease contracts are usually concluded for a defined period (3 to 15 years). Smaller part of the contracts is concluded for an indefinite period (see Note 4.1.3).

(CZK million)

	Land	Premises at railway stations	Administrative buildings	Equipment	Locomotives	Freight wagons	Other vehicles	Total
Cost								
Balance as at 1 Jan 2020	4	324	1,073	610	985	1,795	146	4,937
Additions	-	-	278	126	-	319	866	1,589
Disposals	(3)	(7)	(187)	(131)	-	(681)	(18)	(1,027)
Change in estimates*)	1	37	67	20	32	288	-	445
Reclassification	-	-	(1)	-	(7)	-	-	(8)
Balance as at 31 Dec 2020	**2**	**354**	**1,230**	**625**	**1,010**	**1,721**	**994**	**5,936**
Additions	2	-	68	262	549	483	117	1,481
Disposals	(1)	-	(188)	(7)	-	(210)	(71)	(477)
Change in estimates*)	-	15	51	15	31	148	-	260
Reclassification	-	-	(16)	27	(10)	22	(23)	-
Balance as at 31 Dec 2021	**3**	**369**	**1,145**	**922**	**1,580**	**2,164**	**1,017**	**7,200**
Accumulated depreciation and impairment								
Balance as at 1 Jan 2020	3	130	259	80	190	252	59	973
Depreciation	1	38	150	115	113	355	49	821
Disposals	(3)	-	(121)	(95)	-	(103)	(14)	(336)
Reclassification	-	-	-	-	(2)	-	-	(2)
Balance as at 31 Dec 2020	**1**	**168**	**288**	**100**	**301**	**504**	**94**	**1,456**
Depreciation	-	37	183	136	190	372	69	987
Disposals	-	-	(68)	-	-	(82)	(65)	(215)
Reclassification	-	-	6	6	2	1	-	15
Balance as at 31 Dec 2021	**1**	**205**	**409**	**242**	**493**	**795**	**98**	**2,243**
Net book value								
Balance as at 1 Jan 2020	1	194	814	530	795	1,543	87	3,964
Balance as at 31 Dec 2020	1	186	942	525	709	1,217	900	4,480
Balance as at 31 Dec 2021	2	164	736	680	1,087	1,369	919	4,957

*) Change in estimate is a change in the estimated lease term of the assets.

2021 additions in the Locomotive category consist mainly of six newly leased Vectron locomotives.

In 2020, a significant lease agreement was concluded for the lease of freight wagons. Based on the option contained in the contract, they will be purchased upon termination of the lease. The value of the option is reflected in the value of the assets. The total amount of additions from this contract was CZK 833 million in 2020.

The right-of-use assets according to IFRS 16 also include a lease agreement for the lease of storage space in the Lovosice logistics centre. Since this contract generates to ČD Cargo, a.s. a loss of approximately CZK 59 million per year, a provision for onerous contracts was created for this lease contract in the past. The value of provision has been determined in the amount of estimated net future liability arising from the contract calculated as a difference between discounted expected cash inflows and outflows. As a result of IFRS 16 implementation, the value of the right-of-use asset from this lease has been reduced by the provision for onerous contracts. As at 1 January 2019, the right-of-use asset value was calculated as the amount of CZK 558 million and reduced by the provision of CZK 409 million. As of 1 January 2019, the calculated value of CZK 149 million was reported as Costs in the above table. In 2021, the right of use asset value further decreased due to lower profitability of the logistics complex operation. As at 31 December 2021, this right of use asset was recognised at net book value of CZK 13 million (31 December 2020: CZK 53 million).

The amounts recognised in the consolidated statement of profit and loss:

(CZK million)

	2021	2020
Depreciation of right-of-use assets	(987)	(821)
Interest expense on lease liabilities	(124)	(170)
Expense related to short-term leases	(341)	(131)
Expense related to low-value assets leases	(25)	(19)
Expense related to variable lease payments not included in the measurement of the lease obligation	(18)	-

Lease liabilities are disclosed in Note 27.2.

Sensitivity analysis of right-of-use assets and lease liabilities

When calculating the value of right-of-use assets and lease liability for lease contracts with indefinite lease term, a sensitivity analysis to changes in estimated lease term was performed.

For buildings, a change in estimated lease term by one year with other parameters unchanged would lead to a change in the value of right-of-use assets and lease liabilities by CZK 66 million (2020: CZK 108 million).

For locomotives and freight wagons, a change in estimated lease term by one year with other parameters unchanged would lead to a change in the value of right-of-use assets and lease liabilities by CZK 178 million (2020: CZK 321 million).

20. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

(CZK million)

Entity		Carrying value of investment as at 31 Dec 2021	Ownership percentage as at 31 Dec 2021	Carrying value of investment at 31 Dec 2020	Ownership percentage at 31 Dec 2020
RAILLEX, a.s.	Associate	9	50%	8	50%
BOHEMIAKOMBI, spol. s r.o.	Associate	-	30%	-	30%
Ostravská dopravní společnost, a.s.	Associate	15	50%	13	50%
Ostravská dopravní společnost - Cargo, a.s.	Associate	44	20%	38	20%
JLV, a.s.	Associate	138	38.79%	138	38.79%
Masaryk Station Development, a.s.	Associate	3	34%	3	34%
Total – associates		**209**		**200**	
Smíchov Station Development, a.s.	Joint venture	-	51%	-	51%
Žižkov Station Development, a.s.	Joint venture	-	51%	-	51%
Total – joint ventures		**-**		**-**	
Total – investments in joint ventures and associates		**209**		**200**	

Summary of financial information on associates:

		(CZK million)
	31 Dec 2021	31 Dec 2020
Total assets	999	930
Of which: non-current assets	373	366
current assets	626	564
Total liabilities	360	325
Of which: non-current liabilities	72	78
current liabilities	288	247
Net assets	639	605
Share of the Group in associates' net assets	**209**	**200**

		(CZK million)
	2021	2020
Total revenue	1,504	1,352
Profit for the period	57	33
Total comprehensive income for the period	57	33
Share of the Group in associates' profit for the period	**17**	**7**
Share of the Group in associates' total comprehensive income for the period	**17**	**7**

Summary of financial information on joint venture:

		(CZK million)
	31 Dec 2021	31 Dec 2020
Total assets	11	9
Of which: non-current assets	9	9
current assets	2	-
Total liabilities	13	11
Of which: non-current liabilities	1	-
current liabilities	12	11
Net liabilities	(2)	(2)
Share of the Group of net liabilities	**-**	**-**

In 2021 and 2020, the Group had immaterial share in the profit or loss and total comprehensive income of the joint ventures.

21. INVENTORIES

		(CZK million)
	31 Dec 2021	31 Dec 2020
Spare parts for machinery and equipment	211	212
Spare parts for rolling stock and locomotives	1,747	1,618
Fuels, lubricants and other oil products	47	33
Work clothes, work shoes, protective devices	166	258
Other	160	186
Total cost	**2,331**	**2,307**
Impairment of inventories to their net realisable value *)	(100)	(86)
Total net book value	**2,231**	**2,221**

*) Amount of the inventories for which the allowance was accounted for is CZK 210 million as at 31 December 2021 and CZK 189 million as at 31 December 2020.

The amount of inventories recognised as an expense in 2021 was CZK 3,273 million (2020: CZK 3,091 million).

22. TRADE RECEIVABLES

	31 Dec 2021	31 Dec 2020
Trade receivables – gross	4,239	3,465
Expected credit loss provision	(235)	(298)
Trade receivables – net	**4,004**	**3,167**

Movements in the expected credit loss provision:

		(CZK million)
	2021	2020
Provision as at 1 January	**298**	**281**
Charge for the year– trade receivables	40	114
Use of provision – trade receivables	(17)	(12)
Release of provision – trade receivables	(86)	(85)
Provision as at 31 December	**235**	**298**

In 2021 the Group billed to SŽ the compensation for unjust enrichment resulting from SŽ using the Group's property, mainly land plots under the railway infrastructure. The Group determined the compensation for 2017-2021 at the amount of CZK 2,834 million based on the expert's opinion. The counterparty acknowledged the substance of the Group's claim, but no agreement has been reached yet on the amount of the compensation, mainly due to a need to pre-notify the transaction by the European Commission. Due to this uncertainty the Group did not recognised a receivable from this claim. However, a receivable to the Group arises from its claim to either collect or get refunded the related VAT amounting to CZK 426 million which is presented in Trade receivables – gross.

Further information on trade receivables is provided in Note 36.8 Credit risk management.

23. OTHER FINANCIAL ASSETS

(CZK million)

	31 Dec 2021	31 Dec 2020
Financial assets in fair value through other comprehensive income	397	421
Finance lease receivables	136	120
Hedging derivatives *)	1,234	397
Restricted cash	528	273
Other	6	-
Total non-current financial assets	**2,301**	**1,211**
Finance lease receivables	18	12
Hedging derivatives *)	270	26
Receivables from damages and losses	61	48
Restricted cash	66	113
Other	24	23
Total current financial assets	**439**	**222**
Total	**2,740**	**1,433**

*) Hedging derivatives and securities in fair value though other comprehensive income are measured at fair value; other financial assets are measured at amortised cost.

As at 31 December 2021 and 31 December 2020, financial assets at fair value through other comprehensive income include the Parent company's ownership interest in the company EUROFIMA with the carrying value of CZK 390 million (as at 31 December 2020: CZK 414 million) which is not publicly traded (Note 35). The Group has designated this investment as a financial asset at fair value through other comprehensive income because the investment is expected to be held for strategic purposes rather than for income from resale, and there are no plans to sell this investment in the short to medium term. The fair value of this investment is described in Note 36.3.

Restricted cash includes cash that the Group is obliged to have deposited in special bank accounts and which can be disposed only once the conditions with which they are connected have been met. These are financial funds that relate mainly to grants from the European Union or the ministries and that cash can be used only in line with the grant conditions and for acquisition of specific grant-related assets or technical improvement of these assets.

Movements in the expected credit loss provision:

(CZK million)

	2021	2020
Provision as at 1 January	**22**	**24**
Creation of provision – other financial assets	41	2
Use of provision – other financial assets	(13)	(4)
Expected credit loss provision as at 31 December	**50**	**22**

Further information on Other financial assets is provided in Note 36.8 Credit risk management.

23.1. Finance lease receivables

The Parent Company leased the station building at the Brno - main railway station in the form of a finance lease.

ČD Cargo, a.s. leased the part of the building in the Lovosice logistics centre to Mondi Štětí a.s. in the form of a finance lease.

Maturity analysis of future lease payments:

(CZK million)

	31 Dec 2021	31 Dec 2020
1st year	37	30
2nd year	37	30
3rd year	37	30
4th year	26	30
5th year	22	20
Over 5 years	406	383
Undiscounted lease payments	**565**	**523**
Less: unrealised financial income	(411)	(391)
Present value of lease payments	**154**	**132**
Expected credit loss provision	-	-
Net investment in lease	**154**	**132**
In the consolidated statement of financial position as:		
Other current financial assets	18	12
Other non-current financial assets	136	120
Total	**154**	**132**

The amounts recognised in the consolidated statement of profit and loss:

(CZK million)

	2021	2020
Net income from finance lease investments	20	20

The Group uses a simplified approach in accordance with IFRS 9 to measure expected credit losses, which allows the recognition of a provision for expected losses over the useful life of all finance lease receivables. None of the finance lease receivable are past due at the end of the reporting periods and taking into account past experience and future prospects of the industry in which the lessee operates, the Group's management believes that no finance lease receivables are impaired.

The Group is not exposed to currency risk as a result of lease arrangements as the leases are denominated in CZK.

Further information on finance lease receivables is provided in Note 36.8 Credit risk management.

24. OTHER ASSETS

(CZK million)

	31 Dec 2021	31 Dec 2020
Prepayments provided	6	7
Other	22	1
Total non-current	**28**	**8**
Prepayments provided	272	493
Tax receivables - VAT	1,223	734
Tax receivable – other (except for taxes on corporate income)	12	10
Prepaid expenses	198	166
Grants	673	30
Compensation from the insurance company (Note 28)	300	300
Other	68	62
Total current	**2,746**	**1,795**
Total	**2,774**	**1,803**

The increase in VAT receivables in 2021 was mainly due to a significant purchase of rolling stock at the end of 2021.

Grants as at 31 December 2021 are mainly represented by the investment grant of CZK 398 million from the Ministry of Transport for electrical trains for the connection between the Pilsen and Karlovy Vary regions. There is also an undoubted right to the part of the grant that ČD Cargo, a.s. received within a grant project to equip traction vehicles with on-board parts of the European ETCS signalling system in the amount of CZK 249 million.

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are measured at amortized cost in the consolidated statement of financial position and reduced by the expected credit loss provision in accordance with IFRS 9. The Group expects immaterial credit losses on these items due to the high credit quality of cash deposits held with reputable financial institutions with a high investment credit rating with which the Group cooperates on the basis of long-term and stable relationships.

For the purposes of the consolidated statement of cash flows, cash includes cash on hand and cash in bank accounts. The cash at the end of the accounting periods reported in the consolidated statement of cash flows can be reconciled with the relevant items in the consolidated statement of financial position as follows:

		(CZK million)
	31 Dec 2021	31 Dec 2020
Cash and cash in transit	40	38
Bank accounts *)	3,394	5,713
	3,434	**5,751**
Funds related to discontinued operations	138	-
Total	**3,572**	**5,751**

*) Bank rating analysis is provided in Note 36.8.

26. EQUITY

26.1. Share Capital

The Company's share capital is composed of the investment made by the Czech Republic as the sole shareholder, represented by the Ministry of Transport of the Czech Republic. As at 31 December 2021 and as at 31 December 2020 the share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder's representative, the Ministry of Transport, and are transferable only subject to the prior consent of the Government of the Czech Republic. All the shares are fully paid. There were no changes in the share capital during 2021.

The shareholder is entitled to attend and vote at the General Meeting. It has the right to request and receive an explanation of matters concerning the Company or its controlled entities. The voting right is associated with the share and is governed by its nominal value, so that for every CZK 1 billion of the nominal value of the share, there is one vote. If a shareholder is the state, it exercises the rights of the Company's shareholder in accordance with the law through the Steering committee.

26.2. Other capital reserves

		(CZK million)
	31 Dec 2021	31 Dec 2020
Share premium	16,440	16,440
Reserve fund	502	540
Cash flow hedging reserve	2,601	552
Costs of hedging reserve	(159)	(194)
Revaluation of investments to equity instruments at fair value through other comprehensive income	109	108
Actuarial remeasurements of defined benefit obligations	55	6
Foreign currency translation reserve	(59)	(19)
Other	17	21
Total	**19,506**	**17,454**

26.2.1. Share Premium

The share premium represents the difference between the nominal value of the shares and the non-monetary contribution at the establishment of the Company, by which the issue price of the shares was paid.

The amount of share premium, which was thus determined during the transition to IFRS accounting is CZK 16,440 million as at 31 December 2021 and 31 December 2020.

26.2.2. Reserve fund

(CZK million)

	2021	2020
Balance at the beginning of the year	540	498
Allocation to the reserve fund	28	42
Transfer from the reserve fund	(66)	-
Balance at the year-end	**502**	**540**

Allocations to the reserve fund are made in accordance with the Articles of Association of individual Group companies. The reserve fund may only be used to cover losses.

26.2.3. Cash flow hedge reserve

(CZK million)

	2021	2020
Balance at the beginning of the year	**552**	**1,026**
Revaluation gain/(loss)	2,022	(568)
Reclassification to profit or loss	69	81
Total change in the cash flow hedging reserve	**2,091**	**(487)**
Income tax	(42)	13
Balance at the year-end	**2,601**	**552**

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

Gains and losses reclassified from equity during the year are presented in Cost of services, raw materials and energy and Finance costs in the consolidated statement of profit and loss.

Reclassifications from cash-flow hedge reserve to profit or loss for each of the risk exposures:

(CZK million)

Cross-currency interest rate swaps – hedging of bond funding in EUR with fix-rate	2021	2020
Balance at the beginning of the year	583	1,002
Change in fair value of hedging derivatives	1,761	(515)
Reclassification to profit or loss	75	96
Balance at the year-end	**2,419**	**583**

Currency forwards and swaps – hedging of future revenue in foreign currencies	2021	2020
Balance at the beginning of the year	40	13
Change in fair value of hedging derivatives	32	44
Reclassification to profit or loss	(25)	(11)
Related income tax - change	(1)	(6)
Balance at the year-end	**46**	**40**

Interest rate swaps – hedging of bonds and lease contracts with a variable rate	2021	2020
Balance at the beginning of the year	1	(21)
Change in fair value of hedging derivatives	37	(2)
Reclassification to profit or loss	3	33
Related income tax – change	(1)	(9)
Balance at the year-end	**40**	**1**

Commodity forwards – securing prices for the purchase of diesel and traction electricity	2021	2020
Balance at the beginning of the year	(12)	32
Change in fair value of hedging derivatives	25	(20)
Reclassification to profit or loss	16	(37)
Related income tax – change	(8)	13
Balance at the year-end	**21**	**(12)**

Lease - securing foreign currency liabilities from IFRS 16 *)	2021	2020
Balance at the beginning of the year	(60)	-
Change in fair value of lease liability	167	(75)
Related income tax - change	(32)	15
Balance at the year-end	**75**	**(60)**

*) The management of the Group applies hedge accounting to foreign currency lease liabilities of ČD Cargo, a.s. in accordance with IFRS 16. This involves hedging currency risk with non-derivative instruments from 1 January 2020. The impact of the revaluation of foreign currency liabilities is newly recognized in other comprehensive income. The impact for the accounting period ended 31 December 2020 was CZK 75 million. Instead of in the consolidated statement of profit and loss it is classified within the consolidated statement of comprehensive income of the Group.

26.2.4. Costs of hedging reserve

Costs of hedging represent accumulated gains and losses from changes in fair value excluded from hedging instruments related to the currency base margin of cross-currency interest rate swaps.

Changes in fair value of the underlying currency range of a financial instrument in respect of a hedged transaction-related item accumulated in the costs of hedging are reclassified to profit or loss only when a hedged transaction affects profit or loss or are included in a non-financial hedged item as an adjustment of the accounting basis.

		(CZK million)
	2021	2020
Balance at the beginning of the year	(194)	(215)
Reclassification to profit or loss	18	16
Change of fair value in costs of hedging	17	5
Balance at the year-end	**(159)**	**(194)**

Additional information regarding derivatives and hedging accounting is provided in Note 36.

26.2.5. Foreign currency translation reserve

		(CZK million)
	2021	2020
Balance at the beginning of the year	(19)	(2)
Foreign exchange rate gains or losses arising from translation of foreign operations	(40)	(17)
Balance at the year-end	**(59)**	**(19)**

Foreign exchange rate gains or losses related to translation of the results and net assets of foreign operations of the Group from their functional currencies to the presentation currency of the Group (i.e., CZK) are reported directly in other comprehensive income and are accumulated in the foreign currency translation reserve.

26.2.6. Revaluation of investments to equity instruments at fair value through other comprehensive income

Revaluation of investments to equity instruments at fair value through other comprehensive income includes the accumulated net change in fair value of equity instruments revalued through other comprehensive income, after deducting accumulated gains / losses transferred to retained earnings on derecognition.

		(CZK million)
	2021	2020
Balance at the beginning of the year	108	122
Revaluation	1	(14)
Balance at the year-end	**109**	**108**

27. LOANS, BORROWINGS AND LEASE LIABILITIES

(CZK million)

	31 Dec 2021	31 Dec 2020
Bank loans	763	291
Lease liabilities	1,086	952
Secured loans	431	480
Overdraft accounts	80	110
Issued bonds	1,262	835
Other received short-term loans and borrowings	42	30
Total short-term	**3,664**	**2,698**
Bank loans	5,850	2,434
Lease liabilities	4,060	3,965
Secured loans	1,821	1,020
Bonds issued	32,837	35,385
Other received long-term loans and borrowings	67	46
Total long-term	**44,635**	**42,850**
Total	**48,299**	**45,548**

Secured loans include loans that have been secured with the assets for which the loans were provided.

Portions of long-term loans, borrowings and lease liabilities that are repayable in a period shorter than one year from the date of the consolidated financial statements are presented as short-term loans, borrowings and lease liabilities.

The detail of individual credit lines is described in Note 36.9.2.

The Group did not breach any terms of the loan agreements in 2021 nor 2020.

27.1. Bonds issued

Issue date	Nominal value	Due date	Publicly traded	Coupon	Carrying value as at 31 Dec 2021 in CZK million	Carrying value as at 31 Dec 2020 in CZK million
5 November 2014	EUR 30 million	5 November 2024	No	2.875%	746	787
5 November 2014	EUR 150 million	5 November 2029	No	3.50%	3,726	3,934
3 June 2015	EUR 37.7 million	3 June 2022	No	1.89%	948	1,000
3 June 2015	EUR 77.5 million	3 June 2035	No	3.00%	1,954	2,063
25 May 2016	EUR 400 million	25 May 2023	Yes	1.875%	10,026	10,567
23 May 2019	EUR 500 million	23 May 2026	Yes	1.50%	12,416	13,086
17 June 2016	CZK 500 million	17 June 2021	No	1.28%	-	503
29 December 2016	CZK 500 million	29 December 2023	Yes	1.26%	499	499
20 July 2018	CZK 1,000 million	20 July 2025	Yes	2.55%	1,010	1,009
17 July 2019	CZK 1,000 million	17 July 2026	No	2.17%	1,008	1,008
18 November 2019	CZK 770 million	18 November 2026	No	2.09%	771	771
31 July 2020	CZK 1,000 million	31 July 2027	No	1.65%	995	993
Total					**34,099**	**36,220**
- of which short-term					1,262	835
- of which long-term					32,837	35,385

The Group did not breach any terms or conditions valid for the issued bonds in 2021 and 2020.

Bondholders could request early repayment of bonds within 90 days after the state’s share in the issuer (ČD) falls below 75% or the issuer’s share in the segments of passenger or freight transport falls under 50% and, at the same time, the issuer’s rating falls below the investment grade.

27.2. Lease liabilities

The Group recognized lease liabilities as follows:

(CZK million)

	As at 31 Dec 2021	As at 31 Dec 2020
Short-term lease liabilities	1,086	952
Long-term lease liabilities	4,060	3,965
Total lease liabilities	**5,146**	**4,917**

Expenses relating to short-term leases and low-value assets leases, that are not included in the above short-term lease liabilities, are included in the consolidated statement of profit and loss in Cost of services, raw materials and energy (see Note 8).

Total cash outflows related to leases amounted to CZK 2,068 million in 2021 and CZK 1,981 million in 2020.

The Group is not exposed to significant liquidity risk with respect to lease liabilities. Lease liabilities are monitored by the Treasury department. The analysis of the maturity of lease liabilities is disclosed in Note 36.9.1.

27.3. Bank loans

(CZK million)

Bank	Nominal value	Due date	Interest rates	Carrying value as at 31 Dec 2021	Carrying value as at 31 Dec 2020
UniCredit Bank	1,000	29 March 2029	variable	1,004	-
Raiffeisenbank	500	31 December 2028	variable	504	-
Všeobecná úverová banka	500	31 December 2028	variable	500	-
UniCredit Bank	1,000	29 Mach 2030	fixed	825	925
UniCredit Bank	1,000	31 December 2027	fixed	857	800
ING Bank	1,000	31 August 2027	fixed	923	1,000
ING bank	500	30 June 2028	fixed	500	-
Raiffeisenbank	1,000	30 June 2031	fixed	1,000	-
Credit EIB - 1. tranche	500	2 July 2031	fixed	500	-
Total	**7,000**			**6,613**	**2,725**
- of which short-term				763	291
- of which long-term				5,850	2,434

Bank loans have not been secured.

28. PROVISIONS

(CZK million)

	Balance as at 1 Jan 2020	Creation	Use	Release of unused part	Balance at 31 Dec 2020	Creation	Use	Release of unused part	Balance at 31 Dec 2021
Provision for legal disputes	48	746	9	20	765	1,001	30	28	1,708
of which: long-term part	-				4				4
Provision for post-employment benefits	106	11	16	-	101	13	16	-	98
of which: long-term part	85				84				74
Provision for other long-term employee benefits	318	138	119	1	336	102	156	8	274
of which: long-term part	189				167				133
Provisions for business risks	20	7	-	8	19	17	-	2	34
of which: long-term part	-				-				-
Provision for restructuring	-	84	12	-	72	-	53	19	-
of which: long-term part	-				-				-
Provision for onerous contracts	19	291	17	-	293	150	291	-	152
of which: long-term part	-				-				-
Provision for penalties	-	227	-	-	227	-	4	155	68
of which: long-term part	-				-				-
Provision for damage	100	400	-	-	500	-	-	-	500
of which: long-term part	-				-				-
Other provisions	35	78	26	11	76	95	56	22	93
of which: long-term part	-				-				-
Total provisions	**646**	**1,982**	**199**	**40**	**2,389**	**1,378**	**606**	**234**	**2,927**
Long-term	274				255				211
Short-term	372				2,134				2,716

28.1. PROVISIONS FOR LEGAL DISPUTES

The Group recognises a provision for legal disputes according to the anticipated results of all ongoing legal disputes and the relating probable cash outflows from the Group.

28.1.1. Proceedings in the matter of alleged abuse of a dominant position on the Prague – Ostrava route

In January 2012 the Office for the Protection of Competition (the “OPC”) initiated proceedings against ČD regarding the alleged abuse of ČD’s dominant position on the Prague – Ostrava route in the form of inadequately low (predatory) prices in response to the entry of a new competitive railway carrier. In November 2016, proceedings were initiated by the European Commission (the “EC”) concerning a possible infringement of Article 102 of the Treaty on the Functioning of the European Union (the “TFEU”).

In 2020, the EC issued a statement of objections significantly to disadvantage of ČD, with a further possible impact on the resolution of disputes with RegioJet and Leo Express concerning damages in connection with the operation of the Prague - Ostrava route (see Note 35.1). The statement of objections is a procedural step in ongoing proceedings, which does not prejudge the final conclusions and the EC’s decision in the case. ČD sent a robust reply to the European Commission on this statement of objections. An oral hearing before the Hearing Officer took place at the turn of June and July 2021.

The management of the ČD has assessed the provision for legal disputes, including the assessment of the probable outcome, which is based on a number of estimates and assumptions as at the date of preparation of the financial statements and is therefore subject to substantial uncertainty. As at 31 December 2020 the provision of CZK 700 million was recognized based on the amount of the revenues to which the potential infringement relates, the estimated duration of the potential infringement and the opinion of external advisors on the estimated percentage applied to the relevant revenues in the range of 5 - 10 %. The provision amount represents the estimated costs to settle the fine for the alleged infringement and related expenses and constitutes the ČD's management best estimate of the liability as at 31 December 2021 and 31 December 2020. ČD does not expect any compensation from third parties in connection with these proceedings.

In the opinion of ČD's management, it has not yet been proven that ČD has breached Article 102 TFEU. ČD's intention is to vigorously defend itself in this matter, including all available appeal routes, if necessary. As at 31 December 2021 and through the date of these financial statements, no final decision has been received from the EC on this matter.

Information on other litigations is provided in Note 35.1.

Sensitivity analysis

The actual costs to settle the potential fine may differ from the estimates and underlying assumptions of ČD's management. In accordance with EU legislation, when determining the amount of a fine for an infringement of the competition rules, the basic amount of the fine is derived from the amount of revenues up to 30%, depending on the degree of gravity of the infringement. However, the amount of the fine shall not in any event exceed 10 % of ČD's total turnover for the accounting period preceding the EC's final decision. Should the percentage applied by ČD to the relevant revenues be lower (higher) by 1 %, the provision for legal disputes would decrease (increase) by CZK 95 million. Should the duration of a potential infringement be shorter (longer) by one year, the provision for legal disputes would decrease (increase) by CZK 86 million. It is impracticable to determine uncertainties regarding the timing of any possible future outflows. Based on the available information, there is a relatively high probability that the results in the next accounting period will be different from the assumptions used by ČD's management and the provision for legal disputes will require a significant adjustment.

28.1.2. Alleged cartel agreement between ČD, ZSSK and ÖBB for the sale of the disposed rolling stock

In June 2016, the European commission (the "EC") performed a local investigation in the headquarter of ČD based on suspicion of the cartel agreement made for the mutual sale of rolling stock. The EC investigates if ČD, ÖBB (the Austrian railway operator) and possibly also ZSSK (the Slovak railway operator) have concluded a prohibited agreement to limit sales of disposed rolling stock to restrict an entrance of new carriers to the market (contrary to Article 101 of the Treaty on the Functioning of the European Union (the "TFEU")). ČD denies that it entered into a cartel agreement.

Currently, the case is in the stage of a formally initiated administrative proceeding, where the next step of the EC is awaited and the further procedure of ČD will follow accordingly. The EC has not yet issued a so-called statement of objections, i.e., specification of the EC's opinion on the matter presumed by the relevant rules. In particular based on the nature of information and documents requested by the EC from ČD during 2021, ČD, however, decided that a statement of objections could be issued as early as 2022 (despite the ČD's view that no cartel agreement had been concluded on their end). Therefore, ČD further analysed up-to-date communication with the EC, particularly documents and information requested by the Commission, as well as the relevant general rules, and attempted to evaluate the potential liability to the extent possible (which is still very limited) and to assess the provision for legal disputes, including assessment of probable outcome which was based on a number of estimates and assumptions at the date of the financial statements and was therefore subject to significant uncertainty.

Based on the amount of revenues to which the potential infringement relates, the estimated duration of the potential infringement and the opinion of external advisors on the estimated percentage applied to the relevant revenues, the provision of CZK 1,000 million was recorded as of 31 December 2021, which corresponds to the estimated costs to settle the fine for the alleged infringement and related expenses. The provision recognized in this way represents the ČD's management best estimate of the liability as at 31 December 2021, which, despite substantial related uncertainties, is the best possible at the moment. ČD does not expect compensation from third parties in connection with these proceedings.

In the opinion of ČD's management, it has not yet been proven that ČD has breached Article 101 TFEU. ČD's intention is to vigorously defend itself in this matter, including all available appeal routes, if necessary. As at 31 December 2021 and through the date of these financial statements, no final decision has been received from the EC on this matter.

The actual costs to settle the potential fine may differ from the estimates and underlying assumptions of ČD's management. In accordance with EU legislation, when determining the amount of a fine for an infringement of the competition rules, the basic amount of the fine is derived from the amount of revenues, up to 30%, depending on the degree of gravity of the infringement. However, the amount of the fine shall not, in any event, exceed 10% of the ČD's total turnover for the accounting period preceding the EC's final decision. It is impracticable to determine uncertainties regarding the timing of any possible future outflows. There is a relatively high probability that the results in the next accounting period will be different from the assumptions used by ČD's management and the provision for legal disputes will require a significant adjustment.

28.2. PROVISIONS FOR EMPLOYEE BENEFITS

The provision for post-employment benefits represents an employee's entitlement to a financial contribution upon retirement. The provision for other long-term employee benefits represents the employees' entitlement to a financial contribution upon reaching the jubilee and to the payment of medical expenses, including compensation of wages during curative and rehabilitation stays. In calculating these provisions, the Group used an actuarial model based on current employee data (number of employees, date of old-age pension, average salary, amount of financial contribution) and expected parameters determined with the Group's qualified estimate (expected fluctuation, salary increase) and publicly available statistical data (expected inflation rate of 2 %, probability of death and disability according to data from the Czech Statistical Office). The change in the provision related to retirement benefits caused by the change in these parameters is reported as actuarial gains (losses) in the consolidated statement of comprehensive income. The change in the provision for other benefits is recognized in the consolidated statement of profit and loss. Cash flows are discounted to present value using a discount rate derived from the rate of return on 10-year government bonds.

28.3. PROVISON FOR ONEROUS CONTRACTS

As at 31 December 2021, the Group created a provision for onerous contracts in the amount of CZK 150 million (31 December 2020: CZK 291 million). The provision was recognized for contracts concluded with the regions where the unavoidable costs of fulfilling the obligation stipulated in the contract exceed the economic benefits that are expected to be accepted on the basis of these contracts. As the assets used to perform these contracts are not exclusively attributable to the contracts, no impairment is recognized for these assets in accordance with IAS 36.

28.4. PROVISION FOR PENALTIES

Since the beginning of 2014, the Audit body of the Ministry of Finance has carried out a scheduled audit of ČD and, as a result, issued payment orders against which ČD appealed to the Ministry of Finance. At the end of 2020 and in the first half of 2021, the Ministry of Finance ruled against ČD in several cases. In all these cases, ČD made payments and filed administrative claims. At the end of 2021, the total amount of final and non-final payment orders was CZK 379 million (2020: CZK 379 million). In 2021, grants in the amount of CZK 268 million (2020: CZK 43 million) were returned on the basis of payment orders. The last payment order in the amount of CZK 68 million has not been finalised as at 31 December 2021 and ČD became obliged to settle the payment order only as a result of the Supreme Administrative Court judgment in January 2022. As at 31 December 2021, ČD records liability of CZK 68 million for partial return of the grant in Other liabilities and contractual liabilities, the liability was paid in February 2022.

At the same time, 100% penalty has been applied to the selected projects. As at 31 December 2020, the Group created a provision for possible penalties related to breaches of budgetary discipline in the amount of CZK 227 million. During 2021, part of the provision in the amount of CZK 155 million was released following the decision of the relevant administrative authorities and the provision in the amount of CZK 4 million was used to pay a penalty. As at 31 December 2021 the provision for possible penalties in the last region is CZK 68 million and a decision is pending. Based on the available information, it is impossible to determine the uncertainties regarding the timing of any possible future outflows. ČD's management does not expect compensation from third parties in connection with this proceeding.

28.5. PROVISION FOR DAMAGE

The provision for compensation of damage caused by a fire of cables at the Bohumín train station was created in the amount of the estimated damage. In connection with this provision, the Group recognised the expected compensation from the insurance company in the amount of CZK 300 million as at 31 December 2021 and 31 December 2020. Expected compensation is presented in Other assets (see Note 24).

29. OTHER FINANCIAL LIABILITIES

(CZK million)

	31 Dec 2021	31 Dec 2020
Financial derivatives *)	52	64
Other	161	128
Total long-term	**213**	**192**
Financial derivatives *)	510	221
Liability from ceased lease agreements	121	121
Other	44	68
Total short-term	**675**	**410**
Total	**888**	**602**

*) Financial derivatives are stated at fair value, other financial liabilities are stated at amortised cost.

Other long-term financial liabilities represent liabilities to the lessees of property at the Masaryk and Brno train stations in connection with technical appreciation of leased property performed by lessees.

Three agreements on sale and subsequent lease back of 1,141 vehicles were concluded between ČD Cargo, a.s. and Financial Found, a.s. ČD Cargo has withdrawn from these agreements in line with its terms and, at the same time, paid remaining lease payments of CZK 146 million (including VAT). Since Financial Found, a.s. has not agreed with the withdrawal, the payments were returned to a bank account. In order not to perform meaningless money transfers back and forth, ČD Cargo, a.s. informed Financial Found, a.s. that these funds are available and called to accept the funds. As of now, Financial Found, a.s. has not responded to the call. Simultaneously, Financial Found, a.s. filed a lawsuit with the District Court for Prague 7 to determine ownership of above mentioned 1,141 vehicles, which has not yet been decided. As at 31 December 2021 the carrying value of these vehicles was CZK 641 million, as at 31 December 2020 the carrying value was CZK 671 million. Financial Found, a.s. also unsuccessfully tried to change the ownership title of vehicles at the Railway Office to itself. It means that ČD Cargo, a.s is currently registered as the owner and holder of these vehicles. Due to this, the management of ČD Cargo, a.s. decided to recognise the vehicles as assets and to account for all related accounting operations (allocation of components, accounting for depreciation etc.).

30. OTHER LIABILITIES AND CONTRACT LIABILITIES

(CZK million)

	31 Dec 2021	31 Dec 2020
Grants received	110	77
Other	7	154
Total long-term	**117**	**231**
Advances received	3	4
Payables to employees	1,607	1,399
Liabilities for social security and health insurance	484	466
Tax liabilities - tax withheld from employees	101	159
Tax liabilities - VAT	65	37
Repayment of the grants under ROP projects (see Note 16.1)	68	336
Contract liabilities	348	437
Refund liabilities	235	62
Grants received	52	180
Other	70	46
Total short-term	**3,033**	**3,126**
Total	**3,150**	**3,357**

In 2016, ČD Cargo, a.s. received the grant in the amount of CZK 292 million under the grant project for the equipment of the traction vehicles with the on-board part of ETCS European safety system. In 2018, ČD Cargo, a.s. received another part of the grant in the amount of CZK 68 million and spent the grant partially in 2018 – 2020 for the acquisition of the first prototypes of traction vehicles. The remaining funds of CZK 174 million were used for the supply of prototypes for selected locomotive series in 2021.

The Group has no payables to taxation authorities, social security authorities or health insurers past their due dates.

31. CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

Changes in liabilities from financing activities including changes arising from cash flows and non-cash changes are disclosed in the following table:

(CZK million)

	Short-term bank loans	Long-term bank loans	Lease liabilities – short-term	Lease liabilities - long-term	Secured loans - short-term	Secured loans - long-term	Issued bonds – short-term	Issued bonds – long-terms	Overdraft accounts	Other	Total
Note	27	27	27	27	27	27	27	27	27	27	27
Liabilities from financing as at 1 Jan 2020	**-**	**-**	**838**	**3,521**	**599**	**1,489**	**1,327**	**33,840**	**61**	**162**	**41,837**
Cash flows from financing	**279**	**2,446**	**(1,006)**	**-**	**(654)**	**49**	**(1,000)**	**987**	**49**	**(87)**	**1,063**
Drawing of loans and borrowings	*354*	*2,446*	-	-	-	*49*	-	*987*	*49*	*14*	*3,899*
Payment of loans and borrowings	*(75)*	-	-	-	*(654)*	-	*(1,000)*	-	-	*(101)*	*(1,830)*
Repayments of the principal of lease liabilities	-	-	*(1,006)*	-	-	-	-	-	-	-	*(1,006)*
Effect of exchange rate changes	-	-	69	22	17	-	-	1,024	-	-	1,132
Reclassification *)	12	(12)	981	(981)	518	(518)	500	(500)	-	-	-
Lease additions and change in estimates	-	-	70	1,403	-	-	-	-	-	-	1,473
Accrued interest	3	23	17	86	19	47	335	411	-	-	942
Interest paid (cash flows from operating activities *)	(3)	(23)	(17)	(86)	(19)	(47)	(327)	(365)	-	-	(887)
Capitalized interest paid (cash flows from investment activities)	-	-	-	-	-	-	-	(23)	-	-	(23)
Other non-cash movements	-	-	-	-	-	-	-	11	-	-	11
Liabilities from financing as at 31 Dec 2020	**291**	**2,434**	**952**	**3,965**	**480**	**1,020**	**835**	**35,385**	**110**	**76**	**45,548**
Cash flows from financing	**(139)**	**4,019**	**(1,129)**	**-**	**(503)**	**1,278**	**(500)**	**-**	**(30)**	**37**	**3,033**
Drawing of loans and borrowings	*181*	*4,019*	-	-	-	*1,278*	-	-	-	*40*	*5,518*
Payment of loans and borrowings	*(320)*	-	-	-	*(503)*	-	*(500)*	-	*(30)*	*(3)*	*(1,356)*
Repayments of the principal of lease liabilities	-	-	*(1,129)*	-	-	-	-	-	-	-	*(1,129)*
Effect of exchange rate changes	-	-	(139)	(57)	(2)	(21)	(10)	(1,659)	-	-	(1,888)
Reclassification *)	603	(603)	1,293	(1,293)	456	(456)	948	(948)	-	-	-
Lease additions and change in estimates	-	-	109	1,445	-	-	-	-	-	-	1,554
Accrued interest	11	88	15	64	15	30	324	419	-	1	967

Interest paid (cash flows from operating activities **)	(3)	(88)	(15)	(64)	(15)	(30)	(335)	(333)	-	(1)	(884)
Capitalized interest paid (cash flows from investment activities)	-	-	-	-	-	-	-	(33)	-	-	(33)
Other non-cash movements	-	-	-	-	-	-	-	6	-	(4)	2
Liabilities from financing as at 31 Dec 2021	**763**	**5,850**	**1,086**	**4,060**	**431**	**1,821**	**1,262**	**32,837**	**80**	**109**	**48,299**

*) Loans and borrowings classified in the previous period as long-term, which became short-term in the period under review.
**) The line Interest paid in the consolidated statement of cash flows for the year 2021 also shows cash flows from securing interest payments in the amount of CZK 206 million (2020: CZK 178 million).

32. RELATED PARTY TRANSACTIONS

Relations between the Group and entities stated in Notes 32.1. – 32.4. are described in Note 1.3.

32.1. Revenue from related parties

(CZK million)

		Sale of services	
		2021	2020
JLV, a.s.	Associate	2	3
BOHEMIAKOMBI, spol. s r.o.	Associate	10	9
Ostravská dopravní společnost - Cargo, a.s.	Associate	22	23
Total associates		**34**	**35**
RAILLEX, a.s.	Joint venture	15	17
Ostravská dopravní společnost, a.s.	Joint venture	63	56
Total joint ventures		**78**	**73**
Total related parties		**112**	**108**

32.2. Purchases from related parties

(CZK million)

		Services	
		2021	2020
JLV, a.s.	Associate	145	127
Ostravská dopravní společnost - Cargo, a.s.	Associate	72	67
Total associates		**217**	**194**
RAILLEX, a.s.	Joint venture	3	5
Total joint ventures		**3**	**5**
Total related parties		**220**	**199**

32.3. Outstanding balances with related parties at the end of the accounting periods

(CZK million)

31 Dec 2021		Receivables	Payables
JLV, a.s.	Associate	-	38
BOHEMIAKOMBI, spol. s r.o.	Associate	1	-
Ostravská dopravní společnost - Cargo, a.s.	Associate	3	11
Total associates		**4**	**49**
RAILLEX, a.s.	Joint venture	3	-
Ostravská dopravní společnost, a.s.	Joint venture	15	-
Total joint ventures		**18**	**-**
Total related parties		**22**	**49**

(CZK million)

31 Dec 2020		Receivables	Payables
JLV, a.s.	Associate	-	20
BOHEMIAKOMBI, spol. s r.o.	Associate	1	-
Ostravská dopravní společnost - Cargo, a.s.	Associate	2	16
Total associates		**36**	
RAILLEX, a.s.	Joint venture	3	-
Ostravská dopravní společnost, a.s.	Joint venture	22	-
Total joint ventures		**-**	
Total related parties		**28**	**36**

Outstanding balances have not been secured and will be settled by bank transfer or by offset. No warranties have been granted or accepted. Receivables are usually due within 30 days, liabilities within 45 days. In terms of IFRS 9, impairment losses on related party receivables were assessed as immaterial.

32.4. Key management members compensation

Key management of the Group includes management of the Parent Company and significant subsidiaries (ČD Cargo, a.s., ČD - Informační Systémy, a.s., ČD - Telematika a.s., DPOV, a.s. and Výzkumný Ústav Železniční, a.s.).

The following employee benefits were paid to key management members:

(CZK million)

2021	Board of Directors	Supervisory Board	Steering Committee
Remuneration of members of statutory bodies	62	14	-
Other short-term employee benefits	14	9	-
Post-employment benefits	-	-	-
Total	**76**	**23**	**-**
Number of key management members	**19**	**35**	**6**

(CZK million)

2020	Board of Directors	Supervisory Board	Steering Committee
Remuneration of members of statutory bodies	45	14	-
Other short-term employee benefits	22	9	-
Post - employment benefits	2	-	-
Total	**69**	**23**	**-**
Number of key management members	**19**	**37**	**5*)**

*) there were 7 members during 2020; as at 31 December 2020 only 5 members (2 vacancies)

32.5. Relationships with companies controlled by the state

České dráhy Group is wholly owned and controlled by the state of the Czech Republic. In accordance with the exception in IAS 24 Related Party Disclosures, the Group does not disclose quantitative information about individually immaterial transactions with the government and companies controlled or jointly controlled by the government or in which the government has significant influence. Individually material transactions with related parties that the Group has managed to identify are payments of public service obligations (the regions and the Ministry of Transport) and transactions with the state organization SŽ and the ČEZ Group.

The cost risk is associated with the costs that the carrier must incur in order to ensure the operation of public transport requested by the orderer. The cost risk is primarily about a risk of operating costs, which from the carrier's point of view could be understood as a risk that the costs calculated by the carrier in the offer of public transport submitted to the orderer would differ from the costs actually incurred by the carrier during contract performance. Operating cost risks can be both external, which the carrier is unable to influence (such as rising fuel prices, changes in spare parts prices, additional costs due to traffic closures and emergencies, changes in legislation and tax regulations, etc.) and internal, which the carrier could influence (e.g., proper maintenance of a fleet, effective setting of internal processes, wage levels, etc.).

The revenue risk corresponds to a risk of sales to passengers and can be understood as a risk that sales expected before entering a contract would differ from sales actually achieved by the carrier for the duration of a contract. A key component of the revenue risk is the risk of passenger demand for transport services provided by the carrier.

With regard to the risk allocation method, the Group enters into contracts with the orderers of public transport in the so-called "gross" and "net" regimes. Gross regime contracts have cost risks and opportunities shared between the carrier and the orderer, revenue risks and opportunities remain solely on the orderer's side. Net regime contracts have cost and revenue risks and opportunities shared between the carrier and the orderer. The orderer bears the risks and opportunities for the amount of IDS sales, which the carrier cannot influence, and the carrier bears the risks and opportunities for other sales. Unless a contract refers to the application of the IDS tariff, all risks and sales opportunities are borne by the carrier. All contracts with the Ministry of Transport (”MT”) are in the net regime.

(CZK million)

Revenue and compensation	Counterparty	2021	2020
Income from rental property	SŽ	21	21
Payment for substitute bus service*	SŽ	479	418
Payments from public service orderers – the state budget	the state – MT	4,362	4,272
Compensation of 75% discount fares	the state – MT	1,464	1,046
Payments from public service orderers – the regional budgets - "gross" contracts	regions	4,437	3,931
Payments from public service orderers – the regional budgets - "net" contracts	regions	7,730	7,246
Revenues – telecommunication services	SŽ	635	669
Revenues from freight transportation	ČEZ	89	107
Operation and maintenance of SW	SŽ	24	70
Revenues from the sale of employee holidays	SŽ	-	26
Other revenue	SŽ	124	114

*) This compensation is offset with costs of substitute bus services. Substitute bus services in the note 8 are presented net after this offset.

(CZK million)

Expenses	Counterparty	2021	2020
Use of railroads and allocated railway capacity – passenger transport	SŽ	1,839	1,659
Use of railroads and allocated railway capacity – freight transport	SŽ	800	796
Consumption of electric traction energy - passenger transport	SŽ	1,523	1,495
Consumption of electric traction energy - freight transport	SŽ	626	687
Telecommunication services	SŽ	62	44
Other services	SŽ	253	137

(CZK million)

Receivables	Counterparty	31 Dec 2021	31 Dec 2020
Public service obligation	the state – MT	-	15
Compensation of 75% discount fares	the state – MT	116	70
Public service obligation	regions	276	221
Telecommunications services	SŽ	90	92
Advances provided	SŽ	5	46
Freight transport	ČEZ	22	19
Freight transport	SŽ	26	15
Compensation for unjust enrichment (Note 22)	SŽ	426	-

(CZK million)

Liabilities	Counterparty	31 Dec 2021	31 Dec 2020
Use of railroads and allocated railway capacity – passenger transport	SŽ	184	361
Use of railroads and allocated capacity of the railway – freight transport	SŽ	175	163
Telecommunication services	SŽ	1	10
Consumption of electric traction energy – passenger transport	SŽ	-	34
Lease liabilities	SŽ	189	210
Public service obligation	the state – MT	50	-
Public service obligation	regions	191	-
Consumption of electric traction energy – freight transport	SŽ	71	96

State institutions, enterprises and other parties controlled by the government use the services provided by the Group under the same conditions applicable to other customers. On the expense side, the Group purchases some services and other supplies (water, energy, etc.) from companies controlled by the government under the conditions applicable to other customers.

In 2021 in connection with the covid-19 pandemic, the Group received the grant from the Ministry of Finance in the amount of CZK 599 million (2020: CZK 7 million). This grant was recognized in Other operating income (Note 7). The Group also received the government grant under the Antivirus program in the amount of CZK 80 million (2020: CZK 173 million), which was reported as decrease of Personnel Costs (Note 9).

In 2021, the Group reported the grant from the MT in the amount of CZK 510 million (2020: CZK 350 million) in the consolidated statement of financial position as a decrease in the acquisition value of fixed assets. Receivables and payables from investment grants are reported in Other assets (Note 24) and Other liabilities and contractual liabilities (Note 30).

33. OPERATING LEASE

Operating lease contracts in which the Group acts as a lessor relate to investment property and movable assets held by the Group with various lease terms.
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Maturity analysis of undiscounted payments from non-cancellable operating lease contracts:

		(CZK million)
	31 Dec 2021	31 Dec 2020
1st year	48	46
2nd year	49	47
3rd year	50	48
4th year	51	49
5th year	52	50
Over 5 years	54	102
Total	**304**	**342**

In 2021, income from operating leases recognised in profit or loss amounted to CZK 727 million (in 2020: CZK 762 million), out of which the income from investments property was at CZK 275 million in 2021 (in 2020: CZK 269 million).

Direct operating expenses related to investment properties were CZK 128 million in 2021 (in 2020: CZK 109 million).

34. CAPITAL COMMITMENTS

As at the date of consolidated financial statements, the Group concluded contracts for the purchase of land, buildings and equipment in the amount of CZK 35,831 million (2020: CZK 24,392 million), of which CZK 8,268 million had already been paid as of 31 December 2021 (as of 31 December 2020: CZK 5,494 million).

		(CZK million)
	31 Dec 2021	31 Dec 2020
Unpaid supplies agreed for the next year	5,100	10,093
Unpaid supplies agreed for the subsequent years	22,463	8,805
Total	**27,563**	**18,898**

Investments in rolling stock of CZK 26,904 million for 31 December 2021 (2020: CZK 19,008 million) represent a substantial part of the capital commitments.

35. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Parent Company holds a 1 % equity investment in EUROFIMA. The shareholders of the entity are European national railway carriers, and the purpose of this entity is to acquire funds for rolling stock purchases. According to Article 5 of the Articles of Association, only 20 % of the equity investment value has been paid and the remaining 80 % can be requested by EUROFIMA from its shareholders on ad-hoc basis pursuant to the resolution of the Administration Board. The nominal value of unpaid shares as at 31 December 2021 and 31 December 2020 was CHF 20.8 million (CZK 501 million as at 31 December 2021, CZK 505 million as at 31 December 2020). The management of ČD considers the probability that the Parent Company will be called upon to pay the nominal value of the unpaid share as low as at 31 December 2021.

The aggregate clean-up costs were CZK 23 million in 2021 (2020: CZK 23 million). The Group is not aware of any environmental burdens that would exceed legislative limits and represent harm to human health or property of third parties. The Group's management acting with due managerial care is not aware of any liability resulting from legislation requirements in respect of environmental burdens.

35.1. LEGAL DISPUTES

35.1.1. Legal action by LEO Express for the compensation of damage

In July 2014, LEO Express filed a legal charge of damage compensation amounting to approximately CZK 419 million which was allegedly caused to LEO Express by ČD, a.s. and its pricing policy. The first-instance court rejected LEO Express's charge. At the end of December 2016, Leo Express filed a new legal charge against ČD for a similar reason for the approximate amount of CZK 434 million including ancillary . In March 2018, the High Court in Prague cancelled the judgment dismissing the first LEO Express's charge of damages and returned the case to the Municipal Court in Prague for further proceedings. With its first and second charges, LEO Express seeks, a payment of approximately CZK 34 million, after partial withdrawal, and a payment of approximately CZK 434 million, respectively. The proceedings were suspended pending a decision of the European Commission ("EC") concerning the alleged abuse of a dominant position on the Prague-Ostrava route, described in Note 28.1. In January 2022, the plaintiff's motion was admitted replacing the current plaintiff LEO Express Global a.s. with LEO Mobility s.r.o. ČD filed an appeal against this decision. With letters dated 12 July 2021, Leo Express Global a.s. and Leo Express s.r.o. further requested ČD to compensate them another allegedly incurred damage in addition to the above claims: for the period (i) from 1 June 2014 to 31 December 2017 in the claimed amount of CZK 1,202 million (Leo Express Global) and (ii) from 1 January 2018 to 31 December 2019 in the claimed amount of CZK 491 million (Leo Express). This damage should also allegedly relate to ČD's claimed anti-competitive conduct, whereas the call for compensation does not further specify claims nor the way of alleged amount of damage calculation. In response to these letters, ČD rejected any violation of the law, and thus the alleged obligation to compensate damage. ČD has no information that the Leo Express group would pursue these alleged claims in court. Based on the available information, it is impossible to determine the uncertainties regarding the amount or timing of any future outflows. ČD does not expect compensation from third parties in connection with these proceedings. It is extremely complex to determine the amount of the incurred damage. In management's view, no provision is required for this possible obligation.

35.1.2. RegioJet's call for the payment of compensation for detriment

RegioJet sent a pre-trial notice to ČD for the payment of the compensation of detriment dated 10 April 2015 in which it seeks payment of about CZK 717 million. The alleged detriment was caused by ČD's claimed illegal activities in operating the Prague – Ostrava route, involving the application of dumping prices. ČD refused to pay for detriment. RegioJet filed a legal charge seeking a payment of compensation of approximately CZK 717 million including ancillary. During the course of a judicial proceeding in the first instance, the trial was suspended until the EC decision on the alleged abuse of a dominant position on the Prague-Ostrava route, described in Note 28.1 Based on the available information, it is impracticable to determine uncertainties regarding the amount or timing of any future outflows. ČD does not expect compensation from third parties in connection with these proceedings. It is extremely complex to determine the amount of a possible liability. In management's view, no provision is required for this possible obligation.

35.1.3. RegioJet's action for the repayment of alleged unlawful state aid (defendant ČD, as, SŽ, so, ČR represented by the Ministry of Transport of the Czech Republic)

In April 2015 RegioJet filed a charge for the repayment of approximately CZK 7 billion plus late payment interest for alleged unlawful state aid. By this amount the "dead railroad" assets that ČD transferred to SŽ for CZK 12 billion in 2008 were allegedly overestimated. Both the court of the first and the second instance ruled in favour of ČD, the judgment entered into force on 30 November 2020. RegioJet appealed to the Supreme Court within the time limit for submitting an extraordinary appeal, the proceedings are in progress.

35.1.4. Legal action by CB Station Development and EZ holding against ČD

This is a real estate project, within of which three legal charges were filed against ČD by CB Station Development and EZ holding. The charges were aimed to determine ČD's obligation to conclude a sales contract with the claimants based on previous agreement on a future contract. The claim for contractual penalty in the amount of CZK 100 million and other damage (other claims, pre-contractual liability) cannot be excluded. First instance court proceeding is in progress. Due to the fact that, according to the Group's management, it is not probable that an outflow of funds will be necessary to settle the liability, no provision has been created.

36. FINANCIAL INSTRUMENTS

36.1. Capital risk management

The Group's main objective in managing its capital structure is to maintain a long-term sustainable debt ratio and investment grade rating. Based on its methodology, the credit rating agency assesses the debt ratio using the debt / EBITDA indicator and indicates its level required for the given investment grade. The current target value of the indicator determined using the consolidated data is at the level of 6.0. The Group mainly uses bond issues as a source of long-term financing.

The capital structure of the Group consists of net debt (borrowings less cash and cash equivalents) and Group's equity (includes share capital, reserves and other funds, retained earnings/accumulated losses).

(CZK million)

		31 Dec 2021	31 Dec 2020
Net debt			
Loans, borrowings and lease liabilities	27	48,299	45,548
Cash and cash equivalents	25	(3,434)	(5,751)
Total net debt		**44,865**	**39,797**
Equity			
Share capital	26	20,000	20,000
Capital contributions	26	19,506	17,454
Accumulated loss	26	(2,687)	(757)
Total equity		**36,819**	**36,697**
Total managed capital		**81,684**	**76,494**

The Group manages its capital to ensure that it will be able to continue to operate as a going concern while optimizing the ratio between equity and liabilities. According to banking requirements, the target maximum ratio of the Group's liabilities to equity is 75:25.

The Group is not a subject of any externally imposed capital requirements.

The Board of Directors and the Supervisory Board of the Company are regularly informed about the development of debt. Any additional debt is a subject to their approval.

36.2. Classes of financial instruments

(CZK million)

Classification of financial assets	Category of financial assets		31 Dec 2021	31 Dec 2020
Financial assets measured at amortised cost	Trade receivables	22	4,004	3,167
	Cash and cash equivalents	25	3,434	5,751
	Finance lease receivables	23	154	132
	Other	23	685	457
Financial assets measured at fair value through profit or loss	Financial derivatives used in hedge accounting*	23	1,504	423
Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through other comprehensive income	23	397	421
	Total		**10,178**	**10,351**

(CZK million)

Classification of financial liabilities	Category of financial liabilities		31 Dec 2021	31 Dec 2020
Financial assets measured at fair value through profit or loss	Financial derivatives used in hedge accounting*	29	509	285
	Other financial derivatives	29	53	-
Financial liabilities measured at amortised cost	Loans, borrowings and lease liabilities	27	48,299	45,548
	Trade payables		9,498	4,761
	Other	29	326	317
	Total		**58,685**	**50,911**

*) Provided the hedge is effective, changes in the fair value of the hedging instrument are initially recognised in other comprehensive income (Note 26.2.3).

Income from individual categories of financial assets is as follows:

(CZK million)

	2021	2020	Reported in the statement of profit and loss line
Interest on cash and cash equivalents	11	55	Finance income
Interest on finance lease receivables	19	19	Finance income
Dividends from capital investments	2	3	Other operating income
Total	**32**	**77**	

Expected credit losses on financial assets are disclosed in Note 22 Trade receivables and Note 36.8 Credit risk management.

36.3. Fair value of financial instruments

(CZK million)

Financial assets	Level	Fair value as at 31 Dec 2021	Carrying value as at 31 Dec 2021	Fair value as at 31 Dec 2020	Carrying value as at 31 Dec 2020
Measured at fair value		**1,901**	**1,901**	**844**	**844**
Derivative instruments used in hedge accounting	Level 2	1,504	1,504	423	423
Financial assets at fair value through other comprehensive income	Level 3	397	397	421	421
Measured at amortised cost		**657**	**693**	**393**	**405**
Finance lease receivables	Level 2	154	154	132	132
Other financial assets – long term	Level 2	503	539	261	273
Total		**2,558**	**2,594**	**1,237**	**1,249**

(CZK million)

Financial liabilities	Level	Fair value as at 31 Dec 2021	Carrying value as at 31 Dec 2021	Fair value as at 31 Dec 2020	Carrying value as at 31 Dec 2020
Measured at fair value	Level 2	**562**	**562**	**285**	**285**
Derivative instruments used in hedge accounting	Level 2	509	509	285	285
Other financial derivatives	Level 2	53	53	0	0
Measured at amortised cost	Level 2	**40,752**	**40,872**	**40,378**	**39,119**
Issued bonds	Level 2	11,914	11,656	13,578	12,566
Issued bonds (publicly traded)	Level 1	22,388	22,443	23,916	23,654
Loans	Level 2	*6,321*	*6,613*	*2,725*	*2,725*
Other financial liabilities	Level 2	129	160	159	174
Total		**41,314**	**41,434**	**40,663**	**39,404**

Cash and cash equivalents, trade receivables and trade payables, other current financial assets and other current financial liabilities are not shown in the table because their fair value is approximately equal to the carrying value due to their short-term maturity.

In 2020 and 2021, there were no transfers of financial instruments between levels.

36.3.1. Valuation procedures used to determine fair value

Fair values of financial assets and financial liabilities are determined as follows:

- The fair value of investments in equity instruments at fair value through other comprehensive income was estimated using asset-based approach. As at 31 December 2021 and 2020, the Group's management analysed the investee's audited financial statements and concluded that its fair value is approximately equal to the carrying value of its net assets.
- The fair value of interest rate swaps is calculated using a valuation model on the basis of discounted future cash flows.
- The fair value of cross-currency interest rate swaps is calculated using a valuation model on the basis of discounted future cash flows in respective currencies.
- The fair value of currency swaps is calculated using a valuation model based on discounted yield curves and swap points for the relevant currencies.
- The fair value of commodity swaps is calculated using a valuation model based on discounted future cash flows based on expected commodity prices.

The fair values of financial assets and financial liabilities that are not measured at fair value but are required to be disclosed are determined as follows:

- the fair value of the bonds is determined on the basis of quoted market prices, if exist. If quoted market prices do not exist, the fair value is determined using valuation model on the basis of quoted market prices of comparable bonds,
- the fair value of other long-term financial assets and liabilities is calculated using the discounted cash flow method.

Future cash flows are discounted with a discount rate derived from the incremental borrowing rate.

36.3.2. Fair value measurement recognised in the statement of financial position

Financial instruments measured at fair value are allocated to levels 1 to 3 according to the extent to which the fair value can be ascertained or verified:

- fair value measurements at level 1 are valuations, which are determined based on unadjusted quoted prices of the same assets or liabilities in active markets,
- the fair value measurement at level 2 are valuations, which are determined based on inputs other than quoted prices used at level 1; this information can be obtained from the asset or liability directly (i.e., prices) or indirectly (i.e., data derived from prices),
- fair value measurement at level 3 are valuations based on valuation techniques that use asset or liability information that is not derived from observable market data (unverifiable inputs).

Investments to equity instruments at fair value through other comprehensive income as at 31 December 2021 and 31 December 2020 are included in level 3. All other financial instruments measured at fair value as at 31 December 2021 and 31 December 2020 are included in level 2.

36.4. Financial risk management objectives

The Group manages financial risks through internal risk reports which include risk analysis based on their significance. Financial risks include market risk (currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

36.5. Currency risk management

The Group undertakes certain transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. These transactions predominantly include proceeds from international transport, issued bonds and purchases of rolling stock in foreign currency. In line with the approved Risk Management Strategy, the Group hedges anticipated payments in a foreign currency such that the size of the open risk position does not exceed the limit defined for the period by the Risk Management Committee and approved by the Company's Board of Directors. The management's objective is to hedge at least 90% of all long-term financing in foreign currency.

The carrying amounts of the Group's foreign currency denominated financial assets and financial liabilities, net of the impact of currency hedging, at the end of the reporting period are as follows:

(CZK million)

31 December 2021	EUR	USD	Other	Total
Financial assets	3,792	7	2	3,801
Financial liabilities	(32,673)	(20)	(4)	(32,697)
Total	**(28,881)**	**(13)**	**(2)**	**(28,896)**

(CZK million)

31 December 2020	EUR	USD	Other	Total
Financial assets	2,073	6	2	2,081
Financial liabilities	(32,752)	(14)	(2)	(32,768)
Total	**(30,679)**	**(8)**	**-**	**(30,687)**

36.5.1. Sensitivity to exchange rate changes

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

- changes in the carrying value of monetary items denominated in foreign currencies; and
- changes in the fair value of concluded financial derivatives.

The following table shows the impact that the strengthening and weakening of the Czech currency by CZK 1 against EUR would have on the profit (loss) and other comprehensive income. A positive number indicates an increase in profit (decrease in loss) and other comprehensive income, a negative number indicates the decrease in profit (increase in loss) and other comprehensive income:

(CZK million)

	Strengthening Czech currency by CZK 1 against EUR		Weakening Czech currency by CZK 1 against EUR	
	2021	2020	2021	2020
Translation of items denominated in foreign currencies at the end of the period	1,162	1,169	(1,162)	(1,169)
Change in the fair value of derivatives at the end of the period	(904)	(806)	904	806
Total impact on the profit/ loss before tax	**258**	**361**	**(258)**	**(361)**
Change in tax effect recognized in profit or loss	(49)	(69)	49	69
Total impact on the profit/ loss after tax	**209**	**292**	**(209)**	**(292)**
Change in the fair value of derivatives at the end of the period*	1	(37)	(1)	37
Total impact on other comprehensive income before tax	**1**	**(37)**	**(1)**	**37**
Change in tax effect recognized in other comprehensive income	-	7	-	(7)
Total impact on other comprehensive income after tax	**1**	**(30)**	**(1)**	**30**

*) Financial derivatives used in hedge accounting

36.5.2. Currency forwards

Within the Group, ČD Cargo, a.s. enters into currency derivatives of this type due to the nature of its open currency position. In accordance with the management risk strategy, it enters into currency forwards to cover future incoming payments denominated in foreign currencies with the predetermined hedge ratio of 1:1. The hedge ratio is determined by comparing the amount of the hedged item and the used hedging instrument. The calculation is based on a currency par forward contract that reduces the currency risk resulting from the exchange rate fluctuation of the national currencies and from the planned positive balance in EUR, which the company generates. The hedging ratio is regularly monitored in the context of risk management objectives.

As the key characteristics of the hedging instrument fully correspond to the characteristics of the hedged item, the Group's management expects a high level of effectiveness in the hedging.

The nominal value of currency forwards is lower than the future expected cash inflows in EUR which means that the Group never hedges more than 25 % of the expected cash inflows in EUR. A CZK/EUR exchange rate is hedged and then converts foreign currency earnings (EUR) into the functional currency (CZK). The maximum hedging volumes are set in the Financial Risk Management Strategy of ČD Cargo, a.s. as follows:

- for 2022, a maximum of 25 % of proceeds in EUR,
- for 2023, a maximum of 20 % of proceeds in EUR,
- for 2024, a maximum of 15 % of proceeds in EUR.

The currency forwards are negotiated under market conditions (without premium payments), the fair value of derivatives on the day of the deal is nil. Based on the above-mentioned facts, the Group's management assumes that the hedging relation will be effective over its lifetime. The result of a transaction is a predictable (fixed) CZK/EUR exchange rate obtained from a sale of EUR proceeds of ČD Cargo, a.s.

The effectiveness of hedging will be assessed by comparing critical parameters. As credit risk is not part of the hedged risk, credit risk only affects changes in the value of the hedging instrument. Credit risk arises from the credit rating of ČD Cargo, a.s., and a bank as a counterparty to the currency par forward. Credit risks associated with both a bank and the company are considered minimal and will be reassessed in cases where there is a significant change in circumstances for one of the parties.

Potential root causes of possible ineffectiveness may relate to a basis spread. Another factor may be a time mismatch. The Group does not hedge specific transactions of ČD Cargo, a.s., but only the volume of the planned proceeds. The Group considers the above-mentioned factors to be immaterial or highly improbable and therefore deems the currency hedging to be effective.

The table presents open foreign currency forwards on foreign currency sales at:

Sales	Average exchange rate	Foreign currency	Nominal value in CZK mill	Fair value in CZK mill
31 Dec 2021	27.118	EUR	2,278	61
31 Dec 2020	27.048	EUR	2,272	54

The Group did not enter into foreign currency forwards or options on foreign currency purchase in 2021 nor 2020.

Expected realisation of hedged items by currency forwards

The following table presents expected hedged future cash flows from future sales in EUR (in nominal value):

(CZK million)

31 Dec 2021	Up to 1 month	1 - 3 months	3 months up to 1 year	1 - 5 years	Over 5 years	Total
Hedged future sales in EUR	75	149	671	1,193	-	2,088

(CZK million)

31 Dec 2020	Up to 1 month	1 - 3 months	3 months up to 1 year	1 - 5 years	Over 5 years	Total
Hedged future sales in EUR	105	210	945	945	-	2,205

36.5.3. Foreign exchange swaps

In line with the requirements of currency risk management, the Group has entered into long-term currency swaps that mitigate the risk of financing bonds in EUR with a hedge ratio of 1:1.

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

- the nominal values of the swaps are the same as the face values of the relevant bond volume,
- both transactions are reconciled in the same currencies,
- swaps have been agreed at market value (without premium), the fair value of derivatives at settlement is nil,
- the Group assumes no early bond repayment.

Sources of hedging relationship ineffectiveness are identified as follows:

– in the event of a significant reduction in own or counterparty's creditworthiness.

The Group has classified these swaps as fair value hedges. The Group has also entered into short-term foreign exchange swaps which are accounted for as other financial derivative instruments.

The table presents the terms of currency swap agreements that were open at the end of the reporting periods:

31 Dec 2021	Average agreed exchange rate (CZK/EUR)	Principal amount	Fair value in CZK millions
Up to 1 year	25.72	EUR 70 million	(54)
From 1 up 5 years	26.41	EUR 30 million	6
Total			**(48)**

In 2020, the Group did not enter into any currency swaps.

All hedging relationships were 100% effective at the end of 2021 and 2020.

Expected realization of hedged items by hedging currency swaps

Expected hedged cash flows from foreign currency bonds are disclosed in Note 36.9.1. in the tables with the residual contractual maturity of financial liabilities in the Fixed rate instruments.

36.5.4. *Cross-currency interest rate swaps*

Within the Group, the Parent Company enters into currency derivatives of this type due to the nature of its open currency position. In accordance with the currency risk management requirements, the Group has entered into a cross-currency interest rate swap which reduces the risk of the bond funding in EUR using a hedge ratio of 1:1.

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

– the nominal values of the swaps are the same as the face values of the relevant bond volume,
– both transactions are in the same currency,
– swaps are agreed at market value (without premium), the fair value of derivatives at trade date is nil,
– the Group assumes no early bond repayment.

Sources of hedge relationship ineffectiveness are recognised as follows:

- significant decrease in the Group's or the counterparty's creditworthiness.

The table shows the terms of contracts for cross-currency interest rate swaps that were opened at the end of the reporting periods.

31 Dec 2021	Nominal value (EUR million)	Average collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) CZK million
Up to 1 year	792	2.00%	(20,963)	2.92%	(285)
1 to 5 years	755	2.02%	(19,927)	3.05%	685
Over 5 years	166	3.45%	(4,597)	3.63%	470
Total					**870**

31 Dec 2020	Nominal value (EUR million)	Average collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) CZK million
Up to 1 year	792	2.00 %	(20,963)	2.92 %	(202)
1 to 5 years	792	2.01 %	(20,963)	2.97 %	104
Over 5 years	666	1.98 %	(17,498)	3.09 %	203
Total					**105**

The exchanges of payments under the cross-currency interest rate swaps and coupon payments from issued bonds occur simultaneously and the amount accumulated in equity is reclassified to finance costs in the period in which the coupon payments on the issued bonds affect profit or loss.

All hedging relationships were 100% effective at the end of 2021 and 2020.

The expected realisation of hedged items by cross-currency interest rate swaps

Expected cash flows of hedged foreign currency bonds are listed in Note 36.9.1. in tables with remaining contractual maturities of financial liabilities in the Fixed interest rate instruments.

36.6. Interest rate risk management

The Group manages interest rate risk by maintaining an appropriate mix between fixed and floating rate financing, and, for this purpose, the Group concludes contracts for interest rate swaps so that the amount of the open risk position does not exceed the limit set for the period by the Risk Management Committee and approved by the Board of Directors of the Company. The management's objective is to hedge at least 90% of long-term financing with a floating interest rate.

36.6.1. Sensitivity to interest rate changes

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 leases with a variable rate,
- change in the fair value of concluded financial derivatives.

The following table shows the impact that an increase/decrease in interest rates of 100 basis points would have on the profit (loss) and other comprehensive income. A positive value indicates the increase in profit (decrease in loss) and other comprehensive income, a negative value indicates the decrease in profit (increase in loss) and other comprehensive income:

(CZK million)

	Increase in interest rates of 100 basis points		Decrease in interest rates of 100 basis points	
	2021	2020	2021	2020
Interest from loans and leases with variable rate for the period	(20)	(5)	20	5
Total impact on the profit / loss before tax	**(20)**	**(5)**	**20**	**5**
Change in tax effect recognized in profit/ loss	4	1	(4)	(1)
Total impact on the profit / loss after tax	**(16)**	**(4)**	**16**	**4**
Change in the fair value of derivatives at the end of the period *)	(46)	(42)	50	46
Total impact on other comprehensive income before taxes	**(46)**	**(42)**	**50**	**46**
Change in tax effect recognized in other comprehensive income	9	8	(10)	(9)
Total impact on other comprehensive income after tax	**(37)**	**(34)**	**40**	**37**

*) Financial derivatives used in hedge accounting

36.6.2. Interest rate swap contracts

In accordance with interest rate risk management requirements, the Group has entered into interest rate swap contracts which reduces the risk of secured loans and bonds with variable interest rates. The hedge ratio is determined at 1:1.

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

- nominal values of the swaps are equal to the nominal value of the relevant secured loans or variable-interest rate bonds,
- both transactions are contracted in the same currencies,

- maturity of interest rate swaps payments and interest secured loan and bond payments are equal
- swaps were contracted at market prices (without bonuses), the fair value of derivatives is nil as at the contract date,
- swaps do not include any arrangements on agreed interest rate restriction (embedded interest rate options),
- the Group assumes no early secured liabilities or bond repayment.

Sources of hedge relationship ineffectiveness are recognised as follows:
- early repayment of the residual value of secured loan or bonds
- termination of the interest rate swap by the counterparty,
- significant decrease in the Group's or the counterparty's creditworthiness.

The following table details the terms of interest rate swap contracts outstanding at the end of the reporting periods:

31 Dec 2021	Hedging of interest rate from	Average contracted fixed interest rate	Principal amount	Fair value in CZK million
Up to 1 year	loan	2.66 %	CZK 1,000 million	9
1 to 5 years	loan	2.66 %	CZK 857 million	30
more than 5 years	loan	2.66 %	CZK 286 million	(2)
Total				**37**

31 Dec 2020	Hedging of interest rate from	Average contracted fixed interest rate	Principal amount	Fair value in CZK million
Up to 1 year	leases	1.23%	CZK 109 million	-
Total				**-**

The Group settles the difference between fixed and floating interest rates on a net basis. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating interest rates on debt affect the profit or loss. Gains and losses reclassified during the year from the equity are included in Other interest expense which is part of Finance costs in the consolidated statement of profit and loss.

36.6.3. Expected realisations of hedged item interest rate swaps and interest rate options

The expected hedged cash flows from interest on variable-rate debt are listed in Note 36.9.1 in tables with remaining contractual maturities of financial liabilities in the Finance lease liabilities and Float interest rate instruments.

36.7. Commodity risk management

The Group is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically diesel and electricity, are significant cost items of the Group. The Group manages this risk using the following instruments:

- negotiating a fixed price of electricity always for the following calendar year,
- conclusion of contracts with public transport orderers so that possible price increase of the above-mentioned commodities is reflected in the amount of received payments,
- conclusion of medium-term derivatives for the purchase of diesel.

36.7.1. Sensitivity to changes in commodity prices

The exposure to changes in the price of commodities is measured by sensitivity analysis. The Group is exposed to the risk of changes in commodity prices due to changes in the fair value of concluded financial derivatives.

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

(CZK million)

	10% increase in diesel price		10% decrease in diesel price	
	2021	2020	2021	2020
Change in fair value of derivatives at the end of the period	-	-	-	-
Total impact on the profit/ loss before tax	-	-	-	-
Change in tax effect recognized in profit/loss	-	-	-	-
Total impact on profit/ loss after tax	**-**	**-**	**-**	**-**
Change in the fair value of derivatives at the end of the period*	7	11	(7)	(11)
Total impact on other comprehensive income before taxes	**7**	**11**	**(7)**	**(11)**
Change in tax effect recognized in other comprehensive income	(1)	(2)	1	2
Total impact on other comprehensive income after tax	**6**	**9**	**(6)**	**(9)**

*) Financial derivatives used in hedge accounting.

36.7.2. Commodity derivatives

In accordance with the commodity risk management requirements, the subsidiary ČD Cargo, a.s. has entered into the contracts hedging traction diesel prices. The hedging was carried out by the commodity swap which relies on hedging a fixed price of traction diesel.

The hedging ratio of the hedging relationship is the same as the ratio of the amount of the hedged item and the used hedging instrument, i.e., in this case the ratio is 1:1. The hedging ratio is determined as a comparison of the amount of the hedged item and the used hedging instrument. Its calculation is based on a commodity swap agreement, which offsets the purchase of the secured volume of planned consumption according to the approved Financial Risk Management Strategy. The Group is aware that risk components such as excise duty, trader margins, etc. are included in the calculation of the hedging ratio, however, their effect on the ratio is immaterial. The hedging ratio is regularly monitored in line with risk management objectives.

The economic relationship between the hedging instrument and the hedged item is described according to the parameters listed below.

The effectiveness of hedging is measured by comparing changes in the intrinsic value of the hedging instrument and changes in the fair value of the hedged cash flows. Given that the key characteristics of the hedging instrument fully correspond to the characteristics of the hedged item, the Group expects high hedging effectiveness. At the same time, a correlation test is performed, where the actual purchase prices of diesel per litre and the price of the hedging instrument are compared retrospectively.

The nominal value of the collateral is lower than the future expected volumes of purchased diesel which means it never hedges more than 80% of the estimated volume of purchased diesel. Commodity Platts ULSD 10ppm FOB Barge Rotterdam is secured. The hedging is executed in CZK, which eliminates the risk arising from fluctuations in the CZK / USD exchange rate. The maximum volumes for hedging are set by the Financial Risk Management Strategy as follows:

- for the year 2022, a maximum of 80% of the underlying asset (estimated volume of purchased diesel),
- for the year 2023, a maximum of 65% of the underlying asset (estimated volume of purchased diesel),
- for the year 2024, a maximum of 50% of the underlying asset (expected volume of purchased diesel).

Commodity hedging is negotiated under market conditions (without payment of a premium), the fair value of derivatives on the date of agreement is nil. Based on the above facts, the Group assumes that the hedging relationship will be effective over its lifetime. The result of the transaction is a predictable price of the purchased diesel volume.

As credit risk is not part of the hedged risk, credit risk only affects changes in the value of the hedging instrument. Credit risk arises from the credit rating of the Group and a bank as the counterparty to a commodity swap. Credit risks associated with both a bank and the Group are considered minimal and will be reassessed in cases where there is a significant change in circumstances for one of the parties.

Potential root causes of ineffectiveness may relate to unsecured components of the total price of diesel (i.e., various surcharges, impact of the price of biodiesel, excise tax, etc.) and a significant decline in creditworthiness of a counterparty. In such cases, the Group also performs a correlation test for the price of diesel. The Group hedges the Platts ULSD 10ppm FOB Barge Rotterdam for the total purchase price of diesel, and since the hedging is performed in CZK, the currency risk arising from the USD / CZK currency pair is also eliminated. Other items that make up the price of diesel are fixed or have very low volatility. The Group considers the above items, such as mark-ups, the effect of biodiesel price, excise tax, decrease in creditworthiness of a counterparty, etc., to be immaterial or highly unlikely, and therefore considers commodity hedging to be effective.

The table below presents outstanding commodity contracts for the diesel purchases as at:

Purchase of diesel	Hedged value	Volume of contracts (MT)	Fair value (CZK million)
31 Dec 2021	10,214 CZK/MT	4,800	21
31 Dec 2020	10,964 CZK/MT	12,000	(20)

Expected realization of hedged items of commodity derivatives

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

(CZK million)

31 Dec 2021	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Hedged future purchases of diesel	6	12	53	-	-	71

(CZK million)

31 Dec 2020	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Hedged future purchases of diesel	5	11	48	43	-	107

All hedging relationships were 100% effective at the end of 2021 and 2020.

36.8. Credit risk management

The Group is exposed to credit risk, which is that one party of the financial instrument will cause financial losses to the other party by failing to meet its obligations. Credit risk arises as a result of the Group's business operations and financial market activities. The Group's credit risk quantification is based on a number of primary criteria, where the threat of counterparty default during a transaction is the main determinant due to possible negative impact on the Group's economic results and cash flow. The Group analyses the counterparties using both internal departments support and external information services. Any counterparty insolvency may result in imminent losses with an adverse impact on the Group's business.

Sources of credit risks related to threat of a counterparty default in a transaction were identified by the Group as follows:

- financial institutions,
- employees or tenants – individuals from whom the receivable arises,
- corporate customers,
- the state and regions as public service payers.

Hence, business operations with new counterparties are a subject to standardized approval procedures by designated departments. The credit risk management includes active receivables management, when standard financial instruments, such as prepayments and bank guarantees are used in order to reduce the risk. The Group tries to trade only with trusted contractors who are verified individually on an ongoing basis using publicly available data. At ČD Cargo, a.s standard instruments (advances, payment terms, customer monitoring, internal tools, etc.) are used in various combinations. The Group applies continuous monitoring of receivables at ČD Cargo, a.s. as per individual companies and ageing, with special regard to receivables over 15 days past due. Development of overdue receivables is continuously dealt with by individual responsible employees and, at the top, by the Receivables Commission.

Financial assets that expose the Group to potential credit risk include cash and cash equivalents, trade receivables and financial derivative contracts. The Group's cash is deposited in prestigious domestic financial institutions.

The Group is mainly exposed to the following credit risk categories due to its business activities:

- direct credit risk,
- credit equivalent risk.

Most frequently, the direct credit risk arises from receivables from ongoing trading relationships, particularly from supplier loans granted. Credit quality of the customers is assessed individually, based on their financial position, previous experiences and other factors. The Group assesses its financial assets at each balance sheet date to determine whether there is any objective evidence that they might be impaired. Financial assets are considered impaired if objective evidence indicates that one or more events have adversely affected the estimated future cash flows from those assets. Material financial assets are tested for impairment individually. The remaining financial assets are assessed on a portfolio basis in the groups that have similar credit risk characteristics. All impairment losses are recognized in profit or loss.

The concentration of credit risk is affected by a limited number of available counterparties (e.g., a limited number of banks on the Czech market, a limited number of public service orderers). In such cases, the company reduces credit risk by cooperating only with counterparties with high creditworthiness (reputable banks with investment ratings, orderers paying from the public budgets).

36.8.1. Trade receivables and finance lease receivables

For the purposes of determining expected credit losses using the simplified approach, current receivables and finance lease receivables are classified according to common credit risk characteristics and appropriate maturities. On this basis, the Group evaluates the expected credit loss rates determined for receivables.

The expected credit loss rates are determined according to the payment profile and sales for the period of 7 years preceding 31 December 2021 or 31 December 2020 based on credit losses recognised in the past. The Group analysed a number of macroeconomic variables (GDP, industrial indices, etc.) and their possible correlation to customer solvency. However, as no correlation has been identified, the Group assesses customer creditworthiness individually. The Group also creates specific allowances for receivables.

The table below presents an overview of the impairment losses on current trade and finance lease receivables. The carrying value of receivables as at 31 December 2021 and 31 December 2020 below represent the Group's maximum exposure to credit risk on these assets:

(CZK million)

As at 31 December 2021	Before due date	Past due date (days) 1 – 30	31 – 90	91 – 180	181 – 365	Over 365	Total
Expected credit loss rate	1%	1%	3%	6%	67%	100%	
Finance lease receivables	154	-	-	-	-	-	154
Current trade receivables – gross	3,827	162	38	16	6	190	4,239
Expected credit loss	**38**	**1**	**1**	**1**	**4**	**190**	**235**

(CZK million)

As at 31 December 2020	Before due date	Past due date (days) 1 – 30	31 – 90	91 – 180	181 – 365	Over 365	Total
Expected credit loss rate	3%	3%	5%	73%	50%	100%	
Finance lease receivables	132	-	-	-	-	-	132
Current trade receivables – gross	3,091	89	63	11	14	197	3,465
Expected credit loss	**80**	**3**	**3**	**8**	**7**	**197**	**298**

The credit risk associated with fare revenue has low concentration as a significant proportion of fare sales is collected in cash. Credit risk related to payments from the state budget and the regional budget is low due to the high credit quality of the counterparties. Concentration of trade receivables from the customers controlled by the state (Ministry of Transport, the regions and SŽ) as at 31 December 2021 is 13% (2020: 15%). There is no significant concentration of credit risk in freight transport from the perspective of customers, industries or regions. The Group's exposure and the payment discipline of its contractors are monitored on an ongoing basis.

36.8.2. Cash and other financial assets

The credit risk of liquid financial assets and financial derivatives is limited, as the contractual partners are banks with an investment grade credit rating. For this reason, the impact of impairment of cash and cash equivalents is immaterial.

(CZK million)

Bank	Rating (Moody´s)	Bank balance as at 31 Dec 2021	Restricted cash as at 31 Dec 2021	Bank balance as at 31 Dec 2020	Restricted cash as at 31 Dec 2020
Komerční banka	Aa3	464	594	1,670	386
ČSOB	Aa3	880	-	896	-
Citibank	Aa3	250	-	2,035	-
ING bank	Aa3	162	-	473	-
Česká spořitelna	Aa3	26	-	8	-
UniCredit Bank	A3	630	-	6	-
Raiffeisenbank	A2	183	-	104	-
Sberbank CZ		282	-	261	-
J&T Banka		157	-	59	-
Všeobecná úvěrová banka	A2	300	-	32	-
Allior	BB	1	-	-	-
Millenium bank	Baa1	3	-	4	-
Deutsche Bank	A2	15	-	8	-
Frankfurter Sparkasse	F1+	1	-	5	-
Bank Austria	A2	2	-	6	-
Slovenská sporiteľňa	A2	7	-	29	-
Tatra banka	A3	31	-	14	-
Fio banka		-	-	1	-
PPF banka		-	-	102	-
Total		**3,394**	**594**	**5,713**	**386**

The application of the expected credit loss model has an immaterial impact on all Other financial assets.

The credit risk associated with financial operations is low because the Group spreads the risk over a larger number of financial institutions and only deals with financial institutions that have a credit rating in the investment range.

The following table provides an analysis of the credit risk of Other financial assets at amortized cost. The carrying values of assets as at 31 December 2021 and 31 December 2020 represent the Group's maximum exposure to credit risk from these assets:

(CZK million)

As at 31 Dec 2021	Level 1 (expected 12-month credit losses)	Level 2 (expected lifetime credit losses)	Level 3 (impaired)	Allowances	Total
Restricted cash	594	-	-	-	594
Receivables from damages and losses	69	8	-	(16)	61
Other	30	6	-	(6)	30
Total	**693**	**14**	**-**	**(22)**	**685**

(CZK million)

As at 31 Dec 2020	Level 1 (expected 12-month credit losses)	Level 2 (expected lifetime credit losses)	Level 3 (impaired)	Allowances	Total
Restricted cash	386	-	-	-	386
Receivables from damages and losses	48	5	-	(5)	48
Other	23	17	-	(17)	23
Total	**457**	**22**	**-**	**(22)**	**457**

The Group has assessed the credit risk for individual items of Other financial assets. Counterparties have low risk and no material overdue receivables are recorded. Credit risk has not increased significantly since initial recognition. The carrying value of Other financial assets at fair value as at 31 December 2021 and 31 December 2020 represents Group's maximum credit exposure from these assets (Note 23).

As at 31 December 2021 and 31 December 2020, the Group does not record any financial assets pledged as collateral.

36.9. Liquidity risk management

The Group manages its liquidity risk through planning future cash flows and securing binding limits of short-term financing with reputable financial institutions (promissory notes programme and agreed overdraft and revolving loans), with the minimum period of 12 months. In order to secure sufficient short-term liquidity, the Group has contracted these binding credit facilities so that its available funds exceed its expected short-term outflows. The liquidity is also monitored by the Moody´s rating agency on an ongoing basis.

36.9.1. Liquidity risk tables

The following tables demonstrate the Group's remaining contractual maturity of financial liabilities. The tables have been drawn up based on the undiscounted cash flows from 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 interest, the undiscounted amount is derived from interest rate curves at the end of the reporting periods and may change, if interest rates differ from the determined estimates.

(CZK million)

31 December 2021	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	5,117	4,324	748	55	152	10,396
Commitment to increase capital of the Group's investee (Note 35)	501	-	-	-	-	501
Derivatives	27	27	102	237	-	393
Incoming cash flows	-	-	1,004	2,982	-	3,986
Outgoing cash flows	27	27	1,106	3,219	-	4,379
Lease liabilities	39	257	870	3,268	1,021	5,455
Secured loans	11	115	356	1,118	853	2,453
Float interest rate instruments	1	(1)	239	1,372	689	2,300
Fixed interest rate instruments	6	170	2,161	31,086	9,365	42,788
Total	**5,702**	**4,892**	**4,476**	**37,136**	**12,080**	**64,286**

(CZK million)

31 December 2020	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	3,129	1,531	306	123	48	5,137
Commitment to increase capital of the Group's investee (Note 35)	505	-	-	-	-	505
Derivatives	2	3	14	145	-	164
Incoming cash flows	-	-	70	3,469	-	3,539
Outgoing cash flows	2	3	84	3,614	-	3,703
Lease liabilities	33	266	774	3,006	1,307	5,386
Secured loans	24	122	333	732	275	1,486
Float interest rate instruments	-	62	387	1,613	991	3,053
Fixed interest rate instruments	-	-	1,250	16,159	23,277	40,686
Total	**3,693**	**1,984**	**3,064**	**21,778**	**25,898**	**56,417**

The following tables demonstrate the Group's expected contractual maturity of financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets reflecting the anticipated maturity. The table includes cash flows from the interest and principal.

(CZK million)

31 December.2021	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	5,950	1,514	644	(3)	398	8,503
Derivatives*	7	17	(140)	(1,278)	(576)	(1,970)
Incoming cash flows	7	17	401	13,787	4,616	18,828
Outgoing cash flows	-	-	541	15,065	5,192	20,798
Finance lease receivables	6	3	27	122	407	565
Fixed interest rate instruments	**5,963**	**1,534**	**531**	**(1,159)**	**229**	**7,098**

(CZK million)

31 December 2020	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	5,490	1,436	40	5	421	7,392
Derivatives*	2	5	(176)	(750)	(289)	(1,208)
Incoming cash flows	2	5	365	1,415	18,344	20,131
Outgoing cash flows	-	-	541	2,165	18,633	21,339
Finance lease receivables	5	2	22	110	383	522
Fixed interest rate instruments	2,400	-	-	-	-	2,400
Total	**7,897**	**1,443**	**(114)**	**(635)**	**515**	**9,106**

*) Negative net undiscounted cash-flows are arising on specific cross currency interest rate derivatives due to the significant interest rate differential between the functional and hedged currency.

36.9.2. Financing facilities

The Group has access to the following credit facilities:

(CZK million)

Bank overdraft	ČSOB	Citibank	ING	VUB	KB	Raiffeisenbank	Millennium Bank	Tatra banka	SLPL	Total
Loan facility as at 1 January 2020	**1,110**	**200**	**200**	**700**	**1,600**	**-**	**96**	**-**	**13**	**3,919**
Unused amount as at 1 January 2020	**1,110**	**200**	**200**	**700**	**1,600**	**-**	**35**	**-**	**13**	**3,858**
Change of loan facility in 2020	-	-	-	-	-	300	53	13	-	366
Loan facility as at 31 December 2020	**1,110**	**200**	**200**	**700**	**1,600**	**300**	**149**	**13**	**13**	**4,285**
Unused amount as at 31 December 2020	**1,110**	**200**	**200**	**700**	**1,600**	**300**	**149**	**13**	**13**	**4,285**
Change of loan facility 2021	-	-	-	-	-	6	37	-	-	43
Loan facility as at 31 December 2021	**1,110**	**200**	**200**	**700**	**1,600**	**306**	**186**	**13**	**13**	**4,328**
Unused amount as at 31 December 2021	**1,110**	**200**	**200**	**700**	**1,600**	**306**	**106**	**13**	**13**	**4,248**

(CZK million)

Promissory notes programme	ČSOB	ING	KB	Česká spořitelna	Total
Loan facility as at 1 January 2020	**2,500**	**1,500**	**2,000**	**2,250**	**8,250**
Unused amount as at 1 January 2020	**2,500**	**1,500**	**2,000**	**2,250**	**8,250**
Change of loan facility in 2020	-	-	-	(250)	(250)
Loan facility as at 31 December 2020	**2,500**	**1,500**	**2,000**	**2,000**	**8,000**
Unused amount as at 31 December 2020	**2,500**	**1,500**	**2,000**	**2,000**	**8,000**
Change of loan facility in 2021	-	-	-	-	-
Loan facility as at 31 December 2021	**2,500**	**1,500**	**2,000**	**2,000**	**8,000**
Unused amount as at 31 December 2021	**2,500**	**1,500**	**2,000**	**2,000**	**8,000**

		(CZK million)
Revolving loan	Citibank	Total
Loan facility as at 1 Jan 2020	**1,500**	**1,500**
Unused amount as at 1 Jan 2020	**1,500**	**1,500**
Change of loan facility in 2020	-	-
Loan facility as at 31 Dec 2020	**1,500**	**1,500**
Unused amount as at 31 Dec 2020	**1,500**	**1,500**
Change of loan facility in 2021	-	-
Loan facility as at 31 Dec 2021	**1,500**	**1,500**
Unused amount as at 31 Dec 2021	**1,500**	**1,500**

The Group contracted long-term bank credit lines as part of securing resources for the planned investments.

						(CZK million)
Long-term bank credit lines	Raiffeisenbank	UniCredit Bank	VUB	ING Bank	EIB	Total
Loan facility as at 1 Jan 2020	**-**	**-**	**-**	**-**	**-**	**-**
Unused amount as at 1 Jan 2020	**-**	**-**	**-**	**-**	**-**	**-**
Change of loan facility in 2021	- -	2,000	- -	1,000	3,412	6,412
Loan facility as at 31 Dec 2020	**-**	**2,000**	**-**	**1,000**	**3,412**	**6,412**
Unused amount as at 31 Dec 2020	**-**	**200**	**-**	**-**	**3,412**	**3,612**
Change of loan facility in 2021	3,600	4,000	1,900	500	-	10,000
The effect of currency translation	-	-	-	-	(180)	(180)
Loan facility as at 31 Dec 2021	**3,600**	**6,000**	**1,900**	**1,500**	**3 232**	**16,232**
Unused amount as at 31 Dec 2021	**2,100**	**3,000**	**1,400**	**-**	**2 732**	**9,232**

37. POST BALANCE SHEET EVENTS

In January – March 2022 the Group drew the long-term loans of CZK 6.5 billion (drawn on the long-term bank credit lines listed in note 36.9.2) with the following parameters.

			(CZK million)
Bank	Nominal value	Due date	Interest rates
UniCredit Bank	1,000	29 March 2029	fixed
UniCredit Bank	1,000	29 March 2029	variable
UniCredit Bank	1,000	29 March 2029	variable
Raiffeisenbank	1,000	29 December 2028	variable
Všeobecná úverová banka	500	29 June 2029	variable
Všeobecná úverová banka	900	29 June 2029	variable
Raiffeisenbank	1,100	29 December 2029	variable
Total	**6,500**		

The Group drew a revolving loan of CZK 1.5 billion (drawn on the long-term bank credit lines listed in note 36.9.2) with due date of 11 August 2022 with a variable interest rate. The Group also entered into an agreement for a long-term bank credit line up to EUR 40 million, all of which had been utilized. The final repayment dates of the loan provided thereunder is in June 2032.

At the end of February 2022, continuing political tensions between Russia and Ukraine escalated into a conflict with Russia's military invasion of Ukraine. A worldwide response to Russia's violations of international law and aggression against Ukraine was the imposition of extensive sanctions and restrictions on business activities. We consider these facts to be non-adjusting subsequent events. The overall impact of recent developments has been reflected in increased volatility in financial and commodity markets and other implications for the economy. Business risks, including the adverse effects of economic sanctions on Russia, business disruptions (including supply chains), more frequent cyber-attacks, the risk of breaches of legal and regulatory rules, and many others, are difficult to assess and their overall impact and potential effects are currently unknown.

In 2022, there were changes in the composition of the Supervisory Board of the Company. On 10 February 2022 two members of the Supervisory Board, Jan Vrátník and Vojtěch Kocourek were dismissed and new members of the Supervisory Board Miroslav Zámečník, Petr Šlegr and Jiří Minka were appointed.

On 15 February 2022 there were also changes in the Board of Directors of the Company. At an extraordinary meeting of the Supervisory Board the resignation of Václav Nebeský, the Vice-Chairman of the Board of Directors, was accepted. Effective from 16 February 2022, Michal Kraus was appointment as Vice-Chairman of the Board of Directors of the Company. The resignation of Petr Pavelec, a member of the Board of Directors and the resignation of Ivan Bednárik, the Chairman of the Board of Directors were also accepted. Effective from 16 February 2022, Blanka Havelková was appointed as a member of the Company's Board of Directors. On 24 March 2022, Michal Krapinec was elected as Chairman of the Board of Directors and Chief Executive Officer of the Company, effective from 4 April 2022. At its meeting on 7 April 2022, the Supervisory Board appointed Lukáš Svoboda as a member of the Board of Directors of the Company, effecting from 8 April 2022.

On 28 February 2022, the Czech National Bank revoked the license of Sberbank CZ, a.s. As of that date, the companies in the Group had deposits with this bank in the amount of CZK 261 million. Companies are negotiating intensively about access to deposited funds.

On April 20, 2022, the subsidiary ČD Cargo, a.s. issued bonds with a total nominal value of EUR 40 million (CZK 975 million), with maturity at 31 December 2028, and with a fixed interest income of 1.92% p.a.

In April 2022, ČD acquired 100% of interest in VYDOS BUS a.s. The Group intends to use the acquired company for substitute bus transport during planned traffic closures or extraordinary events.

Effective from 1 April 2022, the discounts provided to selected population groups (students, pensioners, individuals with reduced mobility) on public transport decreased from 75% to 50%. The Group does not expect significant impact of this event on its financial performance in the future.

In 2021, the Group started working on loan documentation with Eurofima, in which it owns 1% (Note 35), to secure credit facilities totaling EUR 639 million. During April and May 2022, the pledge and guarantee conditions for drawing the credit line were defined and the Group is currently taking the necessary final steps to finalise the loan documentation.

On 10 June 2022, the European Commission issued the statement of objections to České dráhy and ÖBB regarding the alleged cartel agreement for the sale of disposed rolling stock (Note 28.1.2). The statement of objections is a procedural step in ongoing proceedings, which does not prejudge the final conclusions and the EC's decision in the case. No adjustment to the provision for legal disputes recorded as at 31 December 2021 was needed based on this event.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 14 June 2022.