Annual Report of the České dráhy Group

2016

IMPORTANT DATES
AND NUMBERS
OF THE GROUP IN 2016

České dráhy
National carrier

České dráhy
National carrier

Behind all the numbers shown here we see specific customers as well as the specific work of our people. The fact that our services are objectively getting better and that they are used by more passengers means that our twenty-three thousand six hundred and sixty-four employees have pushed their personal limits a bit farther.

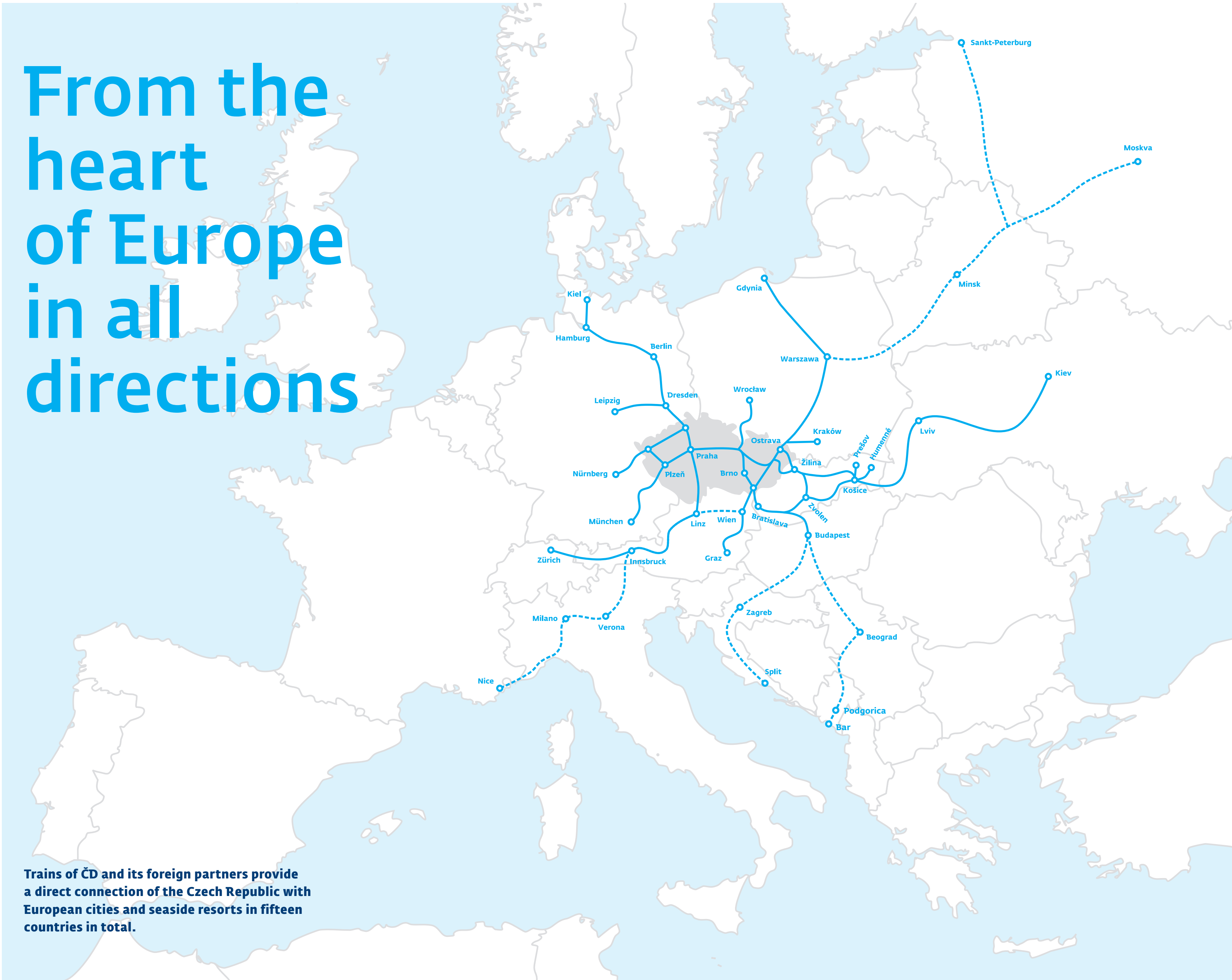
The content of this annual report is therefore the joint work of each of them.

DATA 2016

In the past year, we again tried to give you the best ride.

Interesting numbers of the last year	2016
1 Number of passengers	171.5 million
2 Traffic performance of passenger transport	7.38 billion person-kilometres
3 Number of passenger trains daily	6,899
4 Volume of freight transport	65.5 million tonnes
5 Traffic performance of freight transport	11.28 billion tariff ton-kilometres
6 Registered number of employees of the Group	23,664

From the heart of Europe in all directions



Trains of ČD and its foreign partners provide a direct connection of the Czech Republic with European cities and seaside resorts in fifteen countries in total.

INTRODUCTION, GOAL AND VISION

About us

We are a group of companies operating passenger and freight railway transport. We provide network services of connecting routes comprising regional trains as well as long-haul higher quality trains. In cooperation with foreign transport providers we offer passenger and freight transport across the entire continent.

Our services include:

- Regional, long-haul and international passenger railway transportation services;
- Comprehensive freight transportation services across Europe;
- Comprehensive repair services for rolling stock and railway infrastructure;
- ICT services to railway transportation companies and railway infrastructure administrators;
- Testing services, railway transportation research and development;
- Railway catering services; and
- Specialist training in railway transportation.

Our goal

Our goal is to provide transportation services to a wide range of customers, geographically covering the entire territory of the Czech Republic, including cross-border services in the territory of neighbouring states, and to provide network connection, mainly in the railway transport segment under the terms and conditions that are economically advantageous for both the state and customers.

Our vision

We aim to be the first-choice railway transportation company for passengers, ordering parties and freight transport customers. Thus, we must assume the role of the leader in the open market as a competitive, customer-focused and profitable company with a stable position in the railway sector. We focus on the key success elements – customer focus and the effort to make the services offered simple and easy to use. This is accompanied by investments in the modernisation of the rolling stock and the deployment of modern technologies to handle the passengers and shipments.

171.5

MILLION PASSENGERS

In 2016 we transported a total of 171.5 million passengers, which is almost 1.8 million more than the previous year. In each of them we see a customer whom we serve on the way to his/her destination.

The number of passengers went up again

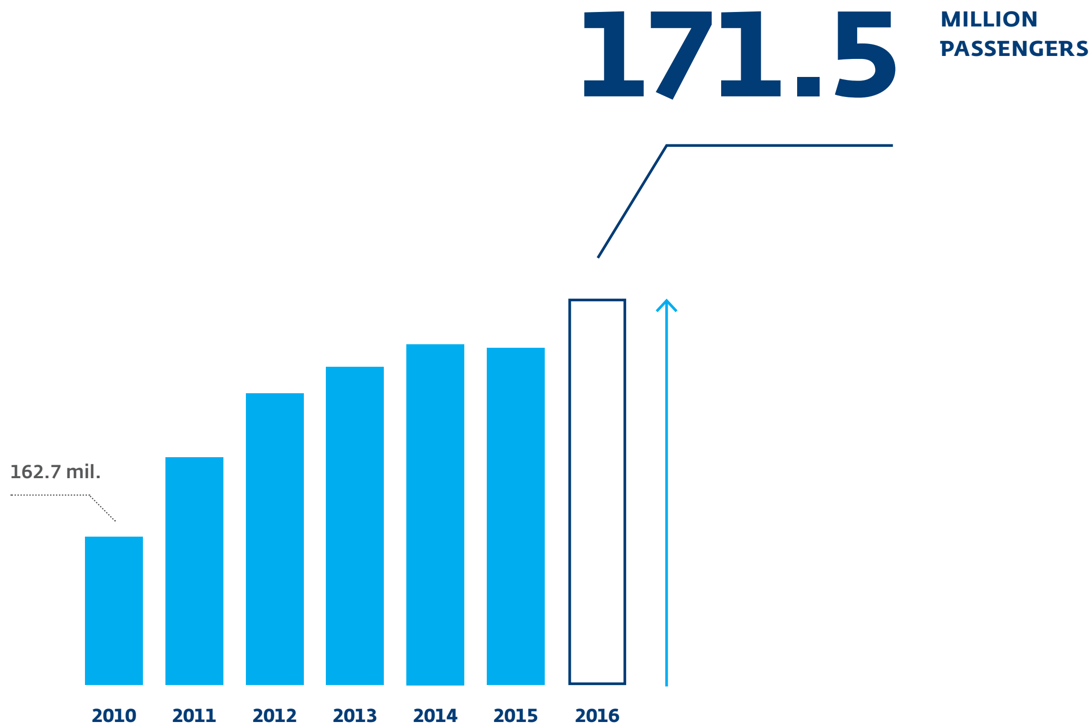
The average length of a trip in 2016 was 43 kilometres.

KEY INDICATORS FOR THE ČD GROUP

Key indicators

IFRS consolidated financial indicators (CZK million)	2016	2015*	Difference	INDEX
ČD Group				
EBITDA (from continued operations)**	8,321	6,925	1,396	**120**
EBIT (from continued operations)***	2,234	890	1,344	**251**
Profit/loss for the period	882	(1,352)	2,234	**n/a**
Total assets	86,937	87,942	(1,005)	**99**
CAPEX	6,851	6,501	350	**105**
Depreciation and amortisation	6,088	6,035	52	**101**
Leverage (%) - Liabilities/Total assets	57.6	59.4	(1.7)	**97**
Current liquidity (%) - Current assets/ Current liabilities	121.9	48.0	73.9	**254**
ROCE (%) - EBIT/(Total assets-less Current liabilities)	2.9	1.4	1.5	**215**
Average full time employees equivalent	23,664	23,947	(283)	**99**
Passenger transport (ČD)******				
Number of passengers (mil.)	171.5	169.7	1.8	**101**
Traffic performance (mil. person-kilometres)	7,380	7,170	210	**103**
Transport performance (mil. train-kilometres)	120.3	117.8	2.5	**102**
Average traffic distance (km)	43	42	1	**102**
Occupancy ratio (%)	27	27	-	**100**
Freight transport (the ČD Cargo group)				
Traffic volume (mil. tones)	65.5	66.4	(0.90)	**99**
Traffic performance (mil. tariff ton-kilometres)	11,282	11,139	143	**101**
Transport performance (mil. train-kilometres)*****	21.8	21.7	0.1	**100**
Average traffic distance (km)	172	168	4	**102**

* After data adjustment for the year ended 31 December 2015, see financial statements notes 2.2.1 and 15.1
** EBITDA = profit (loss) before interest and taxation (EBIT) from continued operations plus depreciation and amortisation from continued operations
*** EBIT = profit (loss) before interests and taxation from continued operations
**** ČD passenger transport data do not include flat-rate transport
***** Transport performance does not include locomotive trains



The number of passengers has been increasing for a long time

The number of passengers on the trains of the national carrier is steadily growing. Since 2010, it has grown by nearly nine million passengers a year, mainly due to shortening of travel times and modernization of the fleet.

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OPENING STATEMENT

OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Ladies and Gentlemen,

In 2016, the České dráhy Group achieved net income in the total amount of CZK 882 million, reported in accordance with the International Financial Reporting Standards ("IFRS"). This is the best result since 2009 when we began to consolidate our results according to IFRS and when we entered the capital markets via bonds issue. The last year was very successful for České dráhy also in this respect. In spring, Moody's agency increased our credit rating to Baa2 level. Subsequently we issued bonds worth of EUR 400 million which we used to refinance the previous debt. Owing to more favourable conditions we managed to reduce the costs associated with debt service, which together with higher revenues from the core business, operating cost savings and the extraordinary disposal of assets led to year-on-year group's profit improvement of almost CZK 2.23 billion.

Passenger transport segment contributed to this result by higher revenues of CZK 498 million. It reflected higher traffic performance and increased number of passengers, which totalled to 171.5 million. The positive trend was noted mainly in international, but also in domestic suburban transport, where our trains are part of the integrated transport systems. Continued investment in the modernization of vehicles and an improvement of our services did pay off. Despite the passenger transport reported loss, the year-on-year result improved by more than CZK 780 million, which was mainly caused by operating costs reduction. This improvement, together with successful disposal of assets, particularly the property located nearby Masaryk railway station in Prague and also the station buildings disposed to the state owned Railway Infrastructure Administrator, led to achievement of good overall result of the parent company ČD, which got the company closer to balanced economic results.

Freight segment was highly profitable last year. According to IFRS, the last year ended with net profit of CZK 935 million, which represents an annual improvement of CZK 359 million. This was achieved despite ČD Cargo faced lots of challenges during the last year. More fierce competition among rail and road transportation providers and also the Chinese economy slowdown, which caused business decline for the most of combined transport operators, resulted in reduction in domestic goods transportation revenues. On the other hand, foreign business did well. As well as passenger transport ČD Cargo reduced the expense for consumption of traction energy and fuel. Positive impact resulted from the discount for usage of the railway infrastructure when transporting single wagon shipments. Overall, the net income exceeded the expectations and contributed to the significant profit realised by the ČD Group.

Pavel Krtek
Chairman of the Board of Directors
České dráhy, a.s.

2 STATUTORY BODIES

OF THE COMPANY AS OF 31 DECEMBER 2016

Board of Directors

Pavel Krtek
Chairman

Ludvík Urban
Vice-Chairman

Michal Štěpán
Member

Miroslav Kupec
Member

Martin Bělčík
Member

Changes in the Board of Directors

On 7 December 2016 the Supervisory Board with the immediate effect withdrew Roman Štěrba and František Bureš from the Board of Directors and appointed Miroslav Kupec and Martin Bělčík.

age **46**

Pavel Krtek

Pavel Krtek graduated at the French state technical university Ecole Central Paris. He began his career working for multinational company Lafarge Cement, the world's second largest cement-producing company. He then worked for the petrochemical oil refinery group Unipetrol for nine years, of which he was a member of the company's board of directors for six years. He spent three years working at the company's headquarters as the head of financial controlling, then two years in the position of financial director of the railway transport department of Unipetrol Doprava in Litvínov, followed by two years at the company's headquarters in Prague and two years as the financial director of the Paramo refinery in Pardubice. He then worked in the field of investment funds. In February 2014, he became a member of the Board of Directors of České dráhy, a.s. and on 1 March 2014 he became Deputy CEO of ČD for economy and technology.

Chairman of the Board of Directors since:

10. 11. 2014

responsible for the department of economy, finance and management of the company

age **47**

Ludvík Urban

Ludvík Urban graduated from the University of Transport and Communications in Žilina. From 1991 to the present, he has worked for České dráhy in several positions: stationmaster in Zlín, director of the Regional Centre of Passenger Transport for the Zlín region, deputy managing director for regional integration. He is a municipal representative in Holešov.

Vice-Chairman of the Board of Directors since:

10. 11. 2014

responsible for the department of investment and cooperation with regions

age **46**

Michal Štěpán

Michal Štěpán studied at the Industrial High School of Railway Transport in Česká Třebová and then the University of Transport and Communications in Žilina. Until 1994, he worked in several different operation positions in passenger and freight railway transport and traffic. He then worked at the regional directorate in Hradec Králové for four years. Between 1998 and 2003, he worked at the Passenger Transport and Traffic division of the General Directorate of ČD. Subsequently, he held the position of stationmaster and chief stationmaster at the Chrudim junction train station. From 2005, he worked at the Pardubice Regional Centre of Passenger Transport, where he became director in 2008. In August 2013, he was entrusted with managing the sections of the executive director for marketing and products at the General Directorate of ČD, and for strategy and sales. As of 1 October 2013, he was appointed Deputy CEO for passenger transport.

Member of the Board of Directors since:

21. 2. 2014

responsible for the department of passenger transport

age **57**

Miroslav Kupec

After graduating from the Faculty of Mechanical Engineering in Prague, he joined Poldi Kladno in 1983, where after two years of practice, he started working as an operations manager. In 1990 he won a tender for the position of CEO of ČKD Slaný, later he worked for F. X. Meiller where since 1994 he became the managing director and the executive director. Since 2001 he held the position of Chairman of the Board and CEO of the Company Škoda Machine Tool in Plzen and Škoda Vagónka in Ostrava. Since 2009 he worked as a private consultant. Four years later he was appointed as the director of ČD Cargo responsible for repairs. Since the beginning of 2014 till December of the last year, he worked as the chief officer at DKV Prague, from where he moved to the top management of the Czech national railway carrier.

Member of the Board of Directors since:

7. 12. 2016

responsible for section of technology, services and assets

age **48**

Martin Bělčík

He graduated from the Military University of the ground forces in Vyškov and subsequently completed postgraduate studies of management and marketing at the University of Economics in Prague. He started his professional career in 1994 at the Ministry of Defence, where he worked at all levels of leadership positions in the financial and economic sections up to the post of Deputy Minister of Defence. In 2007 he left the Ministry of Defence of the Czech Republic and worked for 2 years as a senior consultant at M.C. Triton whe he was engaged in strategic management and change management, servicing both private businesses and public sector. From 2009 to 2012 he worked as a director of the Office of the Association of Regions in order to support the promotion of the common interests of the regions. Since 2012 he participated in ČD Cargo restructuring. Since 2013 he works for ČD, starting as a consultant and subsequently as the director of projects and strategies.

Member of the Board of Directors since:

7. 12. 2016

responsible for the section of projects and international relations

Supervisory Board

Milan Feranec
Chairman of the Supervisory Board (member and Chairman since 19 June 2014), age: 52.
Deputy Minister of Transport of the Czech Republic

Vojtěch Kocourek
Member of the Supervisory Board (since 20 March 2014), age: 57.

Antonín Tesařík
Member of the Supervisory Board (since 20 March 2014), age: 56.
Member of the Regional Council for Southern Moravia

Jan Hart
Member of the Supervisory Board (since 2 October 2014), age: 42.

Tomáš Révész
Member of the Supervisory Board (since 14 December 2015), age: 57.

Antonín Leitgeb
Member of the Supervisory Board (since 1 January 2014), age: 58.
Secretary of the Company Committee of the Confederation of Railroad Unions (OSŽ)

Jaroslav Pejša
Member of the Supervisory Board (since 5 May 2011), age: 61.
Chairman of the Confederation of Railroad Unions (OSŽ), Member of OSŽ's Company Committee under ČD

Milan Kucharčík
Member of the Supervisory Board (since 14 December 2015), age: 51.

Vladislav Vokoun
Member of the Supervisory Board (since 1 January 2014), age: 57.
Chairman of the Company Committee of the Confederation of Railroad Unions (OSŽ)
First Vice-Chairman of the Confederation of Railroad Unions (OSŽ)

Changes in the Supervisory Board
There was no change in the Supervisory Board in 2016.

Steering Committee

Tomáš Čoček
Chairman of the Steering Committee; First Deputy – State Secretary authorised and appointed following Resolution No. 187 of the Czech Government as of 16 March 2015.

Kamil Rudolecký
Vice-Chairman of the Steering Committee; Deputy Minister of Transport of the Czech Republic.
Authorised and appointed for the function of vice-chairman with following Resolution No.125 as of the Czech Government as of 26 February 2014.

Jiří Havlíček
Member of the Steering Committee; Deputy Minister of Industry and Trade of the Czech Republic and head of the Office of the Ministry of Industry and Trade of the Czech Republic.
Authorised for the function with Resolution No. 125 of the Czech Government as of 26 February 2014.

David Koppitz
Member of the Steering Committee; Head of the Regional Policy Department of the Ministry of Regional Development of the Czech Republic.
Authorised for the function with Resolution No. 509 of the Czech Government as of 24 June 2015.

Jakub Landovsky
Member of the Steering Committee; Deputy Minister – Head of the Defence Policy and Strategy Division of the Ministry of Defence of the Czech Republic.
Authorised for the function with Resolution No. 187 of the Czech Government as of 16 March 2015.

Jindřich Kušnír
Member of the Steering Committee; Director of the Department of Railways, Railway and Combined Transport of the Ministry of Transport of the Czech Republic
Authorised for the function with Resolution No. 125 of the Czech Government as of 26 February 2014.

Pavel Kouřil
Member of the Steering Committee; Head of Department 16 – Price Policy Department of the Ministry of Finance of the Czech Republic.
Authorised for the function with Resolution No. 633 of the Czech Government as of 29 July 2015.

Changes in the composition of the Steering Committee
There was no change of the company's Steering Committee in 2016.

The Audit Committee

Tomáš Vyhnánek	Chairman
Iva Šolcová	Vice-chairman
Ivana Kubaštová	Member

Changes in the composition of the Audit Committee
On 4 February 2016 Lukáš Pečeňa was dismissed with immediate effect and Iva Šolcová was appointed effective from 4 February 2016.

3

REPORT

ON THE ACTIVITIES OF THE SUPERVISORY BOARD OF ČESKÉ DRÁHY FOR THE YEAR ENDED 31 DECEMBER 2016

In 2016 the Supervisory Board held ten ordinary and four extraordinary meetings in the registered office of České dráhy, a.s. and the Supervisory Board always had a quorum. The members of the Company's Board of Directors regularly participated in the meetings.

The Company's Supervisory Board performed its activities and fulfilled the aggregate tasks in accordance with the legal regulations and the Company's Articles of Association, using all the possibilities stipulated within the Articles of Association for its supervisory activities.

As part of its supervisory activities, the Supervisory Board monitored whether the activities of the Board of Directors and of the Company are duly performed. The Board of Directors regularly informed the Supervisory Board on the current activities of the Company, the Company's economic results and financial position, financial risks and risk profile of the Company, and on the economic results of subsidiaries, particularly ČD Cargo, a. s.

At the meetings of the Supervisory Board, required documentation and various applications filed by the Company's Board of Directors were presented by the Supervisory Board to obtain approval prior to specific legal acts. The Supervisory Board duly discussed and assessed all of the applications. The Supervisory Board entrusted the Board of Directors with examining the need for and the extent of investment projects in order to reduce the costs of the Company. As part of its activities, the Supervisory Board predominantly monitored the achievement of economic goals that were determined in the Company's annual business plan and required reasoning based on the Company's economic development.

The Supervisory Board states that in 2016 the Company's Board of Directors provided the Supervisory Board with the aggregate information required or necessary as well as the cooperation and the Supervisory Board had all underlying documents necessary for its oversight activities.

As part of its oversight activities, the Supervisory Board did not identify any violation or non-fulfilment of duties set out by the relevant legal regulations, the Articles of Association, internal company regulations or instructions of the General Meeting by the Company or individual members of the Board of Directors.

In conclusion, the Supervisory Board states that it was provided with all conditions necessary for the due performance of its activities and that the performance of its activities was fully in compliance with the provisions of the Company's Articles of Association and the legal regulations.

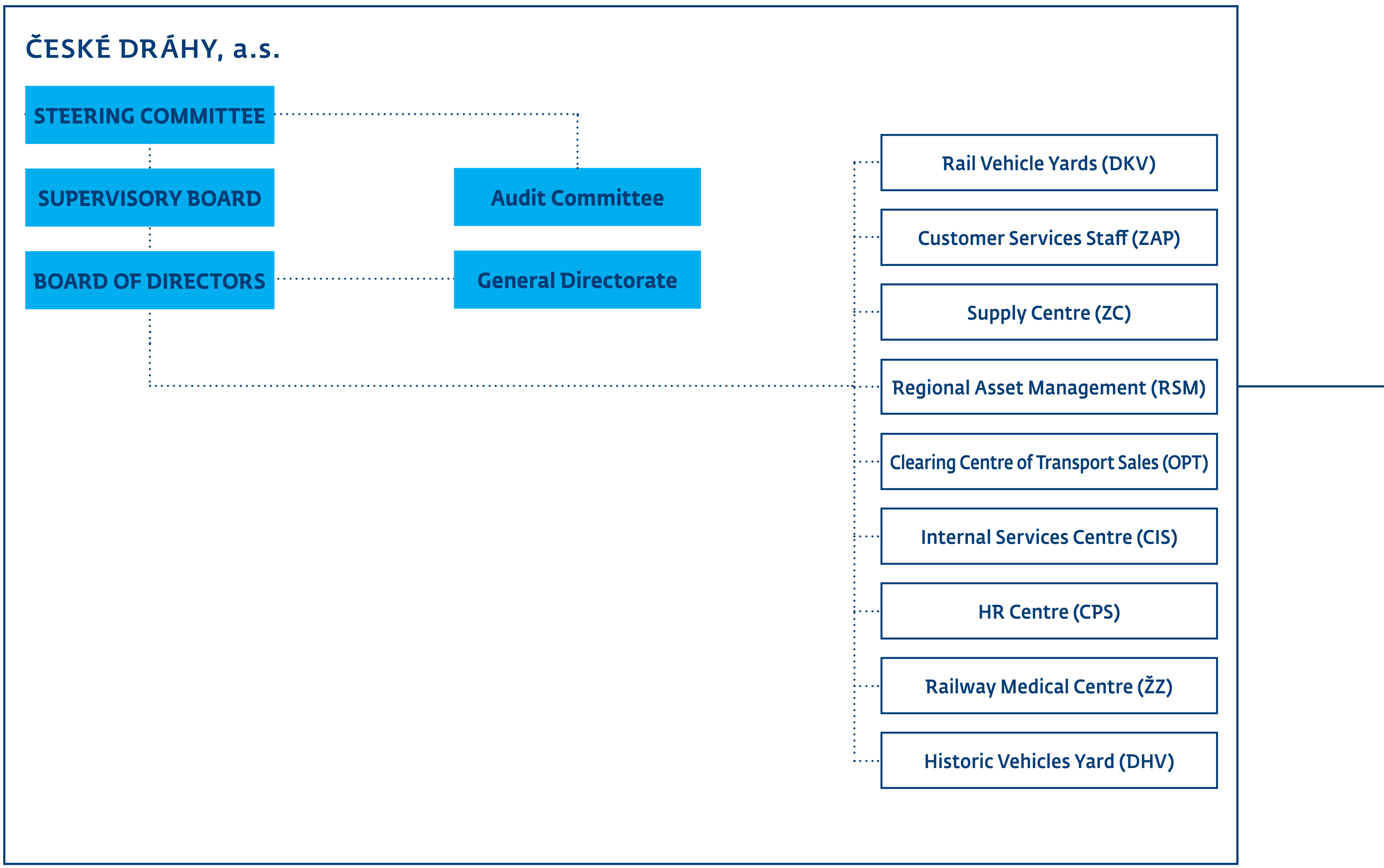
In Prague on 7 March 2017

Milan Feranec
Chairman of the Supervisory Board of
České dráhy, a.s.

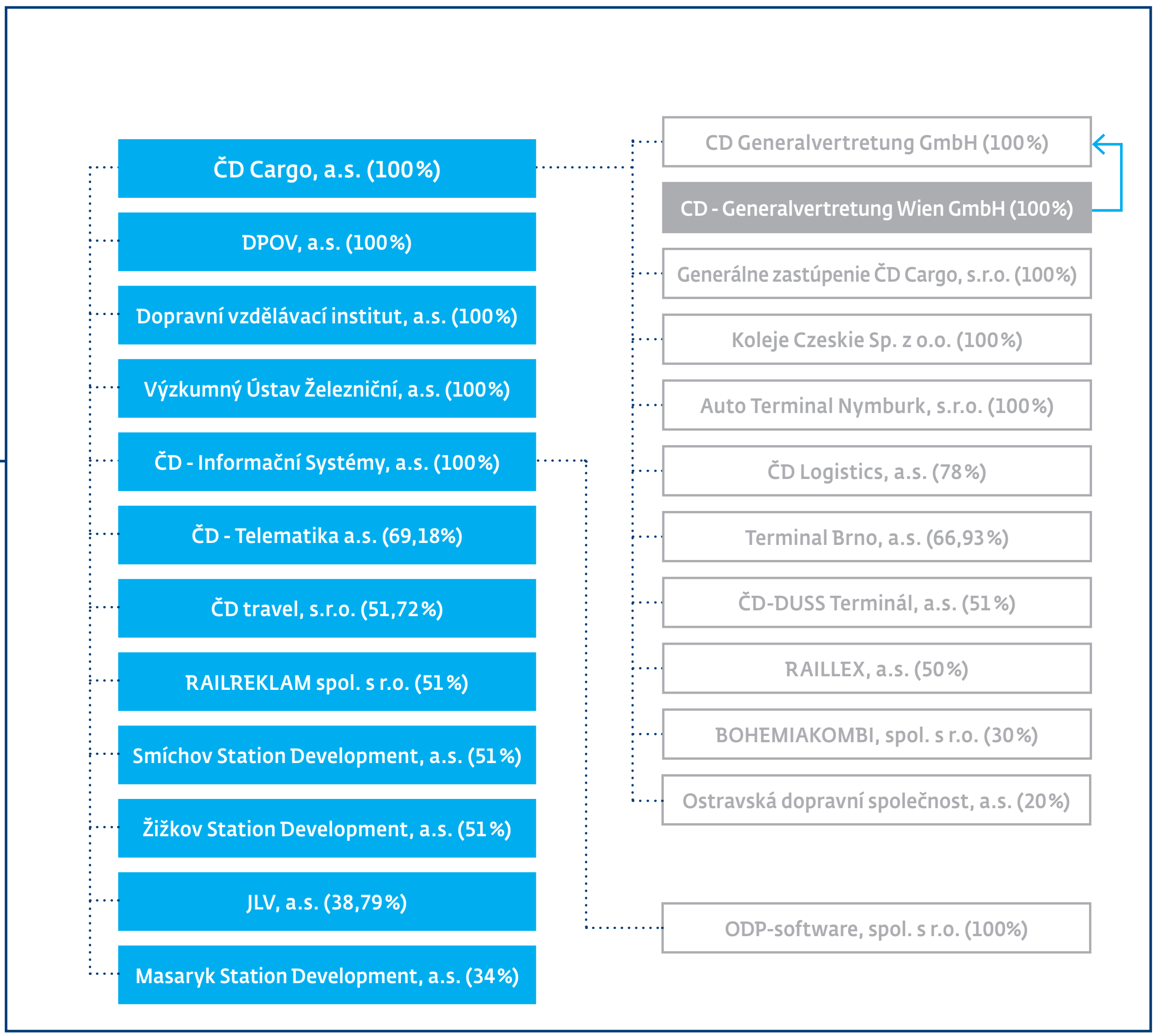
4

ORGANISATIONAL STRUCTURE

OF THE ČESKÉ DRÁHY GROUP



as of 31 December 2016



5

2016 EVENT

CALENDAR

- 11 January 2016 – České dráhy was one of the few companies which met the requirement of the law and manages energy according to ISO 50001. The certificate was provided by international certification company Bureau Veritas. The ceremony took place in the presence of representatives of České dráhy and Bureau Veritas.
- 19 January 2016 – České dráhy officially signed an agreement with investment company Penta Investments for the sale of land in the area of Prague's Masaryk Railway Station. The agreement on disposal of 10,000 square meters for consideration of 235 million was approved by the Supervisory Board at the beginning of the year.
- 27 January 2016 – The first new InterPanter unit was engaged on the fast train line between Brno, Česká Třebová and Prague. During the first part of the year these most modern express trains gradually replaced conventional trains on this route.

- 18 February 2016 – České dráhy completed refurbishment of Turnov station's building halls. Once again the building has its original division and its bright painted walls bring out the Bohemian paradise themed murals created by the local artist and graphic designer Karel Vik. The reconstruction was carried out during full station's operation.

- 29 March 2016 – SC Pendolino's train portal was modified to facilitate easy use and more language version were added.

2016 January · February · March

- 1 April 2016 – The transport terminal in Uherský Brod, a part of which is the completely refurbished station hall of České dráhy, was opened to the public. Renovation was realised by the national carrier on its own expense with total cost of CZK 14 million. The station provides facilities for rail and bus services and it represents completely new and modern environment for the passengers.
- 26 April 2016 – All of the seven ČD Railjet non-traction units offer Wi-Fi access from the end of April. In August, informational and entertainment portals, similar to those located in SC Pendolino units, were installed in ČD Railjet.
- 26 April 2016 – The 14th edition of the Preventive Railroad Safety Train was launched. Students from Ostrava, Opava and Otrokovice were warned of risk on rail tracks. In September and October, the train stopped at Benešov u Prahy, Prague-Bubny and Brno.

April

- 9 May 2016 – Moody's rating agency improved České dráhy rating from Baa3 to Baa2 level. Both levels are the lowest grades in the investment band . In the long term perspective the agency considers ČD economic situation as stable. The change reflects economic improvements, especially the freight carrier (ČD Cargo) efficiency gains.
- 9 May 2016 – České dráhy launched a web portal www.pohledzvlaku.cz, which offers different perspective on a train driver's work and a remarkable sight on the railroad tracks in the Czech Republic from train driver's point of view.
- 25 May 2016 – České dráhy issued bonds with a total nominal value of EUR 400 million, maturing in 7 years (i.e. redeemable on 25 May 2023) with a coupon of 1.875% per annum. Part of this new emission will be used to refinance 300 million of 2011 Eurobonds with annual interest rate of 4.5%.
- 27 May 2016 – České dráhy together with Třinec city commenced operations of the Třinec transfer terminal. The railway station offers a new check-in for passengers and the waiting room, quite zone and a new car parking. Bus stations are an integral part of the new terminal. České dráhy spent CZK 38 million on the property reconstruction. Significant grant in the amount of CZK 12 million was awarded by ROP Moravskoslezko. Transfer terminal total construction costs amount to CZK 72 million.
- 31 May 2016 – In May, České dráhy received a subsidy in the total amount of CZK 1.11 billion from the Operational program "Transport" for acquisition of six InterPanter electric units for fast train line R13 Brno – Břeclav – Olomouc.

May

- 12 June 2016 – The national carrier has expanded, with the new summer timetable, number of trains that use the corridors with maximum speed of 160 km/h. In June, the number of connections with this maximum speed was extended by 18 fast trains and the total number of České dráhy trains that can travel as this speed exceeded 220.
- 13 June 2016 – The new electric unit for fast trains and upgraded carriages of České dráhy were displayed during the railway technology fair Czech Railways in Ostrava which took place from 14 to 16 June. The national carrier introduced upgraded long-haul carriages and the new InterPanter unit.
- 24 June 2016 – České dráhy and the Railway Infrastructure Administrator ("SŽDC") signed an agreement on the station buildings sale and purchase worth of CZK 3.3 billion. SŽDC acquired approximately 1,500 railway stations and other buildings on 1 July, including 316 employees who take care for them.
- Due to constantly growing demand the summer timetable of the Airport Express, providing transport between Prague's Main Railway Station and Vaclav Havel's Airport, was updated. The original 30 minutes interval was changed to 10 – 15 minutes.

June

July

- 13 July 2016 – There was the 80th anniversary of the first legendary motor express called the Slovak Bullet connecting Bratislava and Prague. On this occasion České dráhy designed one of its 380 series locomotives in order to visualize the legendary train. The train was first launched on 11 August.

August

- 1 August 2016 – Physically disabled people use České dráhy services more and more often. In the first half of the year there were 3,251 orders placed through the electronic ordering system of the national carrier which services disabled passengers. This represents increase by one third compared to same period of 2015. The system is used primarily by people on wheelchairs who are provided with special assistance when boarding and leaving a train.

- 22 August 2016 – Czech Railways gradually put into the international operation two new comfortable open space carriages, which were rebuilt from the standard compartment carriages. The carriages offer to those travelling on wheelchairs an air-conditioned environment. There is also a special section for passengers with children, including places where they can store stroller and dedicated compartment for bicycles. In regular operation, these vehicles will serve on the following lines: Prague - Ústí nad Labem - Děčín - Berlin - Hamburg - Kiel and in the "Slovak bullet" express operating between Prague, Brno and Bratislava.

September

- 6 September 2016 – 50 years passed since the movie Closely Watched Trains (Ostře sledované vlaky) was created. Directly at the shooting place of the movie, at Loděnice, the famous Oscar-winning director Jiří Menzel and well-known Czech actors recalled this successful movie. On this occasion, a memorial was installed on the railway station building which reminds this Oscar-winning movie. In addition, an express was named after the director Jiří Menzel.

- 12 September 2016 – Since the mid-September České dráhy extended offer of snacks in the form of minibars branded as ČD Minibary. Thirty fast trains connecting Brno, Přerov and Ostrava are now equipped with the facilities.

- 24 September 2016 – Another edition of the National Railway Day took place. The event was hosted by Cheb city and the number of visitors exceeded 23,000.

- 11 October 2016 – The benefits of traveling by train, the options and services, all of this was included in the campaign focused on new customers. A special micro-website www.vlakopedie.cz was launched, which provides quick and easy accessible answers to questions related to different areas of the train traveling from finding the connection, through a purchase of tickets to services available on board.
- 26 October 2016 – Special retro units led by the refurbished historic locomotive "Kyklop" were deployed on the track from Prague to Ostrava.

October

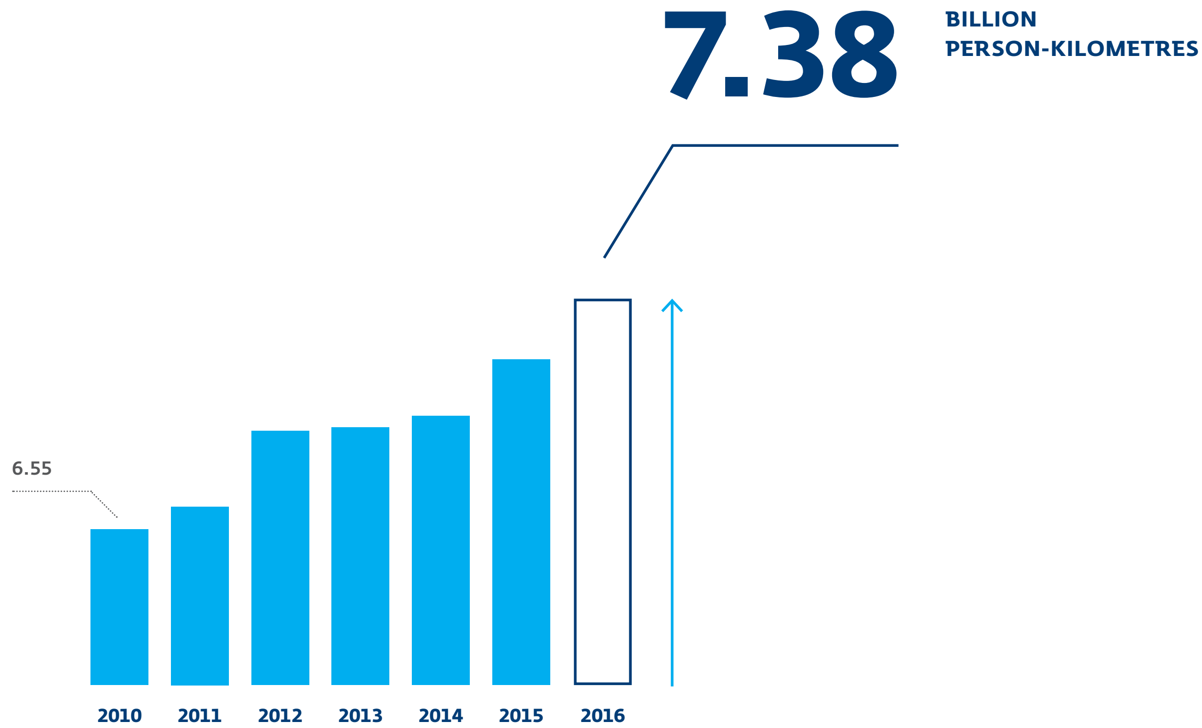
- 2 November 2016 – The mobile phone application developed by České dráhy called "My train" has thousands of new users. In two years of its existence, it was downloaded by 426,000 customers. It gained and maintains popularity, which is evidenced by high poll ratings and granted awards.
- 24 November 2016 – ČD lounges were dedicated to Jan Perner, railroads' constructer, Sir Nicholas Winton and the Czech graphic artist and documentary filmmaker Jiří Bouda. Passengers can enjoy examples of their work while waiting for a connection. České dráhy equipped these modern waiting rooms with kids' zones and charging panels. Snacks are available as well.

November

- The first phase of toilet units' revitalization in fifty long-haul vehicles was completed, including interior refurbishment.
- Commencement of operation of ČD Komunikátor, an applications that enables closer contact between on-board personnel and dispatching and customer care department respectively. The aim is to better inform passengers in case of extraordinary situations.
- 11 December 2016 – The new timetable was launched. The main improvements include introduction of the new express trains from Prague to Linz and significant speed-up of the long-haul trains from Prague to Luhačovice. České dráhy took over operation of the line between Šumperk and Kouty nad Desnou.
- New version of website and e-shop (www.cd.cz) was launched.
- Majority of Bmteeo units and the control vehicles series 961 were refurbished. These units service Prague and Central Bohemian suburban transport.

December

2017



Traffic performance has increased by more than 10%

The traffic performance, i.e., the number of passengers multiplied by kilometres travelled by them, has increased since 2010 by 827.2 million passenger-kilometres, i.e., more than by a tenth.

6

CORPORATE GOVERNANCE

Legal Relationships, Shareholder Structure and Supreme Body of the Company

Legal Relationships of the Company

The legal relationships of the joint stock company ČD are governed by:

- Act No. 77/2002 Coll., on the Joint Stock Company České dráhy, the Railway Infrastructure Administrator state organisation, and on the Change of Act No. 266/1994 Coll., on Railways, as amended, by Act No. 77/1997 Coll., on the State Enterprise, as amended;
- Act No. 89/2012 Coll., the Civil Code; and
- Act No. 90/2012 Coll., the Act on Business Corporations and Cooperatives.

The legal relationships of the Company, as well as the rights and obligations of the shareholders and Company bodies, are comprehensively stipulated in the Articles of Association of ČD.

Shareholder Structure and the Supreme Body of the Company

The Czech Republic is the sole shareholder of České dráhy, a.s. The supreme body of the Company is the General Meeting. If the Company only has a sole shareholder, the General Meeting is not held and the sole shareholder acts in the capacity of the General Meeting. The scope of the General Meeting's powers is set forth in the legislation stipulating the legal relationships of the Company and the Articles of Association of České dráhy.

Steering Committee

The state exercises its sole shareholder rights in ČD through the Steering Committee. The Steering Committee is composed of three employees from the Czech Ministry of Transport and one employee from each of the following ministries: Finance, Defence, Industry and Trade, and Regional Development, who are appointed, in writing, by the government. The decision-making procedure of the Steering Committee is governed by the legislation stipulating the legal relationships of the Company, the Articles of Association of ČD and the Steering Committee's Rules of Procedure.

Elective Company Bodies

Board of Directors

Operational management and corporate business governance, are performed and ensured by the Board of Directors, which is composed of five members. Members of the Board of Directors are elected and dismissed by the Supervisory Board. The Board of Directors meets as needed, usually on a weekly basis but at least once every three months. The Board of Directors principally decides on: (i) all of the Company's affairs unless they are reserved for the General Meeting (in the case in hand decisions are made by the sole shareholder through the Steering Committee), the Supervisory Board or the Audit Committee; (ii) whether to approve the election procedure used to elect the Supervisory Board's members by the Company's employees as negotiated with trade unions; and (iii) how to manage the Company's assets. The decision-making procedure of the Board of Directors is governed by the legislation stipulating the legal relationships of the Company and by the Articles of Association of ČD.

Supervisory Board

The Supervisory Board has nine members. Two-thirds of the members are elected by the sole shareholder through the Steering Committee and one-third is elected by the Company's employees pursuant to the election procedure approved by the Board of Directors following discussions with the relevant trade unions. The term of office of a member of the Supervisory Board is five years. The Supervisory Board meets as needed, usually on a monthly basis but at least four times a year. The Supervisory Board oversees the execution of the role of the Board of Directors and the Company's activities. The most significant areas of authority include: (i) reviewing the report on the Company's business activity and the Company's financial performance; (ii) approving the annual business plan and the budget for operating the Company's railway transport; and (iii) granting prior approval for asset management, if such a procedure is required by the Company's Articles of Association. The decision-making procedure of the Supervisory Board is governed by the legislation stipulating the legal relationships of the Company, the Articles of Association of ČD and the Rules of Procedure of the Supervisory Board.

The Supervisory Board within its competence, set up the Property Management Committee and the Remuneration Committee.

The Property Management Committee discusses the proposals put forward by the Board of Directors to the Supervisory Board to obtain prior approval for asset management, if such a procedure is required by the Company's Articles of Association and if discussion in the Committee prior to the submission to the Supervisory Board is required by an internal regulation on the sale and lease of ČD's property. The members of the Committee are elected and recalled by the Supervisory Board. The decision-making procedure of the Committee is governed namely by the Articles of Association of ČD, with the details governed by the Committee's Rules of Procedure which are approved by the Supervisory Board.

The Remuneration Committee monitors compliance with the rules for remuneration of members of the Board of Directors. The rules suppose the board members are remunerated primarily on the basis of goals achievement. The committee reviews proposals for board remuneration and submits its view and recommendations to the Supervisory Board. The decision making process is particularly driven by ČD's Articles of Association. The details are addressed by the committee rules which are subject to the Supervisory Board approval.

Audit Committee

The members of the Audit Committee are appointed and dismissed by the sole shareholder through the Steering Committee. The Audit Committee has three members. The term of the member of the Audit Committee is five years. The Audit Committee meetings are held as and when needed, however at least four times a year. The most significant activities include:

- Monitoring the procedure of preparing the financial statements and the consolidated financial statements;
- Monitoring the efficiency of internal control and of the risk management system;
- Monitoring the efficiency of ČD's internal audit system and ensuring its functional independence;
- Monitoring the process of the mandatory audit of the financial statements and the consolidated financial statements;
- Assessment of the auditors' and audit company's independence; and
- Recommending the auditor to the supervisory body.

The activities of the Audit Committee are based on Act No. 93/2009 Coll., on Auditors, as amended, and the Articles of Association of ČD. The Audit Committee's decision-making procedure is stipulated by the Company's Articles of Association.

Internal Audit and Risk Prevention

Internal Audit

Internal audit activities are within the scope of authority of ČD's Internal Audit and Review Committee, which reports to the Board of Directors of ČD. The independence and efficiency of Internal Audit is overseen by the Audit Committee.

The activity of the Internal Audit Department of ČD is based on the principles of the International Standards for the Professional Practice of Internal Auditing. In accordance with the standards, it is subject to an independent external assessment thanks to which the quality of the internal audit services is ensured and undergoes constant improvement.

Internal audit activities and the system of methodical risk management are jointly secured by a single specialist department. To ensure better coordination, the Internal Audit Department also communicates and cooperates with external control bodies, the external auditor and criminal law authorities.

Compliance

České dráhy, a.s. compliance agenda, i.e. monitoring of activities of the Company, its staff and management and ensuring these are conducted in accordance with both the law and internal Company's guidelines. There is special emphasis on compliance with codes of conduct, implemented and ensured in accordance with ČD organizational rules by several departments: Legal Department, the Office of the Deputy Director ("KMP"), Department of Security and Contingency Planning and Internal Audit And Control Department.

The Legal Department monitors compliance with the law. KMP monitors the legislation of the Czech Republic and the EU and it has crucial role in the ČD internal legislation development. The Department of Security and Contingency Planning evaluates risks and proposes measures to eliminate crime and its consequences, and the Department of Internal Audit and Control supervises the entire compliance system, which in its interdependent application ensures the legality of ČD activities.

Information on Binding or Voluntary Corporate Governance Codes
České dráhy, a.s. has not voluntarily joined any specific corporate governance code in part or as a whole that would be binding for it. The content common for comprehensive codes of corporate governance is defined in the relevant internal regulations of ČD.

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RISK MANAGEMENT

ČD' risk management system is based on best practice and the defined framework of Corporate Governance rules of which it is an integral part. An integrated risk management system, which is the basis for the further improvement of risk monitoring and assessment processes, is actively used across the ČD Group.

The key objective of the implemented risk management system is to continuously limit the adverse impact of risks on the financial results within the entire ČD Group at its maximum, i.e. to minimise the impacts of unutilised opportunities on revenues and to minimise negative impacts on costs.

Across the ČD Group, unified risk categorisation and an integrated risk assessment system is applied, the goal of which is to provide comparable information for the preparation of summary reports. Thanks to the continuous monitoring of risks in all the main categories, the Company's management is informed of the current state of risk management affairs on a timely basis. As part of active risk management, the approved limits of the respective organisational units were also regularly monitored and assessed during the year ended 31 December 2016.

Market Risks

Due to the ČD Group's passenger and freight railway transportation activities, the Group is sensitive to fluctuations of market values that impact the financial results and cash flows. Significant market risks include risks that would not allow the Company to meet its business objectives. The basic goal of the ČD Group in the area of market risk management is to mitigate the impact of market risks on the financial results and cash flows (in view of the cost of measures leading to the mitigation of the relevant negative impact).

Basic market risks to which the Company ČD is exposed are currency risk, interest rate and commodity. The Company ČD manages the market risk through a system of limits and principles based on the approved risk appetite of the Company or detailed specifications approved by the Risk Management Committee and Board of Directors. Risk appetite is determined based on the method (EAR Earnings at Risk) comparing the difference between the actual and planned values for that year. The value of the risk position is determined by the stress-tests using appropriately selected risk scenarios. The Company ČD regularly reassesses annually identify of significant market risks and risk appetite

ČD and ČD Cargo ensure that financial risk limits are adhered to using standard hedging transactions on financial markets. While entering the hedging transactions, ČD observes the Risk Management Strategy approved by the Board of Directors which defined in what way the Company will mitigate and manage the market risks that it faces.

Commodity risk is reduced by entering into commodity swap deals and also via oil commodity options.

Credit Risk

In the course of its activities, the ČD Group is exposed to credit risk related to the threat of an obligation default of a counterparty, which could have a negative impact on the Group's financial results and cash flows.

To measure credit risk, the ČD Group calculates the net (uncollateralised) exposure to individual counterparties. Credit risk management in the ČD Group is based on the following system of limits and restrictions: limits relating to customers, limits relating to suppliers; limitation to a financial institution and concentration to a single financial institution. To reduce the net exposure, the ČD Group uses bank guarantees from authorised financial institutions and unilateral or multilateral offsets.

Liquidity Risk

The principal objective of liquidity management in the ČD Group is to provide sufficient funds to settle due payables. The principal source of liquidity risk is the fiscal situation and solvency of major parties ordering the services provided, which include the state and individual regions in respect of passenger transport, and major clients in freight transport. In addition, ČD is exposed to liquidity risk arising from the debt service related to the Company's existing and future debt and liabilities.

A key liquidity management instrument is the prediction of the short--term and medium-term development of liquidity and cash flows. An integral part of liquidity risk management involves ensuring a sufficient number of committed credit lines with financing banks.

Besides overdraft accounts, physical mutual cash pooling established for the economically connected group is significant liquidity management tool . In addition, ČD and individual subsidiaries concluded Contracts on Mutual Loan Facilities enabling the mutual provision of funds defined up front and approved by all the bodies of the affected companies within as well as outside of the cash pooling arrangement.

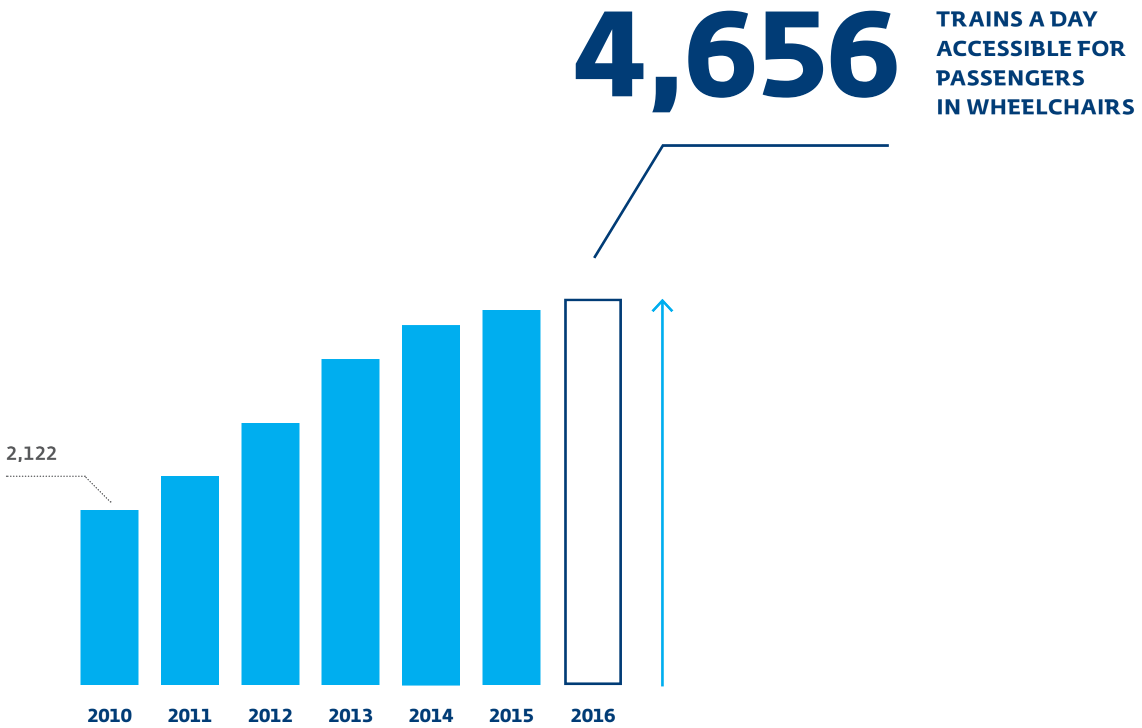
ČD also actively makes use of the issues of short-term securities though its promissory note programme as a supplementary source of short-term liquidity. The promissory note programme includes fixed underwriting commitments negotiated for 24 months, which strengthens the stability of the Company's liquidity management and its ability to meet its obligations. ČD Group also uses debt capital markets as the main source of financing long-term investments, complemented by drawing long-term investment loans.

Operational Risk

In the field of operational risk, attention is principally devoted to meeting strategic objectives of the ČD Group focused on achieving high standards of service quality and customer satisfaction. Emphasis is placed on ensuring high-quality passenger and freight transport services that are able to compete with rail, road, and air transport not only in the Czech Republic, but also within the unified European railway system.

As the requirements of passenger transportation ordering parties and customers for travel comfort and railway transportation punctuality increase and given the entrance of local transportation competitors, the key instrument to mitigate the negative impact of operational risks involves increasing investments in acquiring and modernising rolling stock to which Company's management dedicates every reasonable effort. Significant material and financial damage caused to third parties is covered by liability insurance.

In order to mitigate the negative impact of operational risks and to meet business objectives, the Company adopts measures that involve eliminating, reducing or transferring risks. These measures aim to permanently decrease the negative impacts of the identified risks on the business results of the entire Group. The significant risks having a marked negative impact on the cash flow and profit or loss primarily include the insufficient financing of the public service obligation as part of regional transport, extraordinary accidents, denial or reduction of grants or subsidies and passive litigation.



We improve conditions for everyone

The number of trains adapted for passengers in wheelchairs has grown since 2010 more than twice, and the ratio of trains that could carry passengers in wheelchairs in 2016 amounted to more than two-thirds of all trains. A large part of such trains consists of the low-floor carriages, which are also appreciated by elderly people or mothers with prams.

8

SOCIAL RESPONSIBILITY

Social responsibility has a long-established tradition in ČD. Despite the adoption of austerity measures, České dráhy, being a national carrier, continues in this trend not only in the economic and environmental sectors, but in the social sector as well.

If mainly focuses on passenger transport improvement which improves ČD positive image. ČD is one of a few Czech carriers which enables comprehensive network-wide services, including neighbouring countries. For disabled passengers, especially those travelling on a wheelchair, the 2016 timetable increased number of barrier-free connections to 4,656 trains. In 2016, comparing to 2010, the number of barrier-free connections increased by 81.7% (from 2,562 to 4,656) and the number of barrier-free vehicles and units by 50% (from about 410 to more than 600). The national carrier continued in this trend also in December, when the new timetable offered another 258 barrier-free connections. The total number of these trains therefore reached 4,914. Cooperation between České dráhy and the National Disability Council is very important and it does not cover travelling by trains only. It addresses other areas as well, e.g. České dráhy procured Eurokeys for disabled passengers.

Barrier-free vehicles and trains are not only dedicated to those using wheelchair but also to others with limited mobility, such as elderly people, passengers with temporarily reduced mobility or those with visual or other senses handicaps, as well as pregnant women and passengers travelling with kids in strollers.

Corporate philanthropy of České dráhy is directed towards three areas. The traditional project called Preventive train ("Preventivní vlak") focused on railway safety, which is designed for older children and youth. The Preventive train has already welcomed 16,000 visitors and demand from primary and secondary schools is still high. Other projects include the Junior programme taking patronage over and presenting all the activities related to safe behaviour at railway aimed at children. These comprise the publication of the My Train magazine ("Můj vláček"), publication called Elfík the Elephant's Exercise Books Against Boredom ("Elfíkovy sešity proti nudě") received by children on the board of long-haul trains. Simultaneously kids receive information on safe behaviour. The children's tickets on which children can write poems are very popular as well. Children can meet the Elfík mascot on various ČD events, such as "ZOO Trip with Elfík the Elephant", the Children's day or St. Nicholas rides. The Company also supports the Run Czech series of family running events and participates in the "Sport without Prejudice" project.

Another CSR area addressed by ČD is focused on social attitudes, which includes traditional distributing of the Piece Light of Bethlehem. This category also encompasses another social project supported by ČD, it is called Lustig's Train ("Vlak Lustig"), which brings period of holocaust closer to the public. An important project on which České dráhy works together with the Czechoslovak Legionnaires' Association is "Legiovlak" or the "Legionnaire Train". It is dedicated to the 100th anniversary of Czechoslovak Legions, including its main subproject, the Legionnaire Train.

The last CSR area are projects aimed at handicaps' compensation, which includes long-term project called "Train Full of Smiles". It transports disabled children and kids from children's homes to the International Film Festival in Zlín. The project is closely related to the traditional „Cinema Train"offering free screenings to children at selected train stations. In cooperation with several foundations, České dráhy organises the transport of children from children's homes and socially deprived families to schools, after-school activities as well as sport events. Through its traditional partnership with the National Technical Museum and the Winged Wheel Foundation, České dráhy supports the renovation and preservation of historic railway machinery and buildings.

Since 2011, in cooperation with foundation Crossroad (Křižovatka), České dráhy have provided breathing monitors Babysence II to the hospitals in the Czech Republic, as a part of the project "Mum, I am breathing" ("Maminko, dýchám"). ČD has so far supported hand over of more than one hundred of these devices; in 2016 the devices were delivered to Kroměříž, Rokycany, Třebíč and Prague-Podolí. The aim and purpose of the project "Mum, I am breathing" ("Maminko, dýchám") is to provide the Czech hospitals breathing monitors for each bed/new-born. Furthermore, parents should be entitled to borrow the breathing monitor for a limited time period when they leave the maternity hospital.

9

REPORT OF THE BOARD OF DIRECTORS

REPORT ON THE COMPANY'S BUSINESS ACTIVITIES AND ASSETS

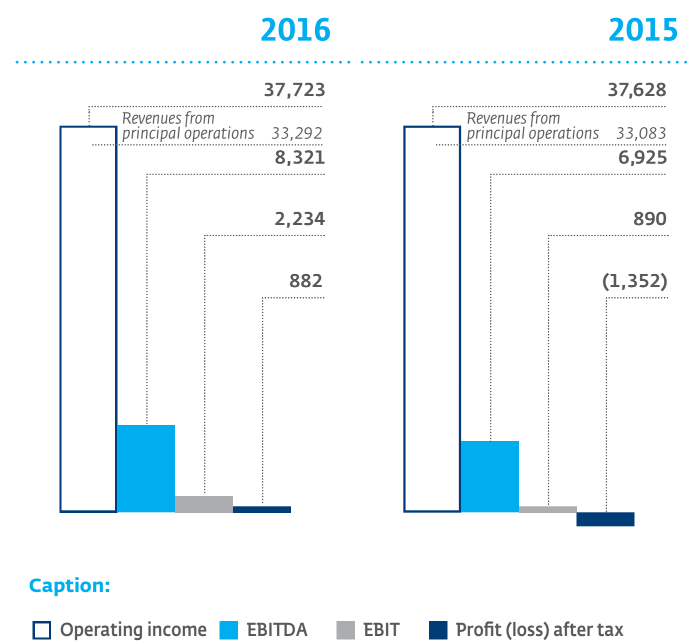
Financial Results of the ČD Group

Net profit in amount of CZK 882 million is the best result since 2009, when České dráhy started to consolidate in accordance with the International Financial Reporting Standards (IFRS) and entered the capital markets by issuing bonds.

There were several key factors which contributed to 2016 profit - the growth of revenue from passenger transport, decrease operating costs directly related to performance (particularly for freight) and two major one-off disposals of assets with a positive, half billion impact on earnings - the sale of land near Prague's Masaryk Railway Station and sale of part of the business (station buildings) to Railway Infrastructure Administrator. The cost base of ČD Group was favourably affected by low prices of oil and energy; which on the other hand increased the competitive position of road transport as it brings more volumes on roads.

Performance Indicators of the ČD Group

(CZK million)



Comparing 2016 and 2015 the profit increased by CZK 2.23 billion. Result of 2015 included adverse effects of extraordinary items – in particular the costs of the dispute with ŠKODA TRANSPORTATION a.s., and also the increased costs for large scale closures and the costs of accidents.

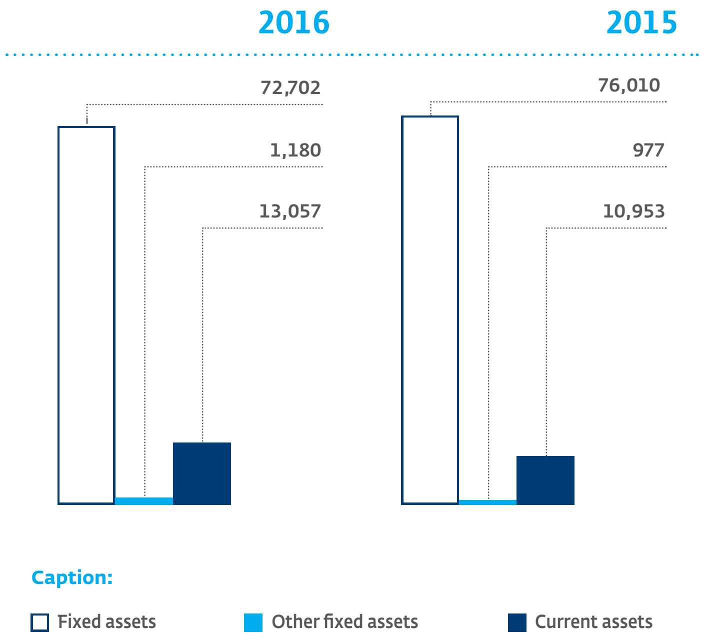
Also the other key indicators increased significantly year on year. Operating profit before depreciation and amortization (EBITDA) increased year on year by CZK1.4 billion to CZK 8.32 billion and operating profit (EBIT) by CZK 1.34 billion to CZK 2.23 billion.

Revenues from principal operations increased year on year by CZK 209 million (0.6%). This increase was caused by higher revenues from passenger transport by CZK 498 million (2.4%), whereas the increase comes from higher domestic and international fares and volume, as well as due to higher payments received from the public service orderers. Revenues from freight transport decreased year on year by CZK 298 million (2.5%) – mainly due to strong competition there was a decline in the volume and average price. Freight transportation segment, however, managed to significantly reduce its overall costs and contributed significantly to the profitability of the České dráhy Group.

The annual reduction in operating costs directly related to the service delivery (Services, material and energy consumption) amounted to CZK 379 million (2.3%) which was mainly due to decrease of fuel and traction energy costs by CZK 244 million, fees for railway infrastructure use by CZK 165 million and cost of alternative bus transport by CZK 212 million (which was however in parallel mirrored by lower revenue received from the Railway Infrastructure Administrator for closures compensation). Routine moderate wage growth which is incorporated in the collective agreement caused the annual increase in employee benefit costs in the total amount of CZK 168 million (1.4%). Depreciation and amortization increased from 6.04 billion in 2015 to 6.09 billion in 2016. Interest expense decreased by CZK 127 million, mainly due to the successful bonds issue realised in 2016.

Assets Structure

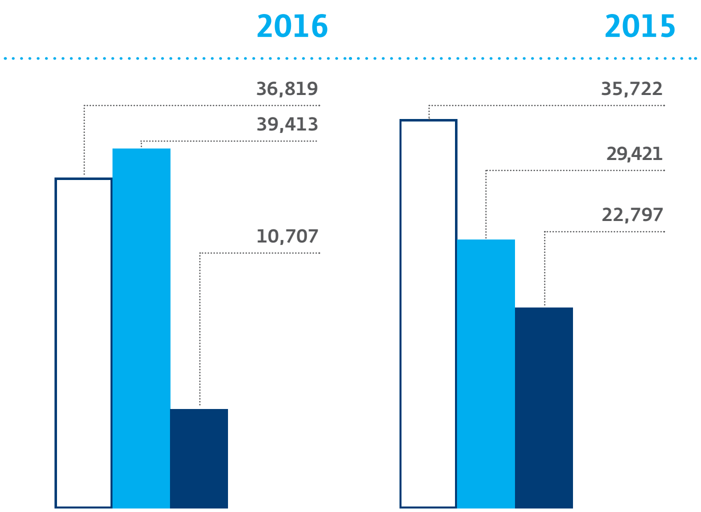
(CZK million)



Changes in structure of the assets primarily relate to the disposal of part of the business ("sale of the station buildings") to the Railway Infrastructure Administrator for CZK 3.39 billion, which was completed on 1 July 2016 and also to the issue of seven-year Eurobonds in May 2016. Sales of station buildings resulted in a decrease of fixed assets and an increase in cash and cash equivalents reported under current assets. Cash and cash equivalents were significantly increased also due to the Eurobonds issue. On the other hand the current assets decreased year on year due to reduction of other assets such as tax receivables and hedging derivatives receivables.

Liabilities Structure

(CZK million)

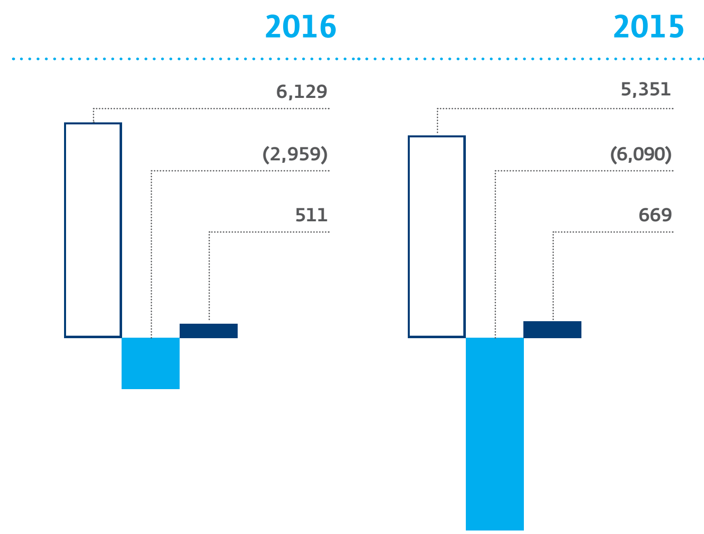


Caption:

Equity Non-current liabilities Current liabilities

Cash Flow

(CZK million)



Caption:

Operating activities Investing activities Financing activities

The equity increased by CZK 1.1 billion (3.1%), mainly due to the net profit of the ČD Group reported in 2016. Changes in the structure of non-current and current liabilities are mainly caused by the seven--year Eurobonds issue in the total amount of EUR 400 million realised in May 2016, which are presented as non-current liabilities and which replaced the previous Eurobonds issue totalling to EUR 300 million payable in June 2016, that were reported as current liabilities from the first half of 2015 (payable in one year). Trade payables decreased from CZK 6.20 billion in 2015 to CZK 4.27 billion in 2016.

Cash flow from operating activities increased as a result of improved 2016 performance. Significant year to year decrease in net cash outflows from investing activities is related to the cash received for disposal of part of the business (sale of the stations buildings to the Railway Infrastructure Administrator) in the amount of CZK 3.39 billion. The positive trend of large investments in renovation and modernization, however, remains intact also in 2016, when the capital expenses (especially in the rolling stock) amounted to CZK 6.85 billion. In financing activities we present the cash receipts from bonds issued by České dráhy, a.s. and ČD Cargo, a.s., which were used to repay the due bonds, leasing obligations and loans, hence the year-on-year change in cash flow from financing activities was just CZK 158 million.

Profit/Loss by Principal Activity Segments

(CZK mil.)		Passenger transport	Asset management	Freight transport	Other	Elimination and reconciliation*	Total
Revenue from principal operations	2016	21,572	-	11,765	-	(45)	33,292
	2015	21,074	-	12,063	-	(54)	33,083
Purchased consumables and services	2016	(8,911)	(250)	(5,933)	(3,150)	2,034	(16,210)
	2015	(9,009)	(133)	(6,357)	(2,942)	1,852	(16,589)
Staff Costs	2016	(7,321)	(122)	(3,890)	(1,466)	250	(12,549)
	2015	(7,068)	(100)	(3,978)	(1,399)	164	(12,381)
EBITDA from continuing operations	2016	5,106	302	2,447	664	(197)	8,321
	2015	4,213	221	2,089	590	(188)	6,925
Depreciation/amortisation	2016	(4,691)	(71)	(1,076)	(329)	78	(6,088)
	2015	(4,553)	(101)	(1,120)	(331)	70	(6,035)
EBIT from continuing operations	2016	415	231	1,371	335	(119)	2,234
	2015	(340)	120	969	259	(118)	890
Profit/loss for the period	2016	(644)	483	935	310	(202)	882
	2015	(1,422)	(620)	576	271	(157)	(1,352)

*Elimination and reconciliation column contains the elimination of intercompany relationships.

Segment analysis corresponds with the segment analysis presented in the IFRS consolidated financial statements. The reported figures of 2015 were presented after adjustments made to ensure comparability with the current period (see financial statements' notes 2.2.1 and 15.1).

Passenger Transport

The passenger transport segment reported in 2016 a net loss in total amount of CZK 644 million, operating profit (EBIT) in the amount of CZK 415 million and operating profit before depreciation and amortisation (EBITDA) of CZK 5.11 billion. This is a significant improvement compared to the previous year, however the prior year was affected by extraordinary items – mainly the cost of the dispute with ŠKODA TRANSPORTATION a.s. and the cost of extensive closures.

Year on year increase in revenue from passenger transport of CZK 498 million (2.4%) was caused by both higher number of passengers (by 1.78 million) and traffic performance (by 210 million passenger-kilometres). Both domestic and international transport revenues increased; the domestic revenues were largely affected by growth of ČD's share on revenues realised by the integrated transport systems. This is related to the growing importance of suburban transport, as well as the involvement of České dráhy in further integrated transport systems ("IDS") – specifically into the newly established

IDS Ústí region and expanded IDS in Olomouc region. The revenues from international transport increased mainly due to the implementation of the Deutsche Bahn long term contract to operate EC trains on the line Prague – Hamburg.

České dráhy continued to devote considerable attention to projects focused on further revenue and profitability increase. Extensive renovation and modernization of rolling stock (deployment of new units, installation of Wi-Fi and other on-board systems) continued. In addition to this, there is continuous pressure on the client focused approach and quality, the passengers are being approached by new electronic media, including launch of the new up-to-date ČD website and the e-shop. Pricing and promotions was also emphasized.

Year on year decline in operating costs directly related to the service delivery (consumables and services) by CZK 98 million (1.1%) was achieved mainly due to lower costs for alternative bus transport and lower fuel and energy costs. Consumption of materials and repair costs are indeed higher, but this is also associated with a greater proportion of repairs performed internally. Staff costs increased by CZK 253 million (3.6%) and depreciation by CZK 138 million (3%) due to increased investment activity in the renovation of rolling stocks.

Freight Transport

The freight transport segment achieved profit of CZK 935 million in 2016, which is year on year improvement of CZK 395 million.

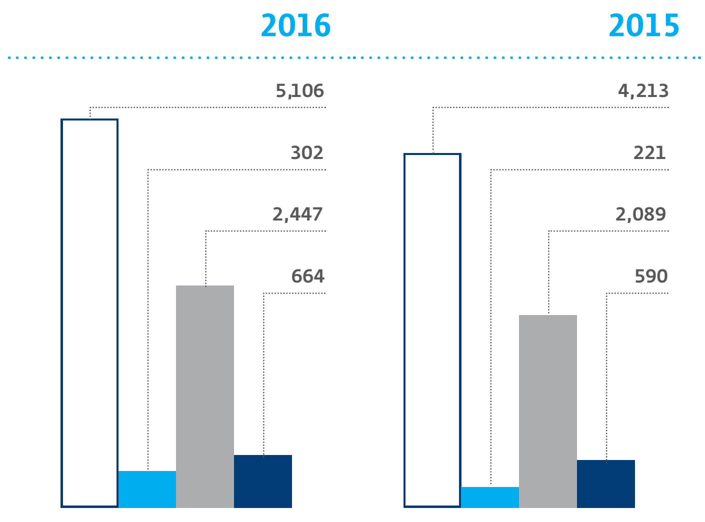
Very positive result was achieved despite decrease of revenues from freight transport realised in the Czech Republic as a result of strong competition of both railway and road carriers. There were other adverse factors noted, such as slowdown of the Chinese economy, which caused decline in performance for the most of combined transport operators, drop in metallurgical production and also in scrap prices in the first half of 2016. In addition, there was lower volume of railway closures, on which the freight carrier typically participates and an overall decline of a construction production in the Czech Republic was also observed. Decline of volumes on the local market was partly compensated by revenues earned on foreign markets, especially in Poland.

The decline in revenue from principal operations was compensated by a significant reduction of operating costs. This involved primarily consumption of traction energy and fuel. Reduction of the fee for railroad use for single wagon shipments was also helpful. The result of freight transport segment was also positively affected by the continued optimization of non-core activities which had impact on employment and other costs.

Asset Management

The highest year on year improvement was recorded in the asset management segment. In 2015 the segment ended up in loss of CZK 620 million, while in 2016 it achieved profit of CZK 483 million. Result of 2015 was adversely affected by the property impairment of CZK 497 million which was related to the planned disposal of part of the business (sale of station buildings) to the Railway Infrastructure Administrator. Profit reported in 2016 was significantly affected by the sale of land in the area of Masaryk's Railway Station in Prague and by already mentioned disposal of part of the business. Both transactions and the related reductions in operating costs which were associated with station buildings administration contributed half a billion to the segment profit. Despite the disposed property, České dráhy remain owner and manager of large property portfolio. České dráhy possess majority of initially owned property.

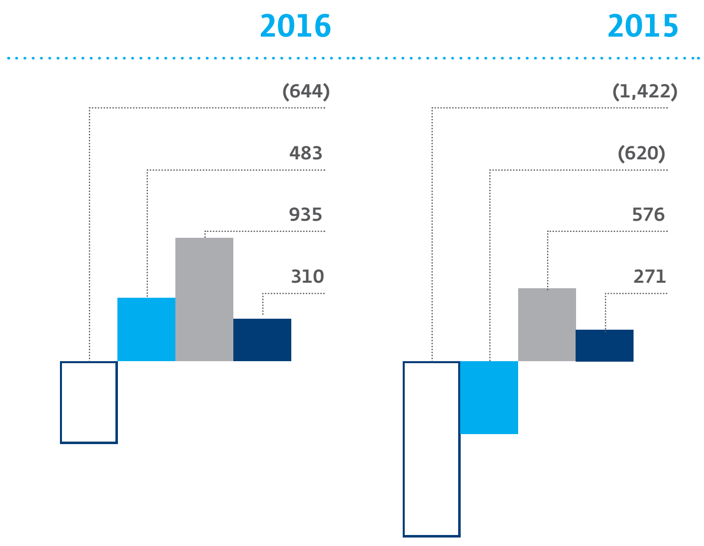
EBITDA by Segment
(CZK million)



Caption:

Passenger transport Asset management Freight transport Other

Profit (Loss) for the Year by Segment
(CZK million)



Caption:

Passenger transport Asset management Freight transport Other

10 INFORMATION

ON THE FINANCIAL SITUATION AND FINANCING OF THE ČD GROUP

The ČD Group has been maintaining a conservative financing policy, which is based on the use of diverse funding resources in the form of bank loans, bonds, the promissory note programme, etc. The Group puts emphasis on maintaining a balance between short-term and long-term leverage and uses a strong, diversified portfolio of bank institutions on both the local and international markets. Under the loan facilities provided, the Group draws the necessary volumes of funding and leaves a sufficient reserve of undrawn committed credit lines.

In 2016, the funding of the Group's investment and operational needs was secured through a combination of its own resources and external short-term (overdraft loan facilities and a promissory note programme) and long-term funding (bonds). Own funds were also increased by extraordinary proceeds of CZK 3.39 bill from the sale of part of the business (station buildings disposal to the Railway Infrastructure Administrator).

In May 2016, Moody's rating agency improved České dráhy rating to Baa2 with a stable outlook.

On 25 May 2016, České dráhy issued EUR 400 million international bonds (Eurobonds) which are registered at the Luxembourg Stock Exchange regulated market. Citigroup and Société Générale CIB were the emission's leading co-managers. These Eurobonds are redeemable in 2023 and bear a fixed coupon of 1.875% p.a., which represents a significant interest cost reduction compared to EUR 300 million Eurobonds issued back in 2011 with a coupon of 4.5% p.a., which were paid in June 2016 using proceeds from the new issue.

In June 2016, one of ČD's subsidiaries - ČD Cargo issued CZK 500 million domestic bonds (with a coupon of 1.28% per annum and a maturity of 5 years). Proceeds were used to re-finance their maturing bonds worth of CZK 658.3 mil. Subsequently, in December 2016, ČD Cargo issued CZK 500 million bonds (with a coupon of 1.26% per annum and a maturity of 7 years). Proceeds were used to refinance their maturing bonds in the same nominal amount.

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FUTURE OUTLOOK

The ČD Group's key aim is the growth of its operating profitability.

In 2017, the passenger transport segment will primarily focus on increasing quality of its service and on adapting the portfolio of offered services to suit its customers' needs in order to increase passenger numbers and revenue. Improvements of the quality of the vehicles and efficiency gains in regional and long-haul connections are the primary prerequisites for achievement of ČD goals in this segment, which may also generate additional revenues from international transport. However, improving quality will require considerable costs to be spent on maintenance and repairs of the vehicles.

The key target of the long-haul passenger transport is to maintain current passengers, win new ones, and to improve all performance indicators in order to responds to growing pressure of competing carriers, both on the rail and on the road. From the market segments' point of view, the aim remains to increase revenues from the key domestic long-haul connections and to benefit from the growth of the international backbone connections. České dráhy will continue delivering the long-term contracts concluded with its foreign partners, DB, ÖBB, and ZSSK. In 2017/2018 timetable we plan to introduce a new segment of express trains for the connection Ex6 Prague - Plzen - Cheb / Munich.

In 2016, the government's participation on regional railway transport funding was clarified. The Czech Government prepared memorandum on organisation and financing of regional railway transport beyond 2019. Financing rules for the regional railway transport has been set and these will apply after expiration of majority public service contracts and it sets rules for 15 years. This document is essential for individual orderers' decision making on the regional transportation extent beyond 2019. Knowing the extent of the funding the orderers, i.e. potential ČD customers, can now make binding decisions on measures to ensure regional railway transportation beyond 2019.

České dráhy, together with its business partners, are also discussing possible extension of the existing public service orders in the regions.

The freight transport segment is prepared to continue taking further measures to improve profitability of its principal activities and other business with the aim to create competitive company, with production capacities, namely the rolling stock, will reflect current market needs. One of the main tasks is to achieve the sustainable results of single wagon shipments business and to maintain complete trains profitability.

The external funding of the ČD Group will, consistently with the current practice, be based on a combination of bonds for long-term investments' financing and short-term overdraft loans and the promissory notes programme in order to manage the operational liquidity. In 2017, there are no redeemable bonds and sufficient financial resources are contracted.

17

**TRAIN TRIPS
A YEAR
PER CAPITA**

Each citizen of the Czech Republic makes on average 17 train trips a year, which puts the country to the forefront of the European Union and on the first place among its new members.

Czechs are among the best in Europe in terms of travelling by train

Each citizen of the Czech Republic travels annually approximately 700 kilometres in trains of the national carrier.

12

PASSENGER RAILWAY

TRANSPORT OPERATION

Passenger Transport – Operation

In 2016, consistently with the previous period, the railway transport operations were significantly affected by the extent of the railway infrastructure construction works. Unfortunately, during the year, there were deviations from the original annual plan. Because of the accelerated commencement of substitute constructions with valid permissions, including EIA, there were repeated closure delays resulting from insufficient preparation of the constructions works. Efforts to draw allocated funds from the OPD 2 grant, together with a limited choice of available constructions, limited possibility to coordinate the closures "in alignment". During the year, on a number of railway tracks traffic restrictions were repeated, including need to deploy alternative bus transport in the total extent of 3.7 million train kilometres. Despite all of this, ČD managed to meet the quality requirements of transport service contracts concluded with the regions as well as with the Ministry of Transport. As it concerns long-haul transport, obstacles were caused by maintenance of the 380 series locomotives; whereby the situation did stabilise only in the third quarter of the year. Deployment of renovated train carriages for long-haul connections was also complicated. The project Prague-Hamburg struggled with several months delay persistent from 2015. Fulfilment of long-haul transport quality parameters were positively impacted by resolution of security devices compatibility issues in series 1216 locomotives (Taurus), which were engaged on Railjets. Defects in delivered renovated carriages dedicated to international transport and problems with InterPanter 660/661 units impacted negatively not only an adherence to the timetable, but also the quality parameters of the units (substitute carriages, inadequate sorting and unavailability of offered services) and finally in reduction of maximum speed of trains with substituted carriages, including its impact of the SŽDC (Railway Infrastructure Administrator) penalty system.

As it concerns the contractual provisions of railway transport there were no significant changes in the operations. The annual closure plan for was approved by DÚ (Rail Authority) in November 2015.

Based on the incentive system disclosed in the 2016 Network Statement, ČD applied a replacement for connections with substitute bus transport. Since 2016, the SŽDC (Railway Infrastructure Administrator) began to systematically apply the incentive system designed for not retired and unused railway capacity and the inclusion of vehicles with lower than planned speed of the train.

In 2016, České dráhy dispatched 2,544,303 trains, out of which 194,988 were long-haul trains and 2,349,315 were regional trains. In terms of the absolute adherence to the train timetable, a total of 89.9% trains arrived on time (i.e. with a delay of less than five minutes), with the 90.9% reliability of regional transport significantly higher compared to long-haul transport: the absolute reliability of long-haul transport was 78%. In respect of the failures caused by the carrier, which are essential from the perspective of ČD's fulfilment of obligations towards the orderers, significantly better results were achieved – ČD's share on the disruptions of the long--haul timetable amounted to 14.8% (i.e. 96.74% of long-haul trains arrived on time) and to 12.6% in respect of regional transport (i.e. 98.85% of regional trains arrived on time). Taking into account only ČD faults, the aggregate compliance with the train timetable reached 98.53% (from the total timetable disruption of 11.1% of trains, only 13.2% is a fault of ČD).

In 2016, there were 5,015 exceptionalities occurred on the SŽDC (Railway Infrastructure Administrator) infrastructure, which represents year on year decrease of 1.1%. As a result of extraordinary circumstances in services (including emergencies), total of 10,109 ČD's trains (0.39% of the total number of trains planned by the timetable) were cancelled partially or completely without alternative transport; 8,173 of these were regional trains and 1,936 were a long-haul connection. The number of trains cancelled due to extraordinary circumstances increased year on year by 3,788, mainly because of changes in timetable caused by safety equipment fire at Bohumín station.

Passenger Transportation - Regional

In 2016, the extent of the regional transport was consistent with the previous year. There was a slight increase in some regions because of growing demand for suburban transport.

ČD endeavour to utilise increased mobility potential in the suburban railway transport. Following the conditions of grant contracts it was possible to prolong validity of certain long-term agreements to ensure public service obligation. The units co-financed by the Regional Operational Programs were deployed on the affected routes (Olomouc and Zlín regions). The cooperation with the organizers of the integrated transport was intensified, including gradual integration of long-haul connections. A process aimed on evaluation of quality of substitute regional transport was designed.

Passenger Transportation – Long-haul

In 2016, ČD continued with a modernization of its fleet and took over the remaining units of 62 renovated Bdpee carriages which were supplied by Pars. Carriages' maximum speed was increased to 160 km/h, they were fitted with new upholstered seats, air conditioning, information system, sockets to power small electronics, hooks for bicycles, space for large luggage transport, WC with closed system, folding tables and entrance sliding button controlled doors.

Nine renovated vehicles type Bhmpz 228 were deployed on international lines. These vehicles provide open-spaced section with tandem seating arrangement (aircraft type) for up to sixty passengers. Nine Bdmpz 227 vehicles offering offers 72 adjustable padded seats with a similar arrangement to Bhmpz 228 carriage, were deployed. These carriages service the following connections: Prague - Ústí nad Labem - Děčín - Berlin - Hamburg – Kiel. There are used for Slovak Bullet train which operates between Prague, Brno and Bratislava.

Since the 2016/2017 timetable, refurbished units were deployed both on Prague – Tábor – České Budějovice – Linz (Southern Express) line and on the express line R18 from Prague via Pardubice, Olomouc to Luhačovice.

Since the June timetable changes, the rolling stock deployed on R10 Prague- Hradec Králové – Trutnov express line was refurbished. There are at least three modernised carriages ABpee, Bpee or Bee engaged in each of the trains. These carriages are equipped with air conditioning, vacuum toilets and modern interior design. ABpee carriages are, one by one, equipped with Wi-Fi internet access.

Continuous increase of product quality and its stability is one of the main obligations of České dráhy as the national carrier. Gradually in 2016, there has been Wi-Fi service installed in the carriages deployed both in long-haul and regional transport. In 2016/2017 timetable ČD offers Wi-Fi connection in 608 trains. Comparing to December 2015, this the service was extended to additional 80 trains.

Number of lines offering snacks from minibar branded as the Minibar ČD was also increased. This service was introduced in autumn 2016 to express train Ostrava- Přerov- Brno and since 2016/2017 timetable it is available also for express trains connecting Prague with České Budějovice and in higher quality express trains (Rx category) servicing the route from Prague through Plzen to Klatovy and Cheb. In total, some form of refreshment is offered in more than 250 long-haul trains, which represents more than third of connections.

In 2016, České dráhy again increased number of connections suitable for handicapped passengers. In 2016/2017 timetable the number of carriages adapted for people with disabilities increased to 258, totalling to 4,914 connections, which represents approximately two thirds of all trains despatched by ČD.

Supplementary Services

In 2016, development of ČD's supplementary services continued for both regional and long-haul transport. ČD Minibar service deployment is one of the major steps. It offers paid refreshment served in trains not equipped with dining carriages without an inline restaurant or bistro car, in Ex and Rx category trains deployed on Prague-Plzen and Ostrava- Brno line. As part of the pilot project, food vending machines offering cold drinks and snacks were installed in six InterPanter units deployed on Brno - Břeclav – Olomouc line.

ČD Wi-Fi service was expanded to 83 modernized carriages primarily dedicated to the line Prague- Berlin- Hamburg and to the Railjet ČD units. The on-board entertainment and information portal was also launched on board of the Railjet units.

The number bicycle rental shops (ČD Bike) increased to 97. They are offering not just standard bike rent but also bicycles for children, electric bikes, scooters, helmets and other accessories. The missing direct train connection to Krakow was, for the period from March to October, substituted by a bus line operating between Ostrava and Krakow which, as in prior year, represents the follow-up link to Super City trains from/to Prague and Eurocity trains from/to Vienna and Bratislava.

Intervals of the Airport Express bus line connecting Prague's Main Railway Station and Václav Havel Airport Prague were, in the peak summer season, reduced to from 30 to 15 and 10 minutes respectively.

ČD's customer loyalty scheme called ČD Body (ČD Points) was extended by further benefits. In order to increase the scheme's attractiveness ČD reduced number of points qualifying for the rewards and the company also doubled the points awarded for selected trains.

In 2016, ČD sales force predominantly focused on increase of tickets sales to businesses. High demand was noted for services of "ČD for Firms" programme allowing to buy tickets in business to business e-shop with payment in arrears. The sales doubled compared to 2015. Another successful project is the In-Card sold to the employees of ČD corporate customers for personal travel on the basis of ČD incentives.

In Karta and In Business were proposed for domestic business trips corporate customers' employees. The "First Minute" tickets are suitable for abroad business travel; mainly to Austria, Germany and Slovakia. "Výjezdní vlak" was also high in demand and there were special carriages and trains despatched for various companies.

The Company supported sales through external distribution channels, such as organisers of music festivals, theatres and exhibitions. There were several students focused events realised in cooperation with ISIC. Pendolino trip for children was promoted to the elementary and secondary schools.

One of the largest freight carriers in Europe

Thanks to the acquisition of new interoperable Vectron locomotives, ČD Cargo has expanded the possibilities of its operation in neighbouring countries.

The subsidiary ČD Cargo ranks among the five largest railway freight carriers in the European Union.

65.5

MILLION TONNES OF TRANSPORTED FREIGHT

13

FREIGHT RAILWAY

TRANSPORT OPERATION

Freight railway transport is the core business of ČD Cargo, a.s., which includes transport of almost all types of goods, from bulk cargo through dangerous goods to extraordinary and special shipments. ČD Cargo is the only railway carrier in the Czech Republic offering transport of goods in complete trains as well as in individual wagon shipments and in groups of wagons. The single wagon shipments offer, which distinguishes ČD Cargo from its competitors, was during last year promoted by advertising campaign www.1vagon.cz. Additional services, such as railway siding operation, customs services, security advisory, storage and maintenance and repairs of traction and towed vehicles, are being offered. These activities are supplied utilising internal capacities as well as in cooperation with ČD Cargo subsidiaries. The subsidiaries are predominantly engaged in expansion abroad, which is one of ČD Cargo's strategic goals. The cooperation with its Polish subsidiary, Koleje Czeskie, was especially vigorous and it positively impacted e.g. coal transportation. Combined transport is a promising segment, especially on the mainland. Trailers transport and Innofreight system were doing well.

ČD Cargo, a.s. operates extensive fleet of towed vehicles capable of operating on the most of the European railway networks and a fleet of locomotives to be predominantly operated on the SŽDC (Railway Infrastructure Administrator) network. In 2016 the fleet of 859 locomotives was gradually expanded by new interoperable locomotives 383 series Vectron and by used series 163 locomotives. Locomotives of ČD Cargo, a.s., are operated in Slovakia, Poland, and Hungary and newly also in Romania.

With the transported volume of 66 million tonnes, ČD Cargo, a.s., is the leading domestic railway carrier and it ranks among the major European carriers. It is also an important employer in the Czech Republic.

Employment Policy and Social Programme

In line with the development of the Company's position on the freight railway transport market, restructuring measures were adopted not only to increase labour productivity and efficiency, but also to recruit new employees for jobs with higher costs caused by overtime compensations. This especially concerns locomotive drivers. The process focused on strengthening of the company's sales function providing high-quality services to its customers continued in 2016. Throughout the year, the company delivered all of the employee benefits outlined in the company's collective agreement. To improve the Company's position on the labour market, encouraging and motivational programs were engaged. ČD Cargo, a.s. offered to secondary schools and universities a programme focused on improvement of students' practical skills with special focus on the railway transport.

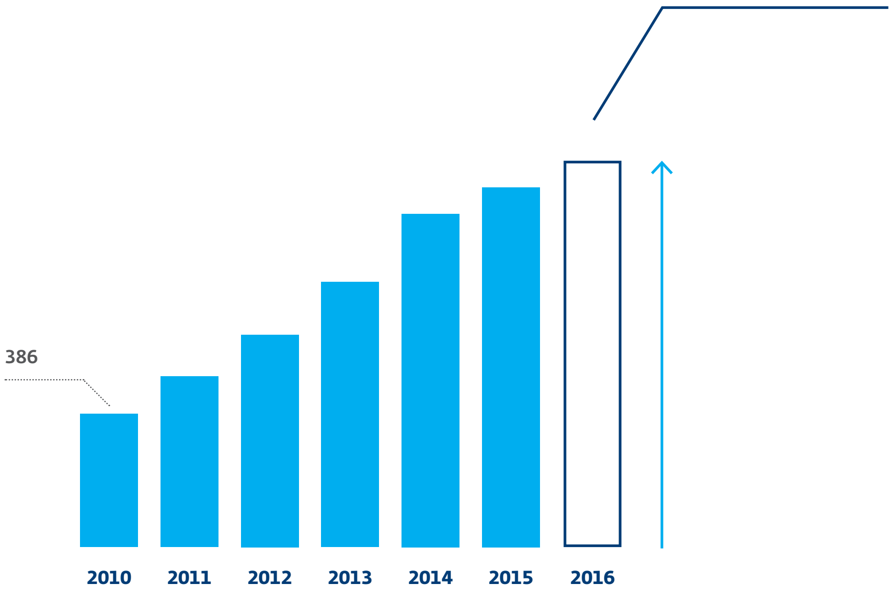
Rolling-stock

ČD Cargo, a.s., operate fleet of 859 traction vehicles, of which 67 locomotives are leased. During 2016 five new interoperable multi-system locomotives Vectron and other eight series 163 locomotives were procured. 139 traction vehicles were selected for physical liquidation. The fleet of freight vehicles consists of nearly 24.5 thousand carriages of various types. The rolling stock fleet includes approximately 2,400 leased vehicles. The actual number changes in line with business needs development. Out of the total rolling stock approximately 15.5 thousand vehicles are in operational conditions. At the end of 2016, nearly 3,000 freight vehicles were proposed for physical liquidation due to its physical and moral obsolescence and due to its poor technical condition. In 2016, 145 of series Eas 54 vehicles went through refurbishment which included replacement of combined wooden floor with the metal one.

Investment Activity

ČD Cargo invested primarily in renewal and modernisation of its rolling stock, improvement of the technical equipment of its repair shops and in general working conditions. In 2016, the major investments encompass acquisition of five new interoperable multi-system Vectron locomotives and additional eight series 163 locomotives purchased from ČD, which extended the existing identical traction vehicles fleet. We would also like to mention the investment in technical appreciation of locomotives and carriages. Freight carriages upgrades were mainly focused on floors of Eas 52 series. Further in 2016, we performed scheduled maintenance of several carriages' series and major locomotive repairs. As it concerns IT, internal information system supporting business and operating activities havve been continuously developed. ICT security (cyber security) project was kicked off with the aim to obtain the ISO 27 0001 Information Security Management System certification.

1,115 CARRIAGES WITH AIR-CONDITIONING



A more comfortable ride in every weather

The number of carriages equipped with air conditioning is ever increasing. Since 2010, it has increased nearly threefold. The air conditioning is not just a privilege for long-distance trains, but is being increasingly installed in regional trains as well.

14 GOALS FOR THE UPCOMING PERIOD

Expected Development of the Company

The long-term ČD mission is to provide the best passenger transport services at competitive prices. This is related to investments in the rolling stock modernisation and also to implementation of modern technologies simplifying passenger check-in and change in attitude of clients' facing staff towards customer oriented approach.

The upcoming year will be very important in the context of liberalisation of railway market beyond 2019. The critical tasks are to strengthen ČD competitiveness in all important passenger transport segments, to achieve high customers' and orderers' satisfaction and to establish good long-term relationships with them. In particular České dráhy has to guarantee service quality, both in terms of carriages standards and also the quality of on-board service.

All of these steps will be accompanied by cost structure and transport concept optimization. Development of pricing strategies and tariff promotions will be also crucial.

Company's Goals for 2017-2018:

- Prepare competitive proposals responding to tenders both for long-haul and regional lines;
- Continue with acquisitions and modernization of selected series of vehicles;
- Realisation of key construction investments;
- Quality standardization at the key lines;
- Further development of customer services on board of the trains (for example extension of ČD Wi-Fi service, ČD Minibar deployment for so called express lines);
- Realization of the first stage of the MISOP program (passenger transport information system);
- Further development of quality of related services.

15 ASSET MANAGEMENT

ČD managed 5,024 buildings as at 31 January 2016 of which 1,040 were railway station buildings accessible to the public. In 2016, the disposal of the part of business was realised. This transaction resulted in decline of number of managed properties to 3,284 at 2016 year end. 1,579 buildings were sold to the state owned Railway Infrastructure Administrator (SŽDC).

At the same time, during 2016, number of redundant buildings was reduced by further 577, out of which 440 redundant buildings were sold and 137 were demolished.

The properties managed by České dráhy encompassed 2,663 apartments at the beginning of 2016, out of which 1,759 flats were rented. Number of managed apartments was reduced to 839 as at 31 December 2016, out of which 457 were occupied.

A total of 11,139 external lease contracts were concluded for the premises and land managed by ČD in 2016, which represents 38,221 leased properties and 2,783 internal contracts, i.e. 13,450 leased properties. Income from external lease contracts for buildings, land and apartments amounted to CZK 386,878 thousand in 2016, income from internal lease contracts amounted to CZK 35,221 thousand. The total external income from lease and operation of buildings was CZK 506,511 thousand (excluding internal leases). Income from the sale of redundant assets was CZK 449,641 thousand in 2016.

In 2016, the largest sales of assets were located in Prague districts of Nové Město (Masarykovo nádraží), Holešovice (sets of grounds), Karlín, Běchovice a Vršovice (sets of real estate), and in other municipalities, such as Lovosice, Teplice, Cheb, Plzeň, Pardubice, Zábrdovice and Česká Lípa.

During 2016, 65 railway stations were renovated. The costs of the large renovation projects amounted to CZK 47.5 million. The aim of České dráhy until the actual transfer of station buildings to SŽDC was to improve the premises serving passengers, i.e. entrance halls, dispatch halls, waiting rooms and toilettes in the railway station buildings. Capital expenditures were spent for three dispatch buildings in various regions: Uherský Brod, Třinec and Turnov.

23,664

EMPLOYEES

The entire České dráhy Group has 23,664 employees, which makes it one of the largest employers in the Czech Republic.

Behind all the numbers we see the specific work of our people

Most of the employees work in passenger transport; the second largest group of employees works for ČD Cargo freight carrier.

16

OTHER ACTIVITIES

Employment Policy and Social Programme

The ČD Group is in the process of centralising its human resource management and methodology processes in order to increase the quality of HR and payroll services. HR services are provided on the basis of a standard level agreement and their effectiveness is monitored and regularly assessed. All HR processes are centralised in regional HR Centres. The activities of subsidiaries are provided by a stand-alone HR Centre based in Prague and Ostrava.

The headcount of the ČD Group recalculated to FTEs in 2016 was 23,664, of which ČD employed 15,061 persons and ČD Cargo, a.s. employed 6,978 persons, which is a year-on-year decrease of 283 employees.

In 2016, ČD continued its transformation to the modern and effectively operating business that provides quality services in railway transport. Accordingly, HR work focused on optimising the structure of professions as well as a socially-considerate reduction in the number of employees while maintaining the employment rate necessary for the effective operation of the Company and an increase in the quality of services provided.

The optimisation of the number of employees will continue in 2017. The focus on the socially-acceptable nature of the reduction in employee numbers in cooperation with labour unions will be one of the priorities for HR in 2017.

In line with the relevant legislation and in cooperation with the trade unions, another priority involved the monitoring of employees' medical condition and the impact of performing their jobs on their health. In 2016, 13,965 preventive medical examinations were carried out on ČD's employees and 176 examinations were carried out as part of preventive healthcare in the workplace.

In 2016, ČD had 10 trade unions. During the course of the year, the trade unions participated in a social dialogue resulting in the conclusion of the 2017 corporate collective agreement that was performed during the year and evaluated by the social partners on a regular basis.

Education

The extensive education of railway professionals is provided for the entire ČD Group by its subsidiary, Dopravní vzdělávací institut, a.s. (DVI). This entity also operates on an external educational market with a wide portfolio of customers where SŽDC is a key client.

In its segment, DVI is a renowned company, the holder of important certificates for its activities (ISO 9001:2009; accreditation of the training centre for engine drivers, authorisation by the Ministry of Transport for the education and testing of partial qualifications of railway professions; accreditation for psychological examinations; certification of training of welders). It has a network of classrooms and training centres all over the Czech Republic, a unique electronic log-in system, iTutor educational system, and professionals in specific areas of education. DVI provides for both the professional education of employees and ongoing periodic education for the maintenance of qualifications. According to the requirements of clients, training takes the form of attendance in lessons, e-learning or combined education. Other activities include language lessons, soft skills training, the preparation of electronic lessons for presentation and e-learning, welding courses, psychological evaluations, etc.

International Relations

In 2016 in terms of international relations, České dráhy, a.s., as the parent company of the group ČD focused on strengthening its position among individual members of the European and worldwide railway community. Team responsible for international relations is responsible for preparing conditions to strengthen the business activities of the group and increase of its efficiency. For this purpose, the Company enhanced its activities in bilateral meetings as well as in meetings of international railway organisations and their working groups.

České dráhy a.s. as the parent company of the ČD Group kept its leading position in international cooperation and the key statements on individual issues were consulted with all ČD Group members on a regular basis.

As it concerns activities of the Community of European Railway and Infrastructure Companies (CER) České dráhy continued in promoting its interests in development and approval of EU legislation on railway transport. The Chairman of the Board of Directors and Managing Director of ČD, Pavel Krtek regularly participated in Steering Committee CER meetings, which represents interests of railway business.

České dráhy is very active in European activities focused on transport, not only as an participant in CER, but also through its representation in Brussels and direct negotiations with individual organizations (European Commission, not only the Czech members of the European Parliament, Permanent Representation of ČR at EU, etc.). Main objective of these activities is continuous exchange of opinions and information both in terms of legislation and dialogue on competition and the respective conditions in the Czech Republic.

In 2016 the approval process of the so called Fourth Railway Package was completed, at the end of the year its „market pillar“ based on Regulation on public passenger transport services by road and by rail (1370/2007) and establishing a single European railway area (2012/34) was published. České dráhy was following and commenting on these regulations paying a lot of attention to prepare themselves for the development in railway transport business during the transitional period and after the package is implemented.

There are still blind spots, even after approving of the package and these concern transport procurement in public interest (performed directly by the orderer). České dráhy are still actively negotiating in the international community and with representatives of the shareholder and creditors.

In 2016 České dráhy was also very active in promoting its interests on the platform of UIC (International Union of Railways), especially in operations, technology and research. At the end of the year there have been change in the UIC management, Reanto Mazzoncini, representative of the Italian Railways, was appointed as UIC chairman. European railways expect him to be more focused on effective and efficient implementation of European standards and TSI to everyday life of railway undertakings.

In December, ČD representative (Roman Štěrba) was appointed as vice-president of IRRB (International Railway Research Board) of UIC. Within IRRB České dráhy will be focused on development and effective use of database of international research capacities.

Within the Organisation for the Cooperation of Railways (OSŽD), České dráhy is an active in transforming the organisation into a dynamic tool for the development of cooperation of railway businesses between Europe and Asia, specifically in trade and development of common products. In cooperation with the Ministry of Transport, ČD is actively involved in negotiations on new OSŽD Convention, which should get OSŽD closer to the European structures and enable other market players to act more actively.

České dráhy regularly organises bilateral workshops with infrastructure administrators and carriers from neighbouring countries. The meetings of the permanent work groups are focused on business and operating issues and they represent very effective tool to improve quality of our services and products.

The most significant international 2016 events were the following:

- February – CER/UIC High Level Passenger Meeting;
- February – The General Meeting of CER, CER Steering Committee and hand over of the Railway Awards;
- April – Conference of OSŽD General Directors;

- April – Negotiations on improvement the railway connection Prague – Munich;
- May/June – World Congress of Railway Research and European Railway Leaders' Summit (opening of the Gotthard tunnel);
- July – The General Meeting of UIC;
- September – International Rail Expo INNO TRANS including meeting of CER statutory bodies;
- October – Bilateral negotiations with new boss of ÖBB Mr. Matthä;
- November – Further negotiations on improvement the railway connection Prague – Munich;
- December – The General Meeting of UIC, selection of the new UIC president.

International activities of subsidiary ČD Cargo, a.s. are based on the ČD Group strategy and are coordinated by the Contract for the delivery of international activity, concluded between ČD Cargo and ČD. ČD Cargo is the independent member only of the Central Clearing Centre (BCC) and of the Coordinating Council on Trans-Siberian transportation (KSTP).

Within UIC and CER activities, ČD Cargo actively participates on the activities of the freight transport working groups – in the Forum Of Freight Transport (main role in IT group), in the High Level Freight Meeting etc.

Due to active international activities ČD Cargo succeeded in signing three memoranda on cooperation (with Chinese Zhengzhou International Hub Development and Construction Co., with Lithuanian Railways and with Russian TransContainer). In cooperation with Belgian carrier B Logistics, during last year, ČD Cargo launched new attractive connection between the Czech Republic and port of Antwerp, called Czech XPRESS.

Marketing

The business-marketing strategy was focused on increased demand for train travel across the target groups in 2016. Therefore the communication was orientated on four key areas.

1. Reaching for new passengers in international transport
Marketing campaign My train, my time (Můj vlak, můj čas) has presented comfortable and safe journey to important European destinations. In 2016 in particular to Germany in connection with deployment of modernized vehicles.

Attractive price offer was connected with First Minute Europe ticket (Včasná jízdenka Evropa) and travelling mainly to popular euroweekends in spring months and advent market trips at the end of the year. Passengers were also offered new direct connection from Prague to Swiss Zurich by train with sleeping vehicles.

2. Reaching for new passengers in national transport
The campaign "Next time by train" ("Příště vlakem") was launched in whole Czech Republic during the spring offering passengers a carefree and comfortable train transportation for a better price, while buying an early ticket. Various tariff offers, which will satisfy all target groups from families with children, over the young generation to seniors and groups of passengers, were continuously supported.

3. Reaching for young passengers
Marketing activities were focused on the young target group up to 26 years, to develop and strengthen their relationship to and trust in ČD brand. Travelling by ČD trains is presented as an attractive way of transportation appropriate to active lifestyle, allowing to use a travel time to have fun with friends, communicate via social networks and browse the internet as well.

Ambassadors, inspired by listening to young people, especially through social networks helped to build a relationship to the brand. To introduce comfortable traveling ČD stared to use in communication the phenomenon of youtubers, patterns from the world of fashion and art to show the attractiveness and convenience of traveling by train throughout the whole Czech Republic. Communication was especially related to product Ticket for the summer ("Jízdenka na léto").

The active entry of ČD to social networks in 2016 related especially to regular tariff offer, attractive price offers, but also tips for trips or presentation of new vehicles. Entertaining way attracted passengers were addressed in an entertaining form and the number of followers of official ČD Facebook profile exceeded 20,000 at the end of 2016.

4. Removal of imaginary barrier to travel by ČD trains
Disruption of stereotypes of travelling by train, customer's prejudices about complexity of buying tickets and travelling by train in general was an important element of communication. The purpose was to convict customers that rail transportation is modern, safe travel at a high level.

"Simplicity of travelling" ("Jednoduchost cestování") campaign presented to the general public modern technologies and distribution services od ČD, especially with emphasis on buying tickets online and on the My train (Můj vlak) application, which will facilitate passengers buying tickets and orientation in the station.

The campaign also drew attention to the On-Board Portal which is featured with options to inform passengers about the course of the journey and interactive entertainments for children and adults. Finally, communication was also focused on promotion of products complementing the ČD tariff offer. Great emphasis was also put on communication at stations, which was specially prepared in selected localities according to the specific of the selected region.

Environmental Protection

The Czech Railways national carrier, in the framework of its main activity, monitors all operational impacts on the area of environmental protection. Impact of passenger railway transport on the environment is continuously eliminated by the permanent modernization of the rolling stock, including its facilities.

In 2016 national carrier České dráhy ensured the fulfilment of legislative obligations in all areas of environment. Ongoing trainings were provided by a competent person. Current legislative procedures were implemented to internal regulations of České dráhy. Fulfilment and implementation of the current legislative obligations are continuously controlled in all fields of environmental protection.

Areas of environmental protection:

- In the area of water management the new contract for monitoring drinking and waste water was signed on 31 December 2015. Under the contract the quality of drinking and sewage water and adhering to the limits set by the state authorities are monitored. Water consumption and the amount of sewage water released in compliance with the water management permits are also monitored. In areas of usage of hazardous substances the emergency plans are continuously updated.
- In areas of chemical substances and agents legislative obligations are met and department of the rolling stock provides appropriate trainings in compliance with Act no. 258/2000 Sb., on public health protection and on the amendment of certain related laws.
- In the area of nature and landscape protection České dráhy are focused on the maintenance of greenery and full-grown trees and shrubs on its land. The main goal is to provide passengers safe railway operation. Instruments to ensure the safety status of trees species include trees inventory performed by individual organisational units of České dráhy. In 2016 the change in conditions of removing trees to secure the operability of the railways or to provide fluent and safe railway transportation was approved.
- In the field of rehabilitation of soil and underground water České dráhy focuses on compliance with the decisions of state administration bodies (water management authorities, the Czech Environmental Inspectorate) stipulating remedial measures. In 2016 remediation works were carried out in 12 locations.
- In the field of air protection, new contract for providing services – measurement of emissions, efficiency of boilers and monitoring and cleaning of flue gas paths in compliance with the water management permit was signed on 8 March, 2016. The objective of this agreement is to determine the level of air pollution by measuring, control the technical condition and function of stationary combustion sources, including inspections of boilers and heat energy distribution equipment together with cleaning of flue paths.
- In areas of noise pollution and vibrations is monitored compliance with health limits, which also relates to the modernisation of the rolling stock. In 2016 České dráhy carried out the modernisation of air conditioning units in order to reduce the noise level in 36 selected City Elephant vehicles.
- In waste management focuses on compliance with legislative requirements, namely waste sorting, waste protection against misuse or leakage and delivery to a specialised firm authorised to collect the waste.

Further, department of rolling stock manages the register of legal and other requirements. Any amendments are immediately announced to all organizational units of České dráhy.

Research and Development

The subsidiary Výzkumný Ústav Železniční, a. s. (VUZ) provides specialised professional services in the field of railway research and development. Main customers are global manufacturers of railway machinery and equipment. In this field VUZ is recognized as renowned institution specialised in the provision of professional services and comprehensive solutions in specialised assessment, assessing compliance with the requirements of the interoperability and expert activities for railway systems and railway transportation, not only in EU countries, but also globally. VUZ provides these services as authorised entity no. AO 258 and notified entity no. 1714 for assessing compliance with the requirements for the interoperability of the European railway system. In addition, VUZ is an accredited testing laboratory no. 1462, an accredited certification body for products no. 3149, accredited inspection body no. 4056 and a certified entity for assessing safety under CSM (security method for evaluating and assessing risks). In Testing Centre in Velim VUZ operates two railway testing circuits (ŽZO) equipped with modern infrastructure with newly built ETCS European Security System, making the Testing Centre one of the most important and renowned testing centres for railway machinery and equipment within Europe.

Development of Testing Centre in Velim created new opportunities for extending the range of authorized and accredited activities of VUZ and supporting their commercial use. Long–standing tradition of the company, technically educated and highly respected specialists are attributes highly appreciated by VUZ customers. Quality of provided services allows current ŽZO parameters to strengthen further the VUZ position on the domestic and international market. This position is also supported by close cooperation with the leading global manufacturers of railway machinery, academic institutions and professional organisations within and outside the European Union. By membership in these leading technology research institutions, VUZ participates in European research and development.

Information Technologies

Support and development of passenger transport and harmonization of ICT strategy with the strategy of National carrier key services is the priority for ICT. Emphasis is permanently placed by CD on the sale of tickets through on-line channels, integration of sales via individual channels, simplification of purchases and preparation for liberalization of the passenger transport market.

As part of the eShop, a loyalty programme has been further developed to support customers who purchase tickets this way.

The My Train native mobile application for Android and iOS operating systems was upgraded to include additional functionalities. Extending the application to a third mobile platform has been temporarily suspended.

As part of the expansion of sales channels the MAP Phone project was launched in 2016. The goal is virtualisation and dematerialisation of In Karta with full integration with existing dispatching systems.

In providing modern equipment, train staff and inspectors routinely uses smartphones that use applications for informing passengers, particularly in cases of traffic closures and train delays. In 2016 pilot operation of the Sharing information to drivers via electronic display devices service was launched. Paper timetables and regulations are transferred into electronic form.

Other areas of electronisation and dematerialisation of paper documentation and communication are Documents for review and Electronic payslip projects. So far, both of them has been running in pilot operation in the ČD intranet in secure kiosk mode. In next steps, the documents will be made accessible also from the public Internet with appropriate security.

As result of the conceptual change in the structure of ČD's In Karta, expired cards and cards with the old structure have been replaced. The implementation of the MAP system in In Karta enables cheaper connections between individual partners, more efficient off-line work and the use of only one carrier for electronic tickets with subsequent virtualisation. The MAP implementation includes improved security and faster ticket-purchasing and ticket inspections.

Join project with Plzeňské městské dopravní podniky, a.s. (Pilsen City Transport Company) was launched in 2016. It's focused on sharing of storage of MAP card between the two entities with cross placement of documents and mutual recognition of „Electronic money“ included.

In the area of ICT operation management, alignment with the TAP TSI telematics standards continued in 2016. This EU legislation requires changes in the company's systems for railway operation management, primarily in the Dispatcher Information System for Passenger Transport (DISOD), and in the systems for the preparation of timetables. The changes took place in 2016 and will continue in years 2017 and 2018 in cooperation with SŽDC, s.o.

In the field of economic information systems in the middle of 2016 the ČD Group SAP Upgrade project was completed. It was necessary for future migration to SAP DB HANA/SAP4HANA platform.

In the second half of 2016 the important project SAP HR MEDIT was completed. The project solved problem of education and mandatory trainings in complicated organizational structure of ČD with expected utilization for ČD subsidiaries. DMS project and electronic sending of ČD customer's invoices was introduced in all operational units (Rolling Stock Depots, Supply services and Billing department). Project Services implementation in ČD Group has been extended to other organizational units.

Also in 2016 ICT implemented outcomes of audits focused on optimising the use of applications and licence policies, especially removal of partial duplication in various applications and platforms. The basis is a consistent use of all native functionalities of already deployed and licensed systems. An analysis of the Application Portfolio (APA) is carried out on a regular basis by an independent external authority. Its results and recommendations influence a follow-up measures to optimise the number and architecture of applications, technologies, platforms, and, subsequently, operational and licence costs.

ICT was significantly involved in the sale of part of the business from České dráhy, a.s to SŽDC, s.o., including distribution and export of relevant data, allocation of licenses, infrastructure and other tangible and intangible parts of transfer.

In the field of hardware and infrastructure, 2016 was the next year in which services were used in full instead of purchasing devices. Change in acquisition for comprehensive services impacted end devices (computers) in the form of a service (a lease of devices with defined services) and comprehensive printing services (lease of printers as service, provider takes care also of the logistics, service availability, and cost allocation to individual users). The third field is Sharing information to train drivers' service via electronic display devices in pilot operation.

ČD Informační systémy a. s. (ČD-IS) focuses on the provision of IT services in the field of transport and logistics, including development, delivery, operation and maintenance of applications, data centre administration, services of system integration and architecture, SAP solutions and IT support and services. The key areas of the company's product portfolio include solutions for passenger and freight transport, economics and HR. In 2016, the company delivered significant projects in the economic and personal field of SAP system, operating reporting, support of operational employees and integrations. It also launched significant long-term projects in the field of passenger transport, for which internal competence is built. Through its subsidiaries ČD-IS has developed comprehensive electronic check-in product, which will be offered for deployment in the following periods. With information systems operation the Company has set operational monitoring and reporting including SLA reporting. The Company completed building of infrastructure for applications with high availability. In the following period the Company's efforts will focus especially on application monitoring of operation. In field of data centres or applications operation, the Company will continue in implementation of pilot tested private cloud to enable dynamic allocation of the performance of operational capacities for selected services.

ČD - Telematika a.s. (ČD-T) is an important provider of telecommunications services and services in the administration, maintenance and construction of telecommunication infrastructure. ČD-T provides housing services in highly-secured data centres and owns the second largest optical infrastructure in the Czech Republic. ČD-T provides its services to demanding clients from state administration, the railway transportation segment, large companies and local internet providers

In 2016 ČD-T successfully delivered and implemented technology for providing public network internet access to the travelling public via distribution of Wi-Fi signal in Railjet trains and other 20 vehicles of České dráhy. For SŽDC the Control Analysis Centre (Kontrolní analytické centrum) project was successfully completed. Its goal is to provide consistent information of operational SŽDC environment for direct control performances at unexpected events to inspectors and authorised dispatchers and to provide information to optimize the operation, especially on operational and processional levels.

By DJŽV association was also successfully implemented project Diagnostics of moving railway vehicles (Diagnostika jedoucích železničních vozidel), which will improve the prevention of serious railway accidents. The purpose of first part of the project was implementation of diagnostic equipment measuring selected parameters of all axles of moving railway vehicles in total amount of 42 locations in the whole Czech Republic which was the part of ČD – Telematika involvement in this project.

In 2016 ČD-T also entered the Internet of Things market (IoT – Internet věcí) with smart parking solutions, which was realised as the first in Czech Republic by installing sensors in 240 parking spaces in Liberec. With other smart services, intended mainly to cities, municipalities and companies, ČD-T will be develop its activities on the IoT market.

ČD-T's strategy for the following periods remains the same, i.e. developing business opportunities in the Group České dráhy, strengthening the strategic partnership with SŽDC, increasing position in telematics projects and increasing revenues outside the railway infrastructure and transportation sector. The key growth opportunities in 2017 will include the growing demand for telematics services. ČD-T invests in strengthening its competencies in this area. This effort resulted in winning of the contract for the operator of MPSV Unified Information System of Labour and Social Affairs – Integrated Supporting And Operational Data, which was delivered at the end of 2016.

ČD - Telematika will continue to strengthen cooperation with companies that provides ICT services to end-customers in businesses and government segments and to provide joint solutions using its own unique infrastructure and know-how.

In the field of ICT management within the ČD Group, work in two strategic areas of ICT Group was launched in 2016: SAP Strategy Project for the years 2016-2020 and set of infrastructure group projects (technical infrastructure, collaborative tools, and terminal equipment beyond 2020). The objective of the group projects remains to protect investments across the ČD Group, common licensing policy, technology minimisation and possibility of sharing them.

Repairs and Maintenance

DPOV, a.s., is a leading companies engaged in the repair of railway vehicles (ŽKV) in the Czech Republic. The principal role of DPOV in the ČD Group is to provide periodic medium and high = grade repairs, modernizations, reconstructions and other various types of routine maintenance of ŽKV. In its workplaces in Přerov, Nymburk, Veselí nad Moravou, Olomouc and Valašské Meziříčí the company perform repair of all electric traction vehicles, complete units, motor vehicles, railway trailers, passenger cars, including the repair of all parts of their pars and functional units.

It also provides its services on an open market and performs repairs for external customers.

In 2016 there were many important investment projects in the company, particularly with regard to increasing the Group's competitiveness in the market of ŽKV repair. In DPOV Přerov was modernized sub-level lathe Hegenscheidt H106 with a new technology enabling the turning of brake discs profiles without dismantling wheelsets from the ŽKV. In DPOV Nymburk there was acquired technological equipment for repair and modernization of passenger vehicles. In 2016 were completed extensive modernizations of passenger carriages of Bmz234 in total number of 27 units, consisting primarily of installation of a new central energy sources, complete replacement of wiring, the installation of vacuum toilets and the overall revitalization of the vehicle. At the DPOV Veselí nad Moravou the repair hall was extended, particularly with regard to customer's requirements for overhaul repairs of two-pieces motor units 844 RegioShark.

The company gradually fulfils its long-term goal to become a modern repair station of ŽKV for the ČD Group as well as other foreign and domestic carriers and transportation companies operating railway siding transport.

Railway Catering Services

The Group JLV, a.s. is a traditional Czech company with more than 55 years of history and experience in the area of providing services, especially for the traveling customers.

The main business activity is providing services and railway catering in special train vehicles for České dráhy. The company's business portfolio also includes gastronomic and retail concepts developed by the company or operated in the form of franchising. The main goals for 2016 were successful participation in ČD tenders and also the expansion and improvement of operation stationary concepts.

Travel and Recreation

ČD travel, s.r.o. is a travel agency, and České dráhy is a major owner of it. Travel agency services are used not only by rail employees but also other wide range of clients who are looking for quality and affordable recreation. The travel agency offers both domestic and foreign recreation. It has a wide range of wellness stays and stays for seniors (55 years and over).

Holidays abroad include transport service by plane, train, bus and private. The offer is especially varied for tours to Greece, Turkey, Spain, Bulgaria, Italy, Croatia and Slovakia. The number of served clients is comparable to the medium-sized travel agencies.

It offers sightseeing tours to all parts of Europe (Italy, France, Ukraine, and Russia) and also sells train tickets. As one of the few in the Czech Republic is using the reservation system of German railways DB and sells tickets for the whole Europe.

The agency provides tickets for example for French TGV, Spanish AVE and TALGO or for Czech SC Pendolino, for Eurostar trains, which goes through the tunnel between France and Great Britain (departures from Brussels or Paris), trains to the Far East (Russia) and others.

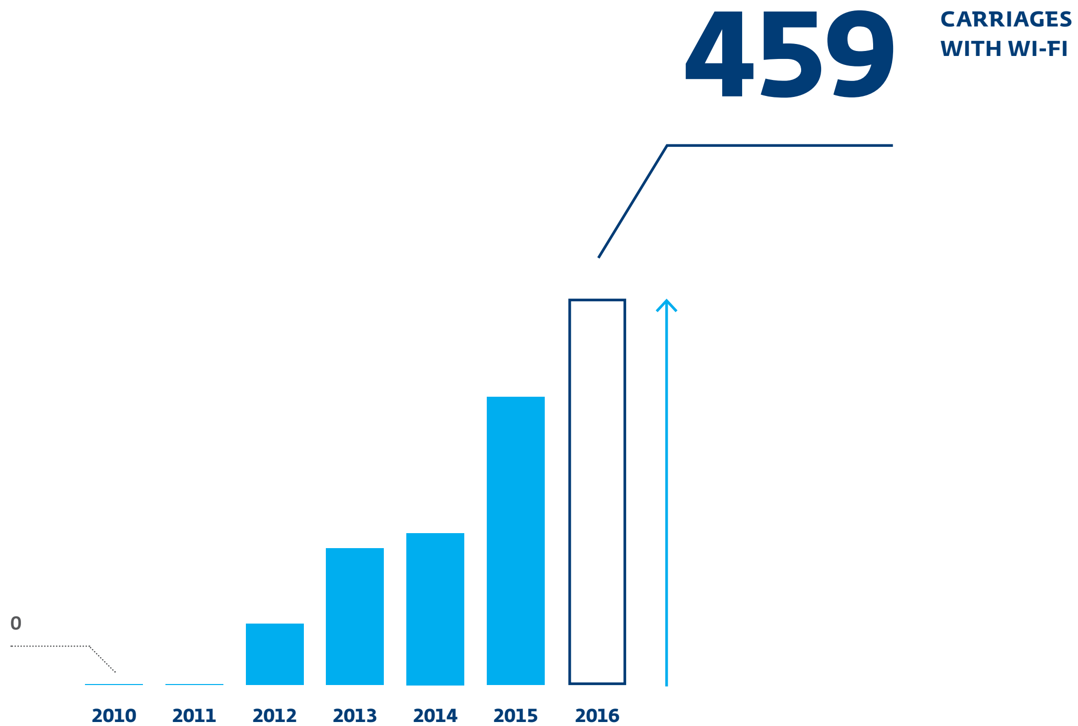
Advertising and Media

The Company RAILREKLAM, spol. s r. o., (RAILREKLAM) is operating on the Czech outdoor advertising market since 1991. Since its foundation it has focused on the use of movable and immovable railway assets for advertising purposes. Following the split of ČD, s. o. into the carrier ČD, a. s. and railway infrastructure administrator – Správa železniční dopravní cesty, s.o. It cooperates with both organizations.

The Company RAILREKLAM operates more than 12,000 of advertising slots on trains, in stations and in their surroundings and is one of the five largest companies operating in outdoor advertising. České dráhy holds in company RAILREKLAM, spol. s.r.o. share of 51%, the remaining 49% is held by company Expiria a.s., which belongs to the BIGBOARD Group.

The Reward of the Auditor

Group ČD spent on statutory audit of the annual accounts CZK 3.3 mil. (in 2015 CZK 3.5 mil.), for tax advisory CZK 6.5 mil. (in 2015 CZK 6.1 mil.) and for other auditing services CZK 156 thousand (in 2015 CZK 180 ths.).



More enjoyable train travel

To make the journey of our customers run faster, we are increasingly equipping carriages with free Wi-Fi Internet connection. Since 2012, the number of carriages with Internet access has increased from zero to more than four hundred, and this number is steadily growing.

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INVESTMENT

DEVELOPMENT OF THE GROUP

Investments by individual entities within the ČD Group are driven by the nature of their principal activities.

A significant part of investments of ČD represent investments in the renewal of rolling stocks (ŽKV). In long distance transport there were completed deliveries of new low-floor units InterPanter. There were also realized deliveries of upgraded vehicles with a speed of 200km/h for line Prague – Berlin – Hamburg and delivery of modernized vehicles of Bdpee line, designed for both domestic and international long-haul traffic. After the sale of part of the business (station buildings) construction investments were primarily made into the infrastructure of stock depots, major investment is the reconstruction of the maintenance hall for passenger vehicles in Hradec Králové and reconstruction of fuel storage in Rakovník. There were newly launched projects for construction work on existing halls in Brno-Maloměřice and in Děčín. The other investments were invested mainly in machinery and equipment. In the field of IT there are a long-term investments in systems related to the operation of passenger transportation check-ins economic and security systems. Significant investment in this area is the renewal of the portable personal cash registers. (POP).

Also in case of ČD Cargo substantial part of the investment represent investments in the renewal and modernisation of its rolling stocks both to acquire new multi-system engines, and in particular to overhaul repairs of electric traction vehicles. Also significant were investments of revision repairs of freight vehicles mainly in Falls discharging vehicles for the transportation of solid fuels and bulk materials. Furthermore in IT area continued realization of project ICT security to acquire the ISO 27 0001 Security Management System certification and other internal business and operational information systems for improving processes towards customers. In construction investments renovation of the premises of the rolling stock and operating unit repair shops including renovation of handling equipment and machinery were carried out as a part of other investments.

Investment activity of VUZ is closely linked with its focus on professional services in the field of testing. Therefore it mainly invested into testing infrastructure and buildings, in instrumentation and measurement technology, information systems and rolling stock needed to carry out the testing activity.

Being a major rolling stock repairer DPOV continued mainly with the modernization and reconstruction of repair halls and invested in new technical and technological equipment. Significant investment after the completion of the extension of the hall in the Operation Centre Veselí nad Moravou is the launch of another construction project in this operating repair centre, which is extension of the repair hall.

ČD-T has continued to invest primarily in telecommunication services and infrastructure. Construction investments were mainly for the further development and renewal of its own fibre optic network and investment in buildings. The company also renewed Ethernet data network access L strengthened HW L2/L3 platform WDM (division multiplex) for customers projects and continued with the expansion of its coverage, also invested in measuring instruments and other IT needed tools.

Investment activities of ČD-IS is focused on providing ICT services for transportation and logistics. The largest volume of investments in the period was dedicated on acquisitions in order to expand the portfolio of services. A significant part of investments went into the purchase of own assets, namely to hardware and software equipment of data centres and terminal equipment for rent.

The Group DVI specializes in the education and training professionals in the transport sector and logistic particularly in the area of railway transport. Therefore investment activity went to technical equipment for teaching and the reconstruction of transport education centre and the welding school in Česká Třebová.

Investment activity of the Group RAILREKLAM is directed primarily to digitalization of high traffic locations to optimization of the network of advertising media, especially in places owed by railway sector. A significant investment was the installation of digital advertising media in Prague's main railway station. The company also continued to invest in modern advertising media (Citylight rotunda, backlights, LED screens) installed in locations mostly in Prague. Investments in outdoor advertising, besides areas owned by railway sector, were impacted by the newly adopted amendment to the Road Act.

6,899

TRAINS EVERY DAY

We are here for everyone

In 2016 ČD dispatched daily on average 6,899 trains, ranging from regional trains from the most remote corners of our country to long-distance trains to major European cities.

Of the total daily number of trains, 4,656 trains were adapted for passengers in wheelchairs; 6,738 trains were suitable for the transport of bicycles.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF ČESKÉ DRÁHY, A.S.

Our Opinion

In our opinion:

- The accompanying 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, Praha 1 ("the Company") and its subsidiaries (together "the Group") as at 31 December 2016, of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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

What we have audited
The Group's consolidated financial statements comprise:

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

The Company's separate financial statements comprise:

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

Basis for Opinion

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

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

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Our audit approach

Overview

Overall materiality for the Group: CZK 301 millions

Overall materiality for the Company: CZK 186 millions

We have identified six entities and one subgroup which were subject to our audit based on their size or level of risk.

Within the audit procedures described above we have cooperated with component auditors from Poland and Germany. All component auditors belong to PwC network.

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

The scope of the audit provides us sufficient and suitable basis for our opinion on the separate and consolidated financial statements.

- Work within the first year when PwC is the auditor of the Group.
- Impairment of property, plant, equipment and investments in subsidiaries.
- Assessment of provisions for restructuring and loss making contracts and extent of respective disclosure for provisions and contingent liabilities.

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

Materiality

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

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

Overall Group materiality	CZK 301 millions
How we determined it	0.8% of total revenue
Rationale for the materiality benchmark applied	Materiality was based on total revenues from operating activities. First we considered profit before tax as the basis for materiality calculation; however, due to its high year-on-year fluctuation, we decided to use revenues which is a more stable indicator. We have also considered performance measurement method implemented by the Group, which is, except for revenue, also oriented towards profit before tax and EBITDA . In order to take into account all these performance indicators, we decreased the base for determining materiality from 1% to 0.8% of total revenues.
Overall materiality for the separate financial statements	CZK 186 millions
How we determined it	0.8% of total revenue
Rationale for the materiality benchmark applied	Materiality was determined based on total revenues from operating activities. First, we considered profit before tax as the basis for materiality calculation; however, due to its high year-on-year fluctuation, we decided to use revenues which is a more stable indicator. We have also considered the performance measurement method of the Group, which is, except for revenue, also oriented towards profit before tax and EBITDA. In order to take into account all these performance indicators, we decreased the base for determining materiality from 1% to 0.8% of total revenues.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Work within the first year when PwC is the auditor of the Group As the year ended 31 December 2016 was the first year of our audit mandate, one of the key matters for us was getting the understanding of the Group's business as a precondition for its proper presentation in the financial statements. It was also essential to obtain an understanding and test the control environment implemented by the Group, which allowed us to develop a correct and effective approach to detailed testing of individual transactions and balances. Within the first year audit we also assessed all the significant accounting policies of the Group and their compliance with the International Financial Reporting Standards as adopted by the European Union.	During our first year audit we have gained an understanding of the Group's and the Company's business by study of independent information resources, research, publicly available information about the Group, through meetings with key personnel of the Group as well as meetings with the previous auditor and a review of their file. This work has provided us with important precondition for a proper assessment of the matters listed below. Particularly during November 2016, as a result of a series of meetings with employees of the Group, we gained an understanding of processes covering significant areas related to the financial statements. This concerned especially tangible fixed assets, sales and commercial activities, purchases and human resources. Afterwards, we validated the operating effectiveness of the selected controls used by the Company and the Group. All the tested controls worked well which allowed us to determine the scope of testing of supporting documentation underlying the accounting entries. As the controls operated effectively, we focused specifically on transactions that were considered risky or specific. Furthermore, we performed an assessment of all significant accounting policies. We compared the accounting policies of the Group and the Company with an up-to-date version of International Financial Reporting Standards as adopted by the European Union in order to identify inconsistencies and to conclude whether the application of the accounting policies complies with the basic principles of the standards mentioned above. While assessing the suitability of the policy used for deferred tax calculation, we identified that part of tangible fixed assets relating to the valuation of assets performed as at the date of establishment of Group's subsidiary ČD Cargo, a.s., was excluded from the deferred tax calculation. This has resulted in a change in accounting presentation in the Group's consolidated financial statements which is further described in section 2.2.1. of the notes to these financial statements. Both separate and consolidated financial statements encompass significant fixed assets which are rented both by the Group and the Company from third parties especially in the form of sale and leaseback or operating leasing. Hence, the proper classification of the lease contracts is one of the key matters to be addressed in the financial statements. Classification within the particular accounting standards is fundamental to achieving proper accounting for lease contacts. We reviewed all the material leasing contracts and we concluded, especially taking into account provisions of SIC 27- Evaluating the Substance of Transactions in the Legal Form of a Lease that the contracted sale and leaseback transactions do not qualify as finance leases under IAS 17 Leases.

Key audit matter	How our audit addressed the key audit matter
	This resulted in adjustments to both consolidated and separate financial statements, which are further described in section 2.2.1. of the notes to the consolidated financial statements (or section 2.2.1. of the notes to the separate financial statements). We consider the remaining accounting policies and their impact on the financial statements to be in accordance with the International Financial Reporting Standards as adopted by European Union.
Impairment of property, plant, equipment and investments in subsidiaries. Fixed assets represent the most significant item on the Group's balance sheet and it is the basis of the Group's business. The Group monitors and evaluates indicators for impairment of fixed assets on a regular basis. For the purposes of evaluating impairment indicators for the railway vehicles fleet used for cargo transport, the Group adopts a model based on the comparison of the assets' book values to their fair values less cost to sell. The model is based on estimates of market values of the selected representative items of the railway vehicle fleet. This valuation is performed by an external expert. The result of the sample valuation is then projected to the whole fleet. The evaluation of the impairment indicators of the railway vehicles fleet and related property used for passenger transportation is tested separately for the vehicles used in a public service delivery and separately for vehicles operated on a commercial basis. The indicators of impairment of railway vehicles used under the public service obligation are excessive not eligible costs (i.e. not accepted by the state) and decrease of vehicle utilisation resulting in revenue decline.	We performed, among others, the procedures described below when assessing the existence of impairment indicators for railway vehicles used for cargo transport: - Assessment of the appropriateness of the model used for testing impairment in connection with the Group's cargo transport business. Based on work done, we considered the model to be appropriate. - The assessment of methodology used by the external expert to determine the market value of the representative sample of railway vehicles fleet. We consider the expert's methodology to be appropriate. - Assessment of suitability of representative sample projection methodology to the whole fleet. We consider the methodology appropriate. - Check of the completeness of assets included in the impairment assessment. No omissions were identified. - Check of mathematical accuracy of the model. No errors were identified. We concluded that the model is appropriate for assessment of the impairment indicators of the tested fixed assets and the results are correctly reflected in the Group's consolidated financial statements. We have identified any material impairment indicators neither for railway vehicles and associated assets used in passenger transport in public services nor for the commercial fleet with the exception of transactions related to the retroactive adjustment of the purchase price; refer to section 16.1 in the notes to the consolidated financial statements and to section 15.1 in the notes to the separate financial statements.

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Key audit matter	How our audit addressed the key audit matter
The impairment of railway vehicles used for commercial transport is indicated by a change in the parameters affecting their fair value less cost to sell. The risk of impairment of the Company's investments in subsidiaries is related to their financial performance. The Company also monitors prices achieved in the realized purchases and sales of shares of particular subsidiaries.	We performed, among others, procedures described below when assessing the existence of indicators of impairment of railway vehicles used for passenger transport and investments in subsidiaries: - Evaluation of the relevance and completeness of information considered as impairment indicators. The information is relevant and complete. - Assessment of the methodology used by the external expert for determining the market value of railway vehicles used for commercial transport. We consider the expert's methodology to be in line with the best practice and relevant to the audited period. - Understanding of the legal framework and contracts regulating the public service obligation and its financing. Relevant legislation and related contractual relationships with the state and with the regions are consistent with the declared indicators of the impairment of railway vehicles used in the public service obligation considering specific transactions reflecting retroactive adjustment of purchase prices of locomotives type 380; see section 16.1 of the notes to the consolidated financial statements. - Reconciliation of the data presented in the existence analysis of impairment indicators for investments in subsidiaries with publicly available data and expert opinions prepared for the Company's and Group's management needs. We did not identify any significant differences. We did not identify any significant deficiencies nor omitted facts in the Company's management analysis focused on the economic and financial performance of subsidiaries which serves as the fundamental indication of the risk of the investments impairment.
Assessment of provisions for restructuring and loss making contracts and extent of respective disclosure for provisions and contingent liabilities. The Group recognizes a provision for restructuring based on long-term business plan for the cargo transport segment. Provision is calculated on the basis of internal cost estimate associated with the restructuring.	In the connection with the restructuring provision we performed the following procedures: - Assessment of whether the recognition criteria of a provision under IAS 37 are met, in particular with regard to the specifics of restructuring provisions. The provision meets all the relevant criteria. - Verification of input data used for the calculation of provision to the relevant documents, including the assessment of the appropriateness and completeness of the input data and relevant documents. Input data is deemed appropriate and complete for the calculation of the provision. - Check of the mathematical accuracy of the calculation. We did not identified any deficiencies relating to the accuracy. - Review the minutes of the board meetings in 2016 and 2017 to the date of this audit opinion. Minutes of board meetings do not indicate that the company intended to significantly change the restructuring plan.

Key audit matter	How our audit addressed the key audit matter
Another material provision is the provision for the loss-making contracts. The Group calculates this provision based on discounted cash flow arising from concluded non-cancellable contracts.	In the connection with provision for loss-making contracts we performed the procedures described below: - Review of contracts, which are the basis for the provision calculation, in particular with regard to possibilities of their cancellation. The relevant contracts are properly taken into account in the calculation of the provision for loss-making transactions. - Verification of individual parameters of the provision, particularly tracing contractual payments to the relevant documents (e.g. contracts), including an assessment of their suitability and completeness. We consider the parameters used for the calculation of the provision to be appropriate and complete. - Check of the mathematical accuracy of the calculation. We did not identify any deficiencies relating to the accuracy. - Assessment of the appropriateness of the discount rates used. We consider discount rates used to be appropriate. We consider both provision mentioned above to be correctly recognized in the financial statements.
The Company creates provisions for expected outcomes from passive legal disputes and for penalties from administrative or other proceedings. However, the Company does not provide information relating to the amount of the provision for particular legal disputes.	In respect of provisions for the legal and other disputes, we assessed, among others, the adequacy of relevant disclosure in the notes to the financial statements. The Group's management used the option not to publish required information relating to the provisions and contingent liabilities, which is enabled by IAS 37 in very rare cases. We agree with the Group's management conclusion that, due to the nature of the disputes and proceedings, detailed disclosure of the information for particular provisions could lead to serious harm of the Company or other companies in the Group, and hence the Group is eligible to apply the disclosure exemption outlined in IAS 37 par. 92.

How we tailored our audit scope

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

The Group operates mainly in railway transportation of passengers and cargo and in the related services in the Czech Republic and Central Europe. The consolidated financial statements include six subsidiaries and ČD Cargo subgroup, encompassing nine entities, of which the Company alone together with ČD Cargo a.s. are largest entities.

In our audit we determined the scope of work, which was considered necessary for individual components and the subgroup. We performed an audit of six entities and one subgroup. The audit scope definition criteria were especially size, complexity and level of risk from the perspective of audit procedures.

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 components' auditors from the PwC network on the basis of the instructions submitted by the ČD Cargo subgroup audit team. We have established an adequate level of communication to the component auditors which provided us adequate basis for our opinion. This communication included, especially, the regular exchange of information obtained during the audit and discussions of the key audit and accounting procedures. The approach described above covers 99% of the Group's revenues and 98% of the Group's profit before tax. We consider the remaining entities as not being significant to the Group.

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

Other Information

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

11 April 2017

PricewaterhouseCoopers Audit, s.r.o.

represented by

Václav Prýmek

Milan Zelený
Statutory Auditor, Evidence No. 231

CONSOLIDATED FINANCIAL

STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 PREPARED UNDER IFRS AS ADOPTED BY THE EU

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

Components of the Consolidated Financial Statements for 2016
Statement on Financial Position (Balance Sheet)
Statement of Profit or Loss
Statement of Comprehensive Income
Statement of Changes in Equity
Cash Flow Statement
Notes to the Financial Statements

Consolidated Financial Statements were prepared on 11 April 2017
Statutory body of the reporting entity

Pavel Krtek
Chairman of the Board
of Directors
České dráhy, a.s.

Martin Bělčík
Member of the Board
of Directors
České dráhy, a.s.

Statement of Financial Position (Balance Sheet) as of 31 December 2016

(CZK million)		31 Dec 2016	31 Dec 2015 (adjusted) *)	1 Jan 2015 (adjusted) *)
Property, plant and equipment	16	71,440	73,483	74,093
Investment property	17	715	1,958	2,140
Intangible assets	18	547	569	595
Investments in joint ventures and associates	20	197	188	188
Deferred tax asset	14	28	27	6
Other financial assets	23	949	736	1,813
Other assets	24	5	27	107
Total non-current assets		**73,881**	**76,988**	**78,942**
Inventories	21	1,353	1,249	1,200
Trade receivables	22	3,189	3,453	3,127
Tax receivables		27	25	-
Other financial assets	23	143	761	126
Other assets	24	690	1,460	1,152
Cash and cash equivalents	32	7,654	3,972	4,043
Assets held for sale		-	34	49
Total current assets		**13,056**	**10,954**	**9,697**
TOTAL ASSETS		**86,937**	**87,942**	**88 639**
Share capital	25	20,000	20,000	20,000
Reserve and other funds	25	16,809	16,790	16,702
Fund from cash flow hedges	25	(821)	(1,030)	(656)
Retained earnings		190	(661)	754
Equity attributable to equity holders of the parent Group		**36,178**	**35,099**	**36,800**
Non-controlling interests	19	644	625	776
Total equity		**36,822**	**35,724**	**37,576**
Loans and borrowings	26	35,733	25,693	33,136
Deferred tax liability	14	1,384	1,220	1,130
Provisions	27	708	853	826
Other financial liabilities	29	1,210	1,511	1,183
Other liabilities	30	373	144	91
Total non-current payables		**39,408**	**29,421**	**36,366**
Trade payables	28	4,271	6,201	6,695
Loans and borrowings	26	2,072	11,498	3,646
Tax payables		17	9	88
Provisions	27	1,096	1,723	1,230
Other financial payables	29	473	684	654
Other payables	30	2,778	2,682	2,384
Total current payables		**10,707**	**22,797**	**14,697**
TOTAL LIABILITIES		**86,937**	**87,942**	**88,639**

*) After adjusting data as of 1 January 2015 and 31 December 2015, see note 2.2.1.

Statement of Profit or Loss for the Year ended 31 December 2016

(CZK million)		Year ended 31 Dec 2016	Year ended 31 Dec 2015 (adjusted) **)
CONTINUING OPERATIONS			
Revenue from principal operations	6	33,292	33,083
Other operating income *)	7	4,432	4,545
Services, material and energy consumption *)	8	(16,210)	(16,589)
Employee benefit costs *)	9	(12,549)	(12,381)
Depreciation and amortisation *)	10	(6,088)	(6,035)
Other operating expenses *)	11	(642)	(1,732)
Profit on operating activities before tax *)		**2,235**	**891**
Financial expenses *)	12	(1,495)	(1,570)
Financial income	13	163	227
Share of income of joint ventures and associates	20	24	11
Other gains (losses) before tax*)		**927**	**(441)**
Income tax expense	14	(269)	(161)
Profit (loss) for the period from continuing operations *)		**658**	**(602)**
DISCONTINUED OPERATIONS			
Profit (loss) from discontinued operations *)	15	224	(750)
Profit (loss) for the period		**882**	**(1,352)**
Attributable to equity holders of the parent Group		863	(1,379)
Attributable to non-controlling interests		19	27

Statement of Comprehensive Income for the Year ended 31 December 2016

(CZK million)	Year ended 31 Dec 2016	Year ended 31 Dec 2015 (adjusted) **)
Profit (loss) for the period	882	(1,352)
Actuarial gains / losses on liabilities related to employee benefits	13	-
Other comprehensive income for the period (items that are subsequently reclassified to profit or loss)	**13**	**-**
Exchange differences of foreign units transfer	(6)	(5)
Cash flow hedges	223	(365)
Related income tax	(14)	(9)
Other comprehensive income for the period (items that may be reclassified to profit or loss)	**203**	**(379)**
Other comprehensive income for the period after tax	**216**	**(379)**
Total of comprehensive income for the period	**1,098**	**(1,731)**
Attributable to equity holders of the parent Group	1,079	(1,758)
Attributable to non-controlling interests	19	27

*) After changing data reporting for the year ended 31 December 2015, see note 15.1.
**) After adjusting data for the year ended 31 December 2015, see note 2.2.1.

Statement of Changes in Equity for the Year ended 31 December 2016

	Share capital (CZK million)	Reserve and other funds (CZK million)	Fund from cash flow hedges (CZK million)	Retained earnings (CZK million)	Equity attributable to equity holders of the parent Group (CZK million)	Non-controlling interests (CZK million)	Total equity (CZK million)
Balance at 1 Jan 2015 **)	**20,000**	**16,702**	**(656)**	**754**	**36,800**	**776**	**37,576**
Comprehensive income							
Profit (loss) for the year **)	-	-	-	(1,379)	(1,379)	27	(1,352)
Other comprehensive income for the year	-	(5)	(374)	-	(379)	-	(379)
Total of comprehensive income for the year	**-**	**(5)**	**(374)**	**(1,379)**	**(1,758)**	**27**	**(1,731)**
Transactions with owners							
Allocation to the reserve fund	-	51	-	(51)	-	-	-
Paid dividends	-	-	-	-	-	(1)	(1)
Impact of change in the consolidation Group *)	-	42	-	15	57	(177)	(120)
Total of transactions with owners for the year	**-**	**93**	**-**	**(36)**	**57**	**(178)**	**(121)**
Balance at 31 December 2015	**20,000**	**16,790**	**(1,030)**	**(661)**	**35,099**	**625**	**35,724**
Comprehensive income							
Profit for the year	-	-	-	863	863	19	882
Other comprehensive income for the year	-	(6)	209	13	216	-	216
Total of comprehensive income for the year	**-**	**(6)**	**209**	**876**	**1,079**	**19**	**1,098**
Transactions with owners							
Allocation to the reserve fund	-	25	-	(25)	-	-	-
Total transactions with owners for the year	**-**	**25**	**-**	**(25)**	**-**	**-**	**-**
Balance at 31 December 2016	**20,000**	**16,809**	**(821)**	**190**	**36,178**	**644**	**36,822**

*) The line item "Impact of change in the consolidation Group" includes the effect of the increase in the parent Group's equity investment in ČD - Telematika a.s.
**) After modification of data for 1 January 2015 to 31 December 2015, see note 2.2.1.

Cash Flow Statement for the Year ended 31 December 2016

(CZK million)		Year ended 31 Dec 2016	Year ended 31 Dec 2015 (adjusted) ***)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) for the year before tax		**1,151**	**(1,191)**
Dividend income	13	(2)	-
Financial expenses - interests	12	1,300	1,428
Profit from the sale and disposal of non-current assets	7	(414)	(181)
Profit from the sale of part of the business	15	(302)	-
Depreciation and amortisation of non-current assets **)	10	6,088	6,035
Impairment of property, plant and equipment, investments property and assets held for sale **)	11	737	28
Impairment of trade receivables **)	11	44	52
Change in reserves	27	(754)	517
Foreign exchange rate gains (losses)		(9)	(187)
Other **)		142	800
Cash flow from operating activities before changes in working capital		**7,981**	**7,301**
Decrease (increase) in trade receivables	22	160	(305)
Decrease (increase) in inventories	21	(206)	(152)
Decrease (increase) in other assets	23,24	1,457	(286)
Increase (decrease) in trade payables	28	(1,990)	-
Increase (decrease) in other payables	29,30	198	312
Total changes in working capital		**(381)**	**(431)**
Cash flows from operating activities		**7,600**	**6,870**
Interest paid	12	(1,356)	(1,329)
Income tax paid	14	(114)	(191)
Net cash flows from operating activities		**6,130**	**5,350**

CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment	16	(6,606)	(6,321)
Proceeds from disposal of property, plant and equipment	7	486	390
Payments for investment property	17	(36)	(22)
Payments for intangible assets	18	(209)	(158)
Net cash flows from the sale of part of the business	15	3,389	-
Received interest	13	16	20
Net cash flows used in investment activities		**(2,960)**	**(6,091)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		11,721	4,217
Repayments of loans and borrowings		(10,260)	(2,490)
Payment of financial leasing instalments		(949)	(935)
Impacts of changes in equity *)		-	(121)
Dividends paid		-	(1)
Net cash flows from financing activities	**26**	**512**	**670**
Net increase in cash and cash equivalents		**3,682**	**(71)**
Cash and cash equivalents at the beginning of the year		3,972	4,043
Cash and cash equivalents at the end of the year	**32**	**7,654**	**3,972**

*) The line item “Impacts of changes in equity” in 2015 includes the effect of the increase in the parent Group’s equity investment in ČD – Telematika a.s.
**) After changing data reporting for the year ending 31 December 2015, see note 15.1.
***) After adjusting the data for the year ending 31 December 2015, see note 2.2.1.

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NOTES TO THE CONSOLIDATED FINANCIAL

STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. General Information

1.1. Foundation of the Group

On the basis of Act 77/2002 Coll. on the Joint Stock Group Czech Railways, the State Organisation Railway Route Administration and the Changes to the Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll. as amended, České dráhy, a. s. (the 'Parent Group' or 'ČD') was formed on 31 March 2002 and the state organisation Czech Railways discontinued its activities and operations on 1 January 2003 and the Group and the state organisation Railway Route Administration ('SŽDC') were formed as its legal successors. As of that date, the Parent Group was recorded in the Register of Companies.

The sole shareholder of the Parent Group is the Czech Republic. The Group's share capital is CZK 20,000 million. The Group's registered office is located at Nábř. L. Svobody 1222, Prague 1.

The Group is the Parent Group of the České dráhy Group (the 'Group'). The consolidated financial Statements have been prepared as of and for the year ended 31 December 2016. The reporting period is the calendar year, i.e. from 1 January 2016 to 31 December 2016.

1.2. Principal Operations

The Group is principally engaged in operating railway passenger transportation. Other activities of the Group predominantly include the administration of immovable assets. In addition, the Group is engaged in other activities relating to its principal business activities.

The assets comprising the railway routes are in the ownership of the State, not the Group. The right of management of these assets rests with SŽDC. SŽDC secures the operability and servicing of the railway route.

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
České dráhy, a. s.	Prague 1, Nábřeží L. Svobody 12/1222	70994226		
ČD - Telematika a. s.	Prague 3, Pernerova 2819/2a	61459445	69.18	Control
Výzkumný Ústav Železniční, a. s.	Prague 4, Novodvorská 1698	27257258	100	Control
DPOV, a. s.	Přerov, Husova 635/1b	27786331	100	Control
ČD Cargo, a. s.	Prague 7, Jankovcova 1569/2c	28196678	100	Control
ČD - Informační Systémy, a.s.	Prague 3, Pernerova 2819/2a	24829871	100	Control
Dopravní vzdělávací institut, a.s.	Prague 3, Husitská 42/22	27378225	100	Control
ČD travel, s.r.o.	Prague 1, 28. října 372/5	27364976	51.72	Control
CD Generalvertretung GmbH	Germany –Frankfurt n. Moh., Kaiserstrasse 60	DE814191687	100	Control
CD - Generalvertretung Wien GmbH	Austria – Vienna, Rotenturmstraße 22/24	FN 291407s	100	Control
Koleje Czeskie Sp. z o.o.	Poland - Warsaw Ul. Grzybowska nr. 4, lok. 3	140769114	100	Control
Generálne zastúpenie ČD Cargo, s.r.o.	Slovakia – Bratislava Tomášikova 10/H	44349793	100	Control
Auto Terminal Nymburk, s.r.o.	Prague 7, Jankovcova 1569/2c	24234656	100	Control
ČD Logistics, a.s.	Prague 1, Opletalova 1284/37	27906931	78	Control
Terminal Brno, a.s.	Brno, K terminálu 614/11	28295374	66.94	Control
ČD-DUSS Terminál, a.s.	Lovosice, Lukavecká 1189	27316106	51	Control
Smíchov Station Development, a. s.	Prague 8, U Sluncové 666/12a	27244164	51 **)	Joint control
Žižkov Station Development, a. s.	Prague 8, U Sluncové 666/12a	28209915	51 **)	Joint control
RAILREKLAM spol. s r.o.	Prague 4, Štětkova 1638/18	17047234	51 **)	Joint control
Masaryk Station Development, a. s.	Prague 1, Na Florenci 2116/15	27185842	34.00	Significant
JLV, a. s.	Prague 4, Chodovská 228/3,	45272298	38.79	Significant
RAILLEX, a.s.	Prague 5, Trnkovo náměstí 3/1112	27560589	50	Significant
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6	45270589	30	Significant
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9	60793171	20	Significant
ODP-software, spol.s r.o.	Prague 3, Pernerova 2819/2a,Žižkov, 130 00	61683809	100	Control

*) Ownership percentage is the same as the voting rights percentage
**) In accordance with the Articles of Association of these entities, it is necessary to have unanimous consent of the parties that share the control.

Name of the entity	Principal activities
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.	Freight railway transportation
ČD - Informační Systémy, a.s.	Provision of telecommunication services, software and advisory
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 Generalvertretung GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s.
CD - Generalvertretung Wien GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping.
Koleje Czeskie Sp. z o.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s.
Generálne zastúpenie ČD Cargo, s.r.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping.
ČD 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.
Auto Terminal Nymburk, s.r.o.	Shipping and technical services in transportation.
Smíchov Station Development, a. s.	Design, renovations, modernisation and development in the Smíchovské train station locality
Žižkov Station Development, a. s.	Design, renovations, modernisation and development in the Žižkov train station locality
RAILREKLAM spol. s r.o.	Advertising and mediation of services.
Masaryk Station Development, a. s.	Development of the Masaryk railway station locality
JLV, a. s.	Provision of accommodation and catering services
RAILLEX, a.s.	Handling of cargo and technical services in transportation
BOHEMIAKOMBI, spol. s r.o.	Mediation of services in transportation except for the transportation by own vehicles
Ostravská dopravní společnost, a.s.	Operations of railway transportation and lease of locomotives
ODP-software, spol.s r.o.	Development and support of mobile POS systems for passenger of rail and systems with contactless cards

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

1.3.2. Changes in the Composition of the Group

The Group ČD - Informační Systémy, a.s. based on the resolution of the Board from 26 May 2016 aquired a 100% stake in the Group ODP-software, spol. s.r.o. in total worth of CZK 52 million. Group ODP-software, spol. s r.o. is included into the consolidated Group in consolidated financial statements for the year ended 31 December 2016.

2. Significant Accounting Policies

2.1. Statements 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 consolidated financial Statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments.

Accounting policies are consistent in the reporting period with the accounting policies used in previous periods, in addition to the changes mentioned in Note 2.2.1.

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 where they are in terms of these financial Statements, the significant assumptions and estimates are published in the note no. 4.

2.2.1. Changes in Accounting Policies and Methods of Reporting

During the financial year 2016 the following changes occurred in accounting policies and method of reporting.

A Change in the Reporting of Deferred Taxes

Temporary differences of a part of the Group's assets were revised due to differences arising from different accounting and tax values. The total difference between the tax and accounting value of the property is newly considered as a temporary difference in one of the Group's assets and for that reason it is now part of the deferred tax calculation. In prior accounting periods, these differences were considered as permanent differences and were thus subject to deferred tax calculation. Deferred tax liability was therefore recorded at the lower value.

Change in the Presentation of Leaseback

The Leaseback implemented in prior accounting periods 1 January 2008 - 31 December 2015 was presented in accordance with the IAS 17 as a financial lease. During the preparation of the consolidated financial statements for the year 2016, this accounting methodology was revised in the light of SIC 27 - Evaluating the transactions in the legal form of a lease and the comparable periods of the consolidated financial statements were adjusted retrospectively. In essence, they are arrangements which cannot be regarded as a lease, but instead as a loan from a lender with pledged assets. The modification consists mainly of a reduction in the carrying value of fixed assets as well as a reduction in Other liabilities (short and long term). Partly it was necessary to modify the Retained earnings.

Reclassification of Items in the Financial Statements

In 2016, the company in its cancelled in its Profit and Loss statement the line ,Other gains (losses) that the financial statements for 2015 presented in Chapter 12 The items shown in this position were moved as follows:

- Operating foreign exchange gains of CZK 303 million were moved to Other operating income;
- Operating foreign exchange losses of CZK 315 million were moved to Other operating expenses;
- Financial foreign exchange loss of CZK 75 million, and other items of a financial nature in the amount of CZK 67 million were moved to Financial costs;
- and Financial exchange gains of CZK 167 million were moved to transferred to financial income.

Discontinued Operations

In May 2016 the Government approved the draft budget of the Ministry of Transport which addresses the envelope transfer of the property of Czech Railways to the state, respectively, the Railway Infrastructure Administration (SŽDC). In June 2016, the Group sold the property in question to SŽDC. Analysis of profit (loss) of discontinued operations is presented in Note 14.1.

CZK million

1.1.2015		Previously presented	Restatement	Reclassification	Discontinued operations	Adjusted
Property, plant and equipment	16	74,999	(906)[2]	-	-	74,093
Undivided profit		1,277	(523)[3]	-	-	754
Deferred tax liability	14	751	379[1]	-	-	1,130
Other liabilities – non-current	30	581	(490)[2]	-	-	91
Other liabilities – current	30	2,596	(271)[2]	59	-	2,384
Reserves non-current	27	1,289	-	(59)	-	1,230
31.12.2015						
Property, plant and equipment	16	74,333	(850)[2]	-	-	73,483
Undivided profit/loss		(162)	(499)[3]	-	-	(661)
Deferred tax liability	14	888	332[1]	-	-	1,220
Other liabilities – non-current	30	604	(460)[2]	-	-	144
Other liabilities – current	30	2,832	(217)[2]	67	-	2,682
Reserves non-current	27	1,790	-	(67)	-	1,723
Year 2015						
Other operating income	7	4,679	(81)[2]	303	(357)	4,545
Services, material and energy consumption	8	(16,936)	-	2	345	(16,589)
Employee benefits costs	9	(12,525)	-	(13)	157	(12,381)
Depreciation and amortization	10	(6,222)	56[2]	-	129	(6,035)
Other operating expenses	11	(1,893)	-	(315)	476	(1,732)
Financial expenses	12	(1,428)	-	(142)	-	(1,570)
financial income	13	60	-	167	-	227
Income tax for the year	14	(207)	48[1]	(2)	-	(161)
Profit (loss) for the period		(1,375)	23[3]	-	-	(1,352)
Loss from discontinued operations	15	-	-	-	(750)	(750)
Comprehensive income for the period Total		(1,754)	23[3]	-	-	**(1,731)**

1) Effect of deferred taxes repairs
2) Effect of changes in reporting transactions with leaseback
3) The effect of both of the above adjustments

2.3. Basis of Consolidation

The consolidated Financial Statements incorporate the Financial Statements of the Parent Group and entities controlled by the Group (its 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 listed 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 dispersion of holdings of the other vote holders;
– Potential voting rights held by the Group, other vote holders or other parties;
– Rights arising from other contractual arrangements; and
– 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 other 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 Group and to the non-controlling interests. The total comprehensive income of subsidiaries is attributed to the owners of the Group 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 Statements of subsidiaries to bring their accounting policies into 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 owners of the company.

2.4. Business Combinations

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

Identifiable assets acquired and commitments are recognized at their fair value, with the following exceptions:

- Deferred tax assets or liabilities and assets and liabilities related to arrangements of the employee benefits are recognized and measured in accordance with IAS 12 Income Taxes, or IAS 19 Employee Benefits;

- Liabilities or equity instruments related to agreements on share-based payments in the target firm or agreements on share-based payments are replacing the agreement on share-based payments in the target firm at the date of acquisition valued in accordance with IFRS 2 Share-based Payment.

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

Non-controlling interests, which are current ownership interests of third parties and entitle the holders to the proportionate share of the entity's net assets in case of liquidation may be initially measured at fair value or proportionate share of non-controlling interest on the recognized identifiable net assets acquired. Valuation basis can be selected individually for each specific acquisition. Other types of non-controlling interests are evaluated at fair value or, if possible, on the basis set by another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at fair value at the acquisition date and becomes part of the consideration transferred in a business combination.

Changes in fair value of contingent consideration classified as changes within the measurement period shall be made retrospectively with a corresponding adjustment to goodwill. Changes within the measurement period, are changes that arise from additional information obtained during the „finishing period" (which may not exceed one year from the acquisition date) about facts and circumstances that existed as of the acquisition date.

Subsequent accounting for changes in the fair value of contingent consideration that cannot be considered as changes within the measurement period, depend on the classification of contingent consideration. Contingent consideration that is classified as the equity, and is not revalued to the data of the subsequent Financial Statements and its subsequent payment is charged to equity. Contingent consideration that is classified as the equity or liability, is revalued to the data of thesubsequent Financial Statements and its subsequent payment is charged to equity. Contingent consideration that is classified as the asset or liability is revalued to zero point subsequent of financial Statements in accordance with relevant standards IAS 39 and IAS 37 Provisions, Contingent Liabilities Contingent liabilities related to the capture of gains or losses to make profit.

If the business combination is achieved in stages, the shares in the acquired entity to which the previously revalued to fair value at the acquisition date (i.e. to date when obtains control) any resulting gain or loss is recognized in profit or loss. Results of amounts from shares subject to the target firm before the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss if it was correct such a procedure if, it was participation.

Unless the initial accounting for a business combination is resolved to make ends meet of the reporting period in which the combination took place, the Group recognizes outstanding item in the provisional value. That provisional amount are adjusted during the finishing period (see above) or additional assets liabilities are captured, in order to reflect new information obtained about new facts and circumstances that existed at the acquisition date and which, if it were known, affected the amounts provided at that date.

2.5. Revenue Recognition

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

Revenue from the sale of goods and other assets is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Sales of services are recognised when services are rendered to counterparties. Revenues related to transportation services are recognised in the period in which the services are provided by reference to the stage of completion of the service contract (e.g. period of validity of long-term travel documents).

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

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

Revenue data enter the accounting from the information system of passenger traffic, which keeps track of receipts in cash, receipts paid by credit cards, revenue from e-shop and other forms of income. Accounting for sales carried out in principle at the time of collection of revenue. Deferring is charged of revenue recognized from prepaid product, where a timing resolution applies. Prepaid products are for example annual ticket, annual employee charges, kilometre bank, and loyalty programme.

A statement of income and sales of international tickets take place in the case of international transport as opposed to national transport.. This settlement may in some cases cause a delay of a matter of months. For this reason theestimated receivables are being recognized.

In addition to selling tickets and similar documents significant revenues from transport and sales of passenger cars in mode RIC (based on the Convention for the reciprocal use of wagons in international traffic) are recognised, where there is a settlement once a year. Therefore, accruals apply here.

Among the key revenues belonging to the segment of passenger transport, is the payment from the customers, which are the Ministry of Transportation and the Regions. These revenues are accounted monthly based on annual agreements and the volume of the services.Revenues from domestic and international freight transportation services are recognized when the audit is complete with source data for invoicing shipments in the information system of transport sales Clearing (OPT) and the data is sent to the billing system to SAP. Source data among other things, contains information about the time of the transactions or delivery service. In cases where it is not possible to complete the audit of data due to missing or unclear data necessary for billing, it is invoiced with estimated receivables.

Income from international freight shipments are posted from the OPT information system to SAP when processing the data provided by national carriers in the data exchange in accordance with international regulations UIC for billing shares of the carriage is finished. Besides the significant volume revenues include billing charges for the use of wagons in international railway transport with national and local carriers. Revenues are recognized when in the information system OPT source data for billing charges for cars and sent to SAP are processed. With regard to the contractually agreed rules for data exchange (invoicing shares of the carriage charge and billing charges for cars), there is a delay in revenue recognition, so it is accounted for estimated receivables.

Other income from the principal or secondary activity in freight transport, are recognized when the source data and documents for billing services provided by any organizational unit of ČD Cargo a.s. are processed through the "Request of invoicing" in SharePoint application, and sent to the invoicing to SAP.

2.6. Lease

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

2.6.1. The Group as a Lessor

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

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2.6.2. The Group as a Lessee

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

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

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

2.6.3. Sale and Leaseback

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

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

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

2.7. Foreign Currencies

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

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

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

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

2.8. Borrowing Costs

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

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

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

2.9. Government Grants

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

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

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support 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 of the employer portion of statutory health insurance, social security, pension insurance and costs of other employee benefits resulting from the collective agreement.

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

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

2.11. Taxation

The income tax includes current tax payable and deferred tax.

2.11.1. Current Tax Payable

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

2.11.2. Deferred Tax

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

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

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

2.11.3. Current Tax Payable and Deferred Tax for the Period

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

2.12. Property, Plant and Equipment

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

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

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. Railway vehicles are depreciated using the components depreciation. Wagons and traction vehicles without components are depreciated to the estimated residual value. Components of these railway vehicles are depreciated based on the actual kilometres. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

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

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

The Group capitalises major (periodical) repairs of rail vehicles. The costs of repairs are recorded as a separate asset item (component) and are depreciated over the useful life of repairs. The depreciation period of the components is determined for the series of rail vehicles and type of the components (periodical repairs – major, significant and overhaul). The average period of depreciation is six years.

2.13. Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, the Group measures its investment property using the cost valuation model in accordance with the requirements of IAS 16 Property, plant and equipment.

2.14. Intangible Assets

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

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

2.15. Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that there is worth reduced for assets. If any such indication exists, to determine the extent of any losses of the impairment, the amount of the asset is recoverable. If it is not possible to determine the recoverable amount of an individual asset, estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are also allocated to individual cash-generating unit, if it can determine a reasonable and consistent basis of allocation. Otherwise, corporate assets are allocated to the smallest cash-generating units for which it is possible to determine a reasonable and consistent basis of allocation.

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

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

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

If the impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined, in previous years did not show any loss of the impairment (or generating unit). Cancellation of an impairment loss is recognized immediately in profit or loss.

2.16. Investments in Joint Ventures and Associates
The joint venture is a joint arrangement where the parties that control the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed with sharing of control over the arrangement that 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 financial and operating policy, where were invested, but is not control or joint control over those policies.

The economic outcome, assets and liabilities of joint ventures and associates are incorporated in this consolidated financial Statements by using the equity method. According to the equity method investments are initially measured in joint ventures and associates are carried in the consolidated statements of financial position at cost 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 share in the associate or joint venture, the Group will stop to show its share of further losses. Additional losses are recognized 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 associate or 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 left share is a financial asset, Group appreciates all the retained interests at fair value at that date and the fair value is considered fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date of termination of the use of the equity method and fair value of all shares and retained earnings from the sale of the interest in the associate or joint venture is included in determining the gain or loss on sale of associate or joint venture. The Group also captures all amounts recognized in other comprehensive income in relation to that associate or joint venture in the same way as if the associate or joint venture directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by an associate or joint venture have been reclassified to profit or loss upon disposal of the related assets or liabilities, Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it comes to end application of the equity method.

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

If the Group's entities trade joint venture or with associated Group of the Group, profits and losses arising from transactions with joint venture or associate are recognized in the consolidated financial Statements of the Group in the amount of shares in joint ventures or associated companies that do not belong to the Group.

2.17. Investments in Subsidiaries and Associates Excluded from the Consolidation
Investments in subsidiaries and associates excluded from the consolidation are considered immaterial for the Group. They are reported as other financial assets available for sale in the financial Statements. As their fair value cannot be reliably determined, they are measured at cost.

2.18. Assets Held for Sale
Non-current assets and disposal are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

Non-current assets (and disposals) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

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

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received 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 a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

2.21. Financial Instruments
Financial assets and financial liabilities are recognized when the Group becomes a part of the contractual provisions of the instrument.

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

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

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

Debt and equity instruments are classified as financial liabilities or as equity in accordance with the content of the contractual agreement.

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

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

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

2.21.2. Financial Assets at FVTPL
Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

The Group reports financial derivatives in this category.

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

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

The Group holds equity investments that are not traded in an active market are classified as available for sale and financial instruments designated at cost reduced with impairment losses because their fair value cannot be reliably determined.

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive dividends.

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

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

2.21.5. Impairment of Financial Assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

For trade receivables is being recognized impairment loss (provision) for an individual assessment of receivables in the amount of 50% of the unpaid balance sheet value of receivables more than 18 months past due in the amount of 100% for receivables from debtors in insolvency proceedings. Furthermore, 100% of receivables more than 12 months after the due date, the balance sheet values not exceed CZK 30 thousand.

In addition to AFS equity instruments, if in a subsequent period the impairment loss decreases and the decrease can be related objectively to an event occurring after recognition of the impairment loss, the previously recognized impairment loss is cancelled through profit or loss. The carrying value of the investment at the date of cancellation of the impairment must not be higher than it would be in its residual value if the impairment has not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit will not disturb through profit or loss. Any increase in fair value after recognition of the impairment loss is recognized in other comprehensive result.

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

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

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

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

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

In this category, the Group reports financial derivatives.

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

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

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

2.21.11. Derivative Financial Instruments
The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, currency and commodity risks.

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

Derivatives that do not meet criteria for being recognised as hedging are treated by the Group as at fair value through profit or loss.

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

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

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

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

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

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

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

2.21.15. Financial Derivatives Held for Trading
All derivative transactions that the Group concludes are agreed on economic terms for hedging purposes, but some of them are not classified as hedging instruments for formal reasons. Derivatives that do not meet the conditions for hedging derivatives are classified by the Group as derivatives held for trading.

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

3. Adoption of New and Revised International Financial Reporting Standards

3.1. Standards and Interpretations Effective for Annual Periods Ended 31 December 2016

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

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 10, IFRS 12 and IAS 28 – Modification of IFRS 10, IFRS 12 and IAS 28 Investments in Associates and Joint Ventures	1 January 2016
IFRS 11 – Modifications of IFRS 11 Joint Arrangements	1 January 2016
IAS 1 – Modification of IAS 1 Presentation of Financial Statements	1 January 2016
IAS 16, IAS 38 – Modifications of IAS 16 a IAS 38 – Intangible Assets	1 January 2016
IAS 16, IAS 41 - Modifications of IAS 16 a IAS 41 – Agriculture	1 January 2016
IAS 19 – Modifications of IAS 19 Employee Benefits*)	1 July 2014
IAS 27 – Modification of IAS 27 – Separate Financial Statements	1 January 2016
Annual improvements to IFRS – cycle 2010 - 2012 (issued in December 2013)*)	1 July 2014
Annual improvements to IFRS – cycle 2012 - 2014 (issued in September 2014)	1 January 2016

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

Mentioned improvements and interpretations have no impact on the reporting or disclosure.

3.2. Standards and Interpretations Used before their Effective Dates

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

3.3. Standards and Interpretations in Issue not yet Adopted

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

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 9 – Financial instruments	1 January 2018
IFRS 14 – Regulatory Deferral Accounts	1 January 2016*)
IFRS 15 – Revenue from Contracts with Customers	1 January 2018
IFRS 16 - Leases	1 January 2019**)
IFRS 2- Modification of IRFS 2 Share-based Payment	1 January 018**)
IFRS 4 – Modification of IFRS 4 using IFRS 9 Financial instruments together with IFRS 4 Insurance Contracts	1 January 2018**)
IFRS 10, IAS 28 – Modification of IFRS 10 and IAS 28 – Investments in Associates and Joint Ventures	Date yet to be released**)
IFRS 15 – Modification of IFRS 15 – Clarification of IFRS 15	1 January 2018**)
IAS 7 – Adjustments of IAS 7 Statement of Cash Flow	1 January 2017**)
IAS 12 – Adjustments of IAS 12 – Income Taxes	1 January 2017**)
IAS 40 – Modification of IAS 40 Investment Property	1 January 2018**)
Annual improvements to the IFRS – cycle 2014 - 2016	1 January 2017/ 1 January 2018**)
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018**)

*) The European Union has decided not to apply for approval of the temporary standard.
**) Standards, modifications and interpretations not yet approved for use in the EU

The management of the Company expects that the adoption of most of these standards, amendments and interpretations in the future periods will have no material effect on the company. For IFRS 9 and 15, the Company expects a greater scope of disclosed information.

For IFRS 16, the Company expects the need for recognition of a significant number of lease agreements on the Balance sheet. The IFRS 16 will become mandatory from the proper accounting period beginning 1 January 2019, but may be applied before its mandatory effective date provided that the IFRS 15 Revenue from Contracts with Customers have already been adopted or will be adopted at the same date. The Standard has yet to undergo the approval process of the EU. The Company is currently assessing the impact of the new standard and assumes that it will be implemented no sooner than at its mandatory effective date. Information on operating lease contracts are disclosed in Note 33.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

For the application of the Group's accounting policies, 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 readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

4.1. Time of Applicability for Fixed Assets

The group reviews the estimated useful presumption of depreciable fixed assets at the end of each reporting period. Although in the current period the Group did not identify any changes in the working life of fixed assets, in further times the situation may change. Information on long-term depreciation of assets are given in note 16, 17 and 18.

4.2. Impairment of Assets

The Group assesses the recoverable value of all asset components when there are indicators of their impairment (with the exception of intangible assets under construction, the recoverable value of which is assessed annually). This assessment is based on anticipated assumptions and may change in the future as the situation evolves and information is available. Impairment of property, plant and equipment is disclosed in Note 16.1.

4.3. Provisions for Legal Disputes and Business Risks

The Group is involved in a number of court and out-of-court commercial disputes. Where the criteria for the recognition of provisions are 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 for Legal Disputes are disclosed litigations are disclosed in Note 35.

5. Segment Information

5.1. Products and Services from which Reportable Segments Derive their Revenues

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The Group's reportable segments under IFRS 8 are therefore as follows:

- Passenger transportation – other information on passenger railway transportation is disclosed in Note 6;
- Freight transportation – other information on freight railway transportation is disclosed in Note 6;
- Administration of assets – the segment provides the administration and operations of real estate owned by the Group, including internal and external leases.

5.2. Segment Revenues and Expenses

The following is an analysis of the Group's results from continuing operations by reportable segment in the format in which the financial statements is presented to the Parent Group's management.

2016

CZK million)	Passenger transportation	Freight Trans-portation	Administrati-on of assets	Total of segments	Others	Elimination *)	Total
Revenue from principal operations							
Revenue from passenger transportation	7,820	-	-	7,820	-	(10)	7,810
Revenue from orderers	13,752	-	-	13,752	-	-	13,752
Other	-	11,765	-	11,765	-	(35)	11,730
	21,572	**11,765**	**-**	**33,337**	**-**	**(45)**	**33,292**
PURCHASED CONSUMABLES AND SERVICES							
Traction costs	(2,303)	(1,212)	-	(3,515)	-	31	(3,484)
Payment for the use of the railway route	(1,842)	(1,271)	-	(3,113)	-	-	(3,113)
Other purchased consumables and services	(4,766)	(3,450)	(250)	(8,466)	(3,150)	2,003	(9,613)
	(8,911)	**(5,933)**	**(250)**	**(15,094)**	**(3,150)**	**2,034**	**(16,210)**
Other costs							
Payroll costs	(5,252)	(2,765)	(86)	(8,103)	(1,073)	186	(8,990)
Social security and health insurance	(1,752)	(914)	(28)	(2,694)	(346)	55	(2,985)
Other social costs	(246)	(165)	(3)	(414)	(46)	9	(451)
Benefits arising from the collective agreement	(71)	(46)	(5)	(122)	(1)	-	(123)
	(7,321)	**(3,890)**	**(122)**	**(11,333)**	**(1,466)**	**250**	**(12,549)**
Impairment **)	(778)	60	(12)	(730)	(38)	-	(768)
Other operating income and expenses	1,513	445	694	2,652	4,341	(2,436)	4,557
IntraGroup income and expenses	(54)	-	59	5	(5)	-	-
Overhead costs – operating	(915)	-	(67)	(982)	982	-	-
Depreciation	(4,691)	(1,076)	(71)	(5,838)	(329)	79	(6,088)
Interest income	2	1	14	17	1	(2)	16
Interest expenses	(1,099)	(200)	-	(1,299)	(1)	-	(1,300)
Tax expense	-	(218)	-	(218)	(61)	10	(269)
Other income and expenses	(18)	(19)	2	(35)	104	(92)	(23)
Overhead costs – financial and other	56	-	12	68	(68)	-	-
Profit (loss) for the period from continuing operations	**(644)**	**935**	**259**	**550**	**310**	**(202)**	**658**
Profit for the period from discontinued operations	-	-	224	224	-	-	224
Profit (loss) for the period	**(644)**	**935**	**483**	**774**	**310**	**(202)**	**882**

*) The 'Elimination' column includes eliminations of intraGroup relations.
**) Impairment includes losses of property, plant and equipment, investment property, assets held for sale and receivables write-off of inventories to the net realizable value.

2015

CZK million)	Passenger transportation	Freight Trans-portation	Administration of assets ***)	Total of segments	Others	Elimination *)	Total
Revenue from principal operations							
Revenue from passenger transportation	7,560	-	-	7,560	-	(14)	7,546
Revenue from orderers	13,514	-	-	13,514	-	-	13,514
Other	-	12,063	-	12,063	-	(40)	12,023
	21,074	**12,063**	**-**	**33,137**	**-**	**(54)**	**33,083**
PURCHASED CONSUMABLES AND SERVICES							
Traction costs	(2,401)	(1,362)	-	(3,763)	-	35	(3,728)
Payment for the use of the railway route	(1,808)	(1,470)	-	(3,278)	-	-	(3,278)
Other purchased consumables and services	(4,800)	(3,525)	(133)	(8,458)	(2,942)	1,817	(9,583)
	(9,009)	**(6,357)**	**(133)**	**(15,499)**	**(2,942)**	**1,852**	**(16,589)**
Other costs							
Payroll costs	(5,063)	(2,853)	(72)	(7,988)	(1,025)	121	(8,892)
Social security and health insurance	(1,687)	(916)	(23)	(2,626)	(329)	34	(2,921)
Other social costs	(251)	(167)	(1)	(419)	(43)	7	(455)
Benefits arising from the collective agreement	(67)	(42)	(4)	(113)	(2)	2	(113)
	(7,068)	**(3,978)**	**(100)**	**(11,146)**	**(1,399)**	**164**	**(12,381)**
Impairment **)	(123)	-	(37)	(160)	13	64	(83)
Other operating income and expenses ****)	187	361	442	990	4,119	(2,214)	2,895
IntraGroup income and expenses **)	(91)	-	98	7	(7)	-	-
Overhead costs – operating	(757)	-	(49)	(806)	806	-	-
Depreciation ****)	(4,553)	(1,120)	(101)	(5,774)	(331)	70	(6,035)
Interest income	4	1	12	17	4	(1)	20
Interest expenses	(1,165)	(262)	-	(1,427)	(2)	1	(1,428)
Tax expense	-	(123)	-	(123)	(67)	29	(161)
Other income and expenses ****)	93	(9)	(1)	83	62	(68)	77
Overhead costs – financial and other	(14)	-	(1)	(15)	15	-	-
Profit (loss) for the period from continuing operations	**(1,422)**	**576**	**130**	**(716)**	**271**	**(157)**	**(602)**
Profit for the period from discontinued operations ***)	-	-	(750)	(750)	-	-	(750)
Profit (loss) for the period	**(1,422)**	**576**	**(620)**	**(1,466)**	**271**	**(157)**	**(1,352)**

*) The 'Elimination' column includes eliminations of intraGroup relations.
**) Impairment includes loss (repeal of loss (of impairment of property, plant and equipment, investment property, assets held for sale and receivables, depreciation (cancellation of depreciation) of inventories to net realizable value.
***) After data reporting change for the year ending 31 December 2015, see Note 15.1.
****) After data adjustment for the year ended 31 December 2015, see note 2.2.1.

Payments from public service orderers relate to the regional and national long-distance passenger transport.

The Parent Group provides transportation services in the public railway passenger transportation segment for a fixed (cost adjusted) price and procures transportation services in designated categories of passenger trains in the Czech Republic's rail network. The scope of these services and the level of compensation (income for the Group) are defined in agreements entered into with the State and territorial self-governing units. On 2 December 2009, the Group concluded the Contract for Public Service Commitments for the period from 2010 to 2019 with the State.

By adopting Act No. 194/2010 Coll., on Public Services in Passenger Transportation and Changes in Other Acts, the Czech Republic has harmonised its public transport legislation with EU laws. České dráhy, a.s. has concluded contracts for the public service commitment for the period of 10 years and more which are governed by the legal regulations before the adoption of the Act referred to above.

The Governmental Resolution No. 1132/2009 dated 31 August 2009 secures the additional funding of the regional railway transportation through a special-purpose grant to regions, including the rules for the increase or decrease in the scope of ordered railway transportation and increase in the special-purpose grant in individual following years. In 2016, Czech Government adopted a resolution on how to resolve the organization and financing of regional rail transport till 2019. In terms of this resolution there have been set rules for the financing of regional transport for the period after the end of the effectiveness of the majority of contracts in the public service. This document is essential for making decisions about scope of regional transportation after 2019.

Upon the compilation of financial Statements for year 2016 Intensive discussions are being held regarding theamendments to the long--term contracts for year 2017. There are 8 enclosed amendments for the regional transport for the year 2017. Other additions are in the process of discussions in the relevant bodies of the regions. Closing all amendments in the opinion of management of the parent Group is highly probable. In relation to the provision of public passenger transport services, this fact does imply no restrictions - due to long--term contracts service interruption or discontinuation of funding is not compromised. Advances for payments from regional budgets are being sent - in the case of yet unsigned amendments for the year 2017 - in the corresponding amount.

Services of the Group Cargo, a.s. are being used by several millions of business partners. From the domestic point of view of the most significant volume of sales are MORAVIA STEEL a.s., ČEZ, a.s., CARBOSPED, spol. s r.o., NH TRANS SE, METRANS, a.s. a Rail Cargo Logistics – Czech Republic, s.r.o. From foreign purchasers the most known are Maersk Line A/S, STVA S.A, DB Cargo Logistics GmbH, BLG Auto Rail GmbH, from foreign railway undertakings: DB Cargo AG, Železničná spoločnosť Cargo Slovakia, a.s., Rail Cargo Austria AG, PKP Cargo S.A.

Significant transactions with major customers with state participation are set out in Note 31.3.

6. Revenues from Principal Operations

All of the below additional information on the statements of profit or loss relates to continuing operations. Profits and losses from discontinued operations are disclosed in a separate note explicitly so.

(CZK million)	**2016**	**2015**
Revenue from passenger transport - fare	7,810	7,546
Domestic passenger transport	*5,142*	*5,062*
International passenger transport	*2,668*	*2,484*
Revenue from passenger transportation - payments from public service orderers	13,752	13,514
Payments from the state budget	*4,486*	*4,409*
Payments from the regional budgets	*9,266*	*9,105*
Revenues from freight transportation	11,069	11,275
Revenues from domestic freight	*4,154*	*4,402*
Revenues from international cargo transportation	*6,915*	*6,873*
Other revenue from freight *)	498	542
Other sales of domestic freight transportation	*324*	*314*
Other revenue from international freight	*174*	*228*
Other revenues from principal activities	163	206
Total of revenue from principal activities – Continuing operations	**33,292**	**33,083**

*) The remaining part of revenues from freight transport are particularly revenues from services performed in railway stations, ancillary services Agenda of Services siding.

7. Other Operating Income

(CZK million)	2016	2015
Gain from disposal of property, plant and equipment and investment property **)	413	181
Gain from the sale of inventory	156	81
Sales of other services *)	2,509	2,419
Rental income *)	658	753
Compensations for deficits and damage	84	137
Contractual penalties and default interest	63	88
Payment for alternative bus transport	293	425
Sales commissions and other transaction fare at box office	52	51
Foreign exchange gains - operational	53	302
Other *)	151	108
Total other operating income – continuing operations *)	**4,432**	**4,545**

*) After change in reporting data for the year ended 31 December 2015, see Note 15.1
**) After adjusting the data for the year ended 31 December 2015, see Note 2.2.1.

8. Purchased Consumables and Services

(CZK million)	2016	2015
Traction costs	(3,484)	(3,728)
Traction fuel (diesel)	*(1,473)*	*(1,611)*
Traction electricity	*(2,011)*	*(2,117)*
Payment for the use of railway route	(3,114)	(3,278)
Other purchased consumables and services	(9,612)	(9,583)
*Consumed material *)*	*(1,468)*	*(1,518)*
*Consumed other energy *)*	*(436)*	*(426)*
Consumed fuel	*(72)*	*(79)*
*Repairs and maintenance *)*	*(583)*	*(475)*
Travel costs	*(162)*	*(155)*
Telecommunication, data and postal services	*(273)*	*(260)*
Other rental	*(316)*	*(289)*
Rental for rail vehicles	*(1,100)*	*(1,126)*
Transportation charges	*(1,424)*	*(1,346)*
Alternative bus transport	*(480)*	*(692)*
Services of dining and sleeping carriages	*(143)*	*(120)*
Services associated with the use of buildings	*(298)*	*(324)*
Operational cleaning of rail vehicles	*(335)*	*(330)*
Border area services	*(611)*	*(559)*
Advertising and promotion costs	*(168)*	*(179)*
Commission for the sale fares paid by other carriers, resellers	*(144)*	*(148)*
Infrastructure capacity allocation	*(125)*	*(84)*
Operation, maintenance and other services related to IT	*(128)*	*(140)*
Performances of fire brigade service	*(40)*	*(40)*
Services in the field of ecology	*(45)*	*(50)*
*Other services *)*	*(1,261)*	*(1,243)*
Total purchased consumables and services – continuing operations *)	**(16,210)**	**(16,589)**

*) After data reporting change for the year ended 31 December 2015, see note 15.1

Other services include training costs, commission costs for representation abroad on preventive health care, guidance, expertise and other services.

9. Employee Benefit Costs

(CZK million)	2016	2015
Payroll costs *)	(8,850)	(8,729)
Severance pay	(58)	(90)
Statutory social security and health insurance *)	(2,985)	(2,921)
Benefits resulting from the collective agreement	(123)	(113)
Other social costs *)	(451)	(455)
Other employee benefit costs	(82)	(73)
Total employee benefit costs – continuing operations *)	**(12,549)**	**(12,381)**

*) After data reporting change for the year ended 31 December 2015, see Note 15.1

From the amount recognized as mandatory social and health insurance the Group in 2016 has lead a total amount ofCZK 1,903 million (for 2015: CZK 1,877 million) into the pension insurance system.

10. Depreciation and Amortisation

(CZK million)	2016	2015
Depreciation of property, plant and equipment *) **)	(5,845)	(5,821)
Depreciation of investment property *)	(26)	(29)
Amortisation of intangible assets *)	(217)	(185)
Total depreciation and amortisation – continuing operations *) **)	**(6,088)**	**(6,035)**

*) After data reporting change for the year ended 31 December 2015, see Note 15
**) After data adjustment data for the year ended 31 December 2015, see Note 2.2.1.

11. Other Operating Expenses

(CZK million)	2016	2015
Change in reserves (legal disputes)	743	(528)
Reversal of losses (loss) from impaired receivables *)	27	(14)
Impairment of property, plant and equipment, investment property and assets held for sale *)	(737)	(28)
Write-off of inventories to net realizable value	(59)	(40)
The cost of penalties and interest on late payments	(80)	(133)
Taxes and fees *)	(30)	(32)
Premium	(159)	(148)
Foreign exchange losses - operational	(46)	(327)
Deficits, damages	(38)	(63)
The cost of uniforms and personal protective equipment	(44)	(36)
Other operating expenses *)	(219)	(383)
Total other operating expenses - continuing operations *)	**(642)**	**(1,732)**

*) After change in reporting data for the year ended 31 December 2015, see Note 15.

Significant amounts on lines Changes in provisions and impairment – an arbitration judgment in a dispute Škoda Transportation relates to a dispute with the Group Škoda Transportation In 2015 ČD in accordance with the arbitration paid CZK 468 million. On another part of the payment determined by arbitration ČD created a reserve, because at the time the financial Statements were not entirely clear what kind of financial performance is and whether it will pay the Group. In 2016, after the subsequent negotiations with the counterparty, the railway Group has decided to pay an amount equal to CZK 628 million and at the same time it became clear that the expenditure is by its very nature is an increase investment and acquisition value of assets (locomotives). ČD dissolved the reserve and the additional portion of the acquisition cost recognized impairment loss, considering that an increase in the purchase price does not match the recoverable value of assets.

Other operating expenses primarily include costs of loans written off and transferred, membership fees, damages and other.

12. Financial Expenses

(CZK million)	2016	2015
Interest on issued bonds	(1,020)	(1,096)
Interest on finance lease payables	(197)	(232)
Other interest	(113)	(106)
Less: amounts capitalised as part of the costs of an eligible asset	33	12
Unfolding of reserves discount	(2)	(2)
Foreign Exchange losses - financial	(139)	(76)
Bank charges	(12)	(12)
Other financial costs	(45)	(58)
Total financial expenses – continuing operations *)	**(1,495)**	**(1,570)**

*) After adjusting the data for the year ended 31 December 2015, see Note 2.2.1.

The capitalization rate of interest costs in 2016 is 2.72% p. a. (2015: 3.61% p. a.).

13. Financial Gains

(CZK million)	2016	2015
Foreign exchange gains – financial	134	203
Received dividends	2	-
Received interest	16	20
Other financial gains	11	4
Total financial gains – continuing operations	**163**	**227**

14. Income Taxation

14.1. Income Tax Reported in Profit or Loss

(CZK million)	2016	2015
Tax for the current year recognized in the income statements	(120)	(99)
Deferred tax recognized in the profit and loss account **)	(148)	(59)
Other *)	(1)	(3)
Total income tax expense related to continuing operations	**(269)**	**(161)**

*) Alterations settled in the current year in relation to the current tax of previous years.
**) After adjusting the data for the year ended 31 December 2015, see Note 2.2.1.

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

(CZK million)	2016	2015
Profit for the period from continuing operations before tax	926	(442)
Profit (loss) from discontinued operations before tax	224	(749)
Profit (loss) for the period before tax	**1,151**	**(1,191)**
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected income tax expense	**(219)**	**226**
Adjustments:		
Effect of the unrecognised deferred tax asset	73	(352)
Income tax related to prior periods – arbitral award Škoda Transportation	-	(40)
Tax allowance for research and development not included in the accounting for deferred taxes	(4)	(4)
Non-deductible expenses - Creation (-) / cancellation (+) provision for a fine from the Office for Competition	(72)	39
Tax non-deductible expenses - deficits and damage	(7)	(12)
Tax non-deductible payroll expenses	(23)	(37)
Other tax non-deductible items, net	(17)	19
Income Tax Reported in Profit or Loss	**(269)**	**(161)**

The effective tax rate is mainly influenced by the fact that the parent Group does not charge by reason of prudence a deferred tax asset.

14.2. Income Tax Recognized in other Comprehensive Income

(CZK million)	2016	2015
Revaluation of financial instruments recognized as cash flow hedges	(14)	(9)
Total income tax recognized in other comprehensive income	**(14)**	**(9)**

14.3. Deferred Tax

(CZK million)	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Derivatives	Other	Total
Balance at 1 Jan 2015 – calculated **)	**-**	**(1,159)**	**255**	**(341)**	**32**	**19**	**70**	**(1,124)**
Deferred tax recognised in profit or loss: **)	98	-93	-64	-27	4	0	23	-59
*- of which current changes **)*	*24*	*255*	*73*	*(67)*	*4*	*-*	*4*	*293*
*- of which impairment * **))*	*74*	*(348)*	*(137)*	*40*	*-*	*-*	*19*	*(352)*
Deferred tax recognised in other comprehensive income	-	-	-	-	-	(9)	-	(9)
- of which current changes	*-*	*-*	*1*	*-*	*-*	*72*	*-*	*73*
*- of which impairment *)*	*-*	*-*	*(1)*	*-*	*-*	*(81)*	*-*	*(82)*
Overestimation	-	-	-	-	-	-	(1)	(1)
Balance at 31 Dec 2015 – calculated	**98**	**(1,252)**	**191**	**(368)**	**36**	**10**	**92**	**(1,193)**
- of which liability	*98*	*(1,259)*	*187*	*(384)*	*33*	*10*	*95*	*(1,220)*
- of which receivable	*-*	*7*	*4*	*16*	*3*	*-*	*(3)*	*27*
Deferred tax reported in Profit or Loss	(71)	2	(11)	(74)	(13)	-	19	(148)
- of which current changes	*(200)*	*281*	*(222)*	*(114)*	*(8)*	*-*	*42*	*(221)*
*- of which impairment *)*	*129*	*(279)*	*211*	*40*	*(5)*	*-*	*(23)*	*73*
Deferred tax recognised in other comprehensive income	-	-	-	-	-	(14)	-	(14)
- of which current changes	*-*	*-*	*2*	*-*	*-*	*(45)*	*-*	*(43)*
*- of which impairment *)*	*-*	*-*	*(2)*	*-*	*-*	*31*	*-*	*29*
Overestimation	-	-	-	-	-	-	(1)	(1)
Balance at 31 Dec 2016 – calculated	**27**	**(1,250)**	**180**	**(442)**	**23**	**(4)**	**110**	**(1,356)**
- of which liability	27	(1,262)	173	(456)	21	(4)	117	(1,384)
- of which receivable	-	12	7	14	2	-	(7)	28

*) Reduction of deferred tax asset in the balance sheet (directly or indirectly as items decreasing deferred tax liabilities) to its recoverable value
**) After adjusting the data for 1 January 2015 and to 31 December 2015, see Note 2.2.1.

Unrecognized deferred tax assets for 31 December 2016 in amount CZK 1,182 million CZK, for 31 December 2015 in amount CZK 1,284 million and for 1 January 2015 in amount of CZK 850 million.

According to preliminary proper tax returns from corporate income tax for 2016 the parent Group recorded exercisable tax loss for the tax year 2013, in total amount of CZK 1,095 million. Tax loss is applicable, in 5 taxation periods immediately following a period in which the relevant loss was assessed, i.e. in the period 2014-2018. Regarding to the low expected future taxable profits of the parent Group, the realization of deferred tax assets is uncertain. Therefore the parent Group, will trace net position of the balance sheet date as the deferred tax asset, this asset has zero value.

15. Discontinued Operations and Assets Held for Sale

15.1. Sale of Part of the Business

In May 2016 the Government of Czech Republic approved the proposal budget plan of the Ministry of Transport, which provides the financing of the transfer of a part of assets of České dráhy to the state or Railway Infrastructure Administration. The transfer especially involves railway buildings, other buildings at railway stations and related lands.

On 24 June 2016 the contract regarding the sale of a part of the business between České Dráhy, a.s. and SŽDC s.o. was signed. The sale took place on 1 July 2016. Part of the business held for sale was recognised as an organizational unit of ČD "Railway station" (CZ: "Železniční stanice") along withits material, technological and human resources. The purchase price was amounted to CZK 3,310 million. As of 1 July 2016, 312 employees have moved to SŽDC due to the sale of the business.

Analysis of profit (loss) and cash flows from discontinued operations

(CZK million)	2016	2015
Other operating income	200	357
Purchased consumables and services	(123)	(345)
Employee benefit costs	(79)	(157)
Depreciation and amortisation	(65)	(129)
Other operating expenses	(11)	(476)
Loss from operating activities before tax	**(78)**	**(750)**
Profit or loss from sale of the part of the business	**(78)**	**(750)**
– Consideration received – purchase price	3,310	-
– Consideration received – working capital matching	79	-
– Net assets transferred to Railway Infrastructure Administration	(3,087)	-
Profit from purchase of discontinued operations	**302**	**-**
Profit (loss) from discontinued operations	**224**	**(750)**

According to the requirements of standard IFRS 5 it was a change in reporting comparable data in Profit or Loss. Profit or loss from sale of part of the business for the year ended as at 31 December 2015 was transferred to discontinued operations.

(CZK million)	2016	2015
Cash flows from operating activities	(12)	(149)
Cash flows from investment activities	**3,361**	**(47)**
- Net cash flows from sale of part of the business	*3,389*	*-*
- Payments for property, plant and equipment	*(28)*	*(47)*
Net cash flows from discontinued operations	**3,349**	**(196)**

Following table presents loss of value of net assets of sold part of the business to the date of sale to SŽDC.

(CZK million)	**1.7.2016**
Property, plant and equipment	2,119
Investment property	1,124
Inventories	1
Receivables from related parties	59
Other current financial assets	9
Other current assets	22
Total assets	**3,334**
Liabilities from related parties	96
Other current financial liabilities	9
Other current liabilities	138
Loans and borrowings received	1
Provisions	3
Liabilities related to assets held for sale	**247**
Net assets	**3,087**

16. Property, Plant and Equipment

(CZK million)

Cost	**Balance at 1 Jan 2015*)**	**Additions**	**Disposals**	**Reclassi-fication**	**Balance at 31 Dec 2015*)**	**Additions**	**Disposals**	**Reclassi-fication**	**Balance at 31 Dec 2016**
Land	6,091	4	2	(15)	6,078	-	299	-	5,779
Constructions	18,233	272	102	(170)	18,233	330	4,245	48	14,366
Individual movable assets	121,849	5,168	2,891	(15)	124,111	7,085	2,970	4	128,230
- Machinery, equipment, and furniture and fixtures	*4,227*	*196*	*81*	*(192)*	*4,150*	*166*	*258*	*(22)*	*4,036*
- Vehicles	*116,463*	*4,568*	*2,713*	*108*	*118,426*	*6,878*	*2,669*	*71*	*122,706*
- Vehicles acquired under finance leases	*1,040*	*399*	*90*	*69*	*1,418*	*30*	*33*	*(45)*	*1,370*
- Other	*119*	*5*	*7*	*-*	*117*	*11*	*10*	*-*	*118*
Other assets	55	26	3	-	78	12	2	-	88
Assets under construction	1,522	4,707	4,073	-	2,156	4,125	4,783	-	1,498
Prepayments	125	100	139	-	86	378	332	(3)	129
Total	**147,875**	**10,277**	**7,210**	**(200)**	**150,742**	**11,930**	**12,631**	**49**	**150,090**

(CZK million)

Accumulated depreciation	**Balance at 1 Jan 2015*)**	**Additions**	**Disposals**	**Reclassi-fication**	**Balance at 31 Dec 2015*)**	**Additions**	**Disposals**	**Reclassi-fication**	**Balance at 31 Dec 2016**
Constructions	8,864	452	82	(83)	9,151	383	2,088	(2)	7,444
Individual movable assets	63,706	5,332	2,646	(4)	66,388	5,404	2,643	1	69,150
- Machinery, equipment, and furniture and fixtures	*3,148*	*190*	*78*	*(162)*	*3,098*	*172*	*209*	*1*	*3,062*
- Vehicles	*60,125*	*4,629*	*2,478*	*156*	*62,432*	*5,166*	*2,393*	*18*	*65,223*
- Vehicles acquired under finance leases	*333*	*507*	*83*	*2*	*759*	*58*	*32*	*(18)*	*767*
- Other	*100*	*6*	*7*	*-*	*99*	*8*	*9*	*-*	*98*
Other assets	29	19	5	-	43	14	2	-	55
Total	**72,599**	**5,803**	**2,733**	**(87)**	**75,582**	**5,801**	**4,733**	**(1)**	**76,649**

(CZK million)

Impairment	Balance at 1 Jan 2015*)	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2015*)	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2016
Land	59	44	-	-	103	68	103	-	68
Constructions	40	385	-	-	425	64	424	4	69
Individual movable assets	948	369	174	-	1,143	725	179	(11)	1,678
- Machinery, equipment, and furniture and fixtures	*1*	-	*1*	-	-	-	-	*(11)*	*(11)*
- Vehicles	947	355	159	-	*1,143*	725	179	-	*1,689*
- Vehicles acquired under finance leases	-	*14*	*14*	-	-	-	-	-	-
Other assets	1	1	-	-	2	-	-	-	2
Assets under construction	135	4	135	-	4	190	-	(10)	184
Total	**1,183**	**803**	**309**	**-**	**1,677**	**1,047**	**706**	**(17)**	**2,001**

Reclassifications predominantly include transfers of asset items between individual Groups (IAS 16, IAS 40).

(CZK million)

Net book value	Balance at 1 Jan 2015*)	Balance at 31 Dec 2015 *)	Balance at 31 Dec 2016 *)
Land	6,032	5,975	5,711
Buildings	9,329	8,657	6,853
Individual movable assets	57,195	56,580	57,402
- Machinery, equipment, and furniture and fixtures	*1,078*	*1,052*	985
- Vehicles	*55,391*	*54,851*	*55,794*
- Vehicles acquired under finance leases	*707*	*659*	*603*
- Other	*19*	*18*	*20*
Other assets	25	33	31
Assets under construction	1,387	2,152	1,314
Prepayments	125	86	129
Total	**74,093**	**73,483**	**71,440**

*) After adjusting the data for 1 January 2015 and to 31 December 2015, see note 2.2.1.

During calculating of depreciation, there were used these lifetimes:

	Number of years
Constructions	20 – 50
Buildings	20 – 50
Locomotives	20 – 30
Other vehicles	20 – 30
Freight vehicles (without components)	30
Machinery and equipment	8 – 20
Components	2 – 15
Optical fibres	35

Among the most significant additions from 1 January 2015 to 31 December 2016 include the acquisition of rolling stock in the renewal of the fleet of the parent Group. According to the long term nature of this type of asset acquisition significant are balances recorded in accounts assets under construction. In 2016 the parent Group did not provide any significant advances.

The biggest increases on separate movable assets at ČD Cargo, Inc. formed in 2016 driving the purchase of new rolling stock Series 383 (Vectron) of CZK 540 million, major repairs and berthing (components) of the drive rail vehicles in the amount of CZK 252 million, revision repairs (components) trucks in the amount of CZK 202 million, acquisition wheelset (components) trucks of CZK 98 million. and the purchase of rail vehicles driving range 163 of CZK 81 million. In

March 2016 the company Koleje Czeskie purchased on leasback 29 wagons in total of CZK 20 million.

In 2016 the parent company has received subsidies worth CZK 1,343.5 million for fixed assets that were purchased in 2015 („Fleet renewal of line R13 Brno - Breclav - Olomouc" - CZK 1,109.7 million. „Transport connection to Leos Janacek Airport"- CZK 223.9 million, „ Trinec transfer terminal „- CZK 9.9 million).

In 2015 the parent company has received subsidies worth CZK 83.6 million on fixed assets that were purchased in 2014 („The equipment of railway vehicles with the CD system GSM-R - 2" - CZK 81.7 million) and in 2015 („Reconstruction of the Trinec transport terminal" - CZK 1.9 million).

In 2016 ČD Cargo, Inc. received grants for tangible assets of CZK 3 million for insulation, then in 2016 received an advance in 2016 in the amount of CZK 292 million in the grant project to equip vehicles driving on-board part of the European safety system ETCS, which will be implemented in 2017 and 2018 respectively. Funds received are recorded as restricted cash. (see note 23). In 2015, ČD Cargo, Inc. did not receive grant for tangible assets.

16.1. Impairment Loses Recognised in the Reporting Period

Vehicles are predominantly defined as railway vehicles (locomotives, passenger coaches, other railway vehicles) used for operating passenger railway transportation. Pursuant to the inventory count and analyses, the Group identified items of assets for which there is a significant doubt about their future usability. The Group recognised an impairment loss for these items in the amount of the difference between the net book value and the estimated recoverable value. The recoverable value is usually determined as net proceeds from the sale less cost to sell.

The principal impairment loss as of 31 December 2016, 2015 and 1 January 2015 is the loss on the 680 series tilting trains (Pendolino) amounting to CZK 709 million, CZK 764 million and CZK 582 million. In 2013, the impairment was determined on the basis of an independent expert's assessment reflecting the market value net of the costs of sale. In 2014, the independent expert's assessment does not indicate any decline in the value. In 2015, the level of the allowance was significantly affected by the inoperability of train no. 3 due to an accident. In 2016 the value of 380 series locomotives was reduced in amount CZK 628 million, as of 31 December 2016 in amount CZK 612 million. The value is stated in amount of inflation clause according to arbitration award.

Since 2010 in the field of acquisition and modernization in accordance to Regional Operational Programs (ROP) ČD completed in particular regions 19 grant project plans to purchase 79 new and 11 modernized vehicles for regional transportation in amount more than CZK 7.6 billion. All the projects have been substantially completed and currently are in phase of sustainable development. Audit Authority of Ministry of Finance (AA) inspected 17 of 19 projects. In 11 of all inspected projects AO recognized detection with a high significance due to changes in the conditions of the contract by conclusion of amendments to trial operation with passengers. As of 31 December 2016 based on quantified correction AA recognizes purchase of property amounted to CZK 379 million and impairment amounted to CZK 190 million.

Impairment losses are included in other operating expenses and losses in the statements of profit or loss.

16.2. Pledged Assets

The Group holds assets at the net book value of CZK 1,336 million, of which train sets of the 471 series amounted to CZK 1,233 million, and the Ampz passenger coaches amounted to CZK 103 million. The pledge was established in favour of EUROFIMA.

Chattel mortgage on the property is also granted in the case of Koleje Czeskie, for 3 locomotives acquired on loan in the value of CZK 45 million as for 31 December 2016.

16.3. Redundant Immovable Assets

In the property, plant and equipment class, the Group reports assets of CZK 183 million which are currently not used. These are primarily vacant buildings. The Group anticipates selling the assets in the future but it did not report these assets as assets held for sale, as they have not yet complied with the criteria set out in IFRS 5.

17. Investment Property

The value of investments in real estate:

(CZK million)	2016	2015
Balance at the beginning of the year	1,958	2,140
Additions from subsequent capitalised expenses	10	23
Disposals	(1,256)	(126)
Disposals, annual depreciation	(50)	(78)
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	77	129
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	(121)	(48)
Transfers to assets held for sale (from IAS 40 to IFRS 5)	-	(10)
Change in the value	97	(71)
Transfers of assets held for sale (from IFRS 5 to IAS 40)	-	(1)
Balance at the end of the year	**715**	**1,958**

(CZK million)	Balance at 31 Dec 2016	Balance at 31 Dec 2015	Balance at 1 Jan 2015
Cost	1,324	3,699	3,733
Accumulated depreciation and impairment	(609)	(1,741)	(1,593)
Net book value	**715**	**1,958**	**2,140**

As part of property nvestment the Group holds in its assets a real estate where at least 50% of its useful area is leased to an external lessee.

The property is located around the railway route, in train stations and depots of rail vehicles. The fair value based on market comparison cannot be determined with a reasonable certainty given the different nature and location of the property. The Group used a valuation model in determining the fair value of investment property. In respect of land, the calculation includes the product of the market price for m2 for the specific locality and the area of the land. In respect of buildings, the calculation is based on the yield method from market rental. The estimate of the fair value as of 31 December 2016, 2015 and 1 January 2015 is CZK 3,926 million, CZK 7,851 million and CZK 6,033 million, respectively. In terms of the method used to arrive at the fair value, investment property has been included in level 3.

The Group determines the depreciation method and useful life of investment property on the same basis as for property included in the property group (see note 16).

18. Intangible Assets

(CZK million)

Cost	Balance at 1 Jan 2015	Additions	Disposals	Reclassification	Balance at 31 Dec 2015	Additions	Disposals	Reclassification	Balance at 31 Dec 2016
Development costs	2	-	-	-	2	-	-	-	2
Software	1,694	260	121	-	1,833	222	7	(2)	2,046
Valuable rights	685	18	-	-	703	26	-	2	731
Other property	2	-	-	-	2	1	-	-	3
Assets under construction	205	207	323	-	89	211	244	-	56
Total	**2,588**	**485**	**444**	**-**	**2,629**	**460**	**251**	**-**	**2,838**

(CZK million)

Accumulated amortisation	Balance at 1 Jan 2015	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2015	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2016
Development costs	2	-	-	-	2	-	-	-	2
Software	1,402	142	121	6	1,429	200	-	2	1,631
Valuable rights	588	46	-	(6)	628	28	-	1	657
Other property	1	-	-	-	1	-	-	-	1
Total	**1,993**	**188**	**121**	**-**	**2,060**	**228**	**-**	**3**	**2,291**

(CZK million)

Net book value	Balance at 1 Jan 2015	Balance at 31 Dec 2015	Balance at 31 Dec 2016
Development costs	-	-	-
Software	292	404	415
Valuable rights	97	75	74
Other property	1	1	2
Assets under construction	205	89	56
Total	**595**	**569**	**547**

The costs of amortisation were reported in the line 'Depreciation and amortisation' in the statements of profit or loss. The Group used useful lives presented in table below in calculating amortisation:

	Number of years
Software	3-10
Other valuable rights	6-10

Intangible fixed assets include software used in business activities entitled DISOD, PARIS, APS, In-karta, POP, UNIPOK, IS OPT, KASO, valuable rights including software license and items relating to the SAP R/3 accounting software and its modules.

Intangible assets of ČD Cargo, Inc. include the SAP system and operational business information system - PROBIS. Furthermore, intangible assets creating the information system supporting the activities of freight carrier, the development of SAP, Microsoft Enterprise Agreement license, information system OPT systems to support the agendas of office and other systems used in the Group ČD Cargo, Inc. In 2015, ČD Cargo, Inc. received to intangible assets grants from the Transport Operational Program in the amount of CZK 57 million.

Royalties of Cargo, a.s. include licences from a total net book value of CZK 21 million. The most significant items are SAP licences in the amount of CZK 6 million, Altworx licence of CZK 4 million, Microsoft EA licence, Exchange, Sharepoint in the amount of CZK 2 million and the Intermodal logistics centre Brno licence in the amount of CZK 1 million. Licences were capitalized in the total amount of CZK 7 million.

In 2016, on the unfinished investments ČD Cargo, a.s. continued the development of systems under the project calculations of freight trains, whose acquisition was CZK 37 million, the development of BI solutions in the amount of CZK 22 million, operational information systems in the amount of CZK 17 million and IT security program in the amount of CZK 16 million, the rest of the total amount are accounted for the other economic or operational problems.

Accruals on the software item of the company ČD Cargo, a.s. in 2016 are made mostly by alterations and upgrades of current systems: project of IT security in the amount of CZK 32 million, task ICAR (integrated cargo storage) in the amount of CZK 19 million, software Altworx made for tracking and evaluation of operational personnel in the amount of CZK 17 million, development of system SAP in the amount of CZK 16 million and DISC ("Dispatcher system of ČD Cargo") in the amount of CZK 16 million.

19. Subsidiaries

19.1. Details on Co-owned Subsidiaries that Have Significant Non-Controlling Interests

Subsidiary	Equity investment held by non-controlling interests*)			Profit attributable to non-controlling interests in CZK million			Accumulated non-controlling interests in CZK million		
	31 Dec 2016	31 Dec 2015	1 Jan 2015	31 Dec 2016	31 Dec 2015	1 Jan 2015	31 Dec 2016	31 Dec 2015	1 Jan 2015
ČD – Telematika a. s.	30.82 %	30.82 %	40.69 %	16	24	36	595	578	733

*) The equity investments is identical to the share in voting rights held by non-controlling interests.

(CZK million)

ČD – Telematika a. s.	31.12.2016	31.12.2015	1.1.2015
Fixed assets	1,696	1,728	1,798
Current assets	1,296	1,563	1,140
Long-term payables	134	145	150
Short-term payables	929	1,270	989
Total of equity	1,929	1,876	1,799
Equity attributable to owners of the Group	1,334	1,298	1,066
Non-controlling interests	595	578	733

(CZK million)	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Income	1,678	1,634
Expenses	(1,625)	(1,556)
Profit for the period	**53**	**78**
Profit attributable to owners of the Group	37	54
Profit attributable to non-controlling interests	16	24
Total profit	**53**	**78**
Total comprehensive income attributable to owners of the Group	37	54
Total comprehensive income attributable to non-controlling interests	16	24
Total comprehensive income	**53**	**78**
Net cash flows from operating activities	(90)	521
Net cash flows from investments activities	(150)	(147)
Net cash flows from financing	(10)	(13)
Total cash flow	**(250)**	**361**

20. Investments in Joint Ventures and Associates

(CZK million) Entity		Value of investment at 31 Dec 2016	Ownership percentage at 31 Dec 2016	Value of investment at 31 Dec 2015	Ownership percentage at 31 Dec 2015	Value of investment at 31 Dec 2015	Ownership percentage at 31 Dec 2015
RAILLEX, a.s.	Associate	12	50%	12	50%	16	50%
BOHEMIAKOMBI, spol. s r.o.	Associate	4	30%	3	30%	3	30%
Ostravská dopravní společnost, a.s.	Associate	24	20%	24	20%	22	20%
JLV, a. s.	Associate	128	38.79%	126	38.79%	125	38.79%
Masaryk Station Development, a. s.	Associate	2	34%	-	34%	-	34%
Total – associates		**170**		**165**	**-**	**166**	**-**
Smíchov Station Development, a. s.	Joint venture	0	51%	0	51%	0	51%
Žižkov Station Development, a. s.	Joint venture	1	51%	1	51%	1	51%
Centrum Holešovice, a. s.	Joint venture	0	0%	0	0%	0	51%
RAILREKLAM, spol. s r.o.	Joint venture	26	51%	22	51%	21	51%
Total – joint ventures		**27**		**23**	**-**	**22**	**-**
Total – investments in joint ventures and associates		**197**		**188**	**-**	**188**	**-**

Summary of financial information on associates

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Total assets	1,007	1,075	992
Of which: long-term assets	418	526	379
Short-term assets	589	549	613
Total liabilities	512	628	549
Of which: long-term liabilities	108	267	161
Short-term liabilities	404	361	388
Net assets	495	447	443
Share of the Group in associates' net assets	**171**	**154**	**156**

(CZK million)	2016	2015
Total income	2,114	1,812
Profit for the period	57	29
Share of the Group in associates' profit for the period	**19**	**9**

Summary of financial information on joint ventures:

(CZK million)	**31 Dec 2016**	**31 Dec 2015**	**1 Jan 2015**
Total assets	161	128	148
Of which: fixed assets	87	71	83
short-term assets	74	57	65
Total liabilities	131	102	120
Of which: long-term liabilities	92	70	55
short-term liabilities	39	32	65
Net assets	30	27	28
The Group's share of net assets	**15**	**14**	**14**

(CZK million)	**2016**	**2015**
Total income	118	114
Profit (loss) for the period	11	5
The Group's share of profit (loss)	**5**	**2**

21. Inventories

The Parent Group's inventories are gathered in the Supply Centre in Česká Třebová.

(CZK million)	**31 Dec 2016**	**31 Dec 2015**	**1 Jan 2015**
Spare parts for machinery and equipment	82	75	68
Spare parts and other components for rail vehicles and locomotives	981	913	841
Other machinery, tools and equipment and their spare parts	187	160	143
Fuels, lubricants and other oil products	27	29	31
Work clothes, work shoes, protective devices	76	66	101
Other	159	124	95
Total cost	**1,512**	**1,367**	**1,279**
Write-down of inventories to their net realisable value	(159)	(118)	(79)
Total net book value	**1,353**	**1,249**	**1,200**

22. Trade Receivables

22.1. Aging of Trade Receivables

(CZK million)	Category	Before due date	Past due date (days) 1 - 30 days	31 – 90 days	91 – 180 days	181 – 365 days	365 and more	Total past due date	Total
31 Dec 2016	Gross	3,067	106	32	10	7	277	432	3,499
	Allowances	(17)	(1)	(12)	(5)	(4)	(271)	(293)	(310)
	Net	**3,050**	**105**	**20**	**5**	**3**	**6**	**139**	**3,189**
31 Dec 2015	Gross	3,166	161	111	12	18	283	585	3,751
	Allowances	(8)	(1)	(3)	(3)	(7)	(276)	(290)	(298)
	Net	**3,158**	**160**	**108**	**9**	**11**	**7**	**295**	**3,453**
1 Jan 2015	Gross	2,949	109	51	16	28	262	466	3,415
	Allowances	(28)	-	(3)	(1)	(17)	(239)	(260)	(288)
	Net	**2,921**	**109**	**48**	**15**	**11**	**23**	**206**	**3,127**

Information on receivables are disclosed in Note 36.9. credit risk management.

22.2. Movements in Allowances for Doubtful Receivables

(CZK million)	2016	2015
Balance at the beginning of the year	298	288
Recognition of allowances	60	124
Use of allowances	(48)	(114)
Balance at the end of the year	**310**	**298**

23. Other Financial Assets

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Financial assets available for sale	336	336	321
Receivables from finance leases	77	92	96
Hedging derivatives	275	297	1,387
Bound funds	258	-	-
Other	3	11	9
Total non-current financial assets	**949**	**736**	**1,813**
Receivables from finance leases	1	(9)	(8)
Hedging derivatives	43	680	49
Other financial derivatives	-	4	-
Claims for damages and losses	43	48	63
Other	56	38	22
Total current financial assets	**143**	**761**	**126**
Total	**1,092**	**1,497**	**1,939**

The item „Restricted cash“ is an advance granted in 2016 under the grant project to equip vehicles driving on-board part of the European safety system ETCS totaling CZK 292 million. This item is divided into long-term portion of EUR 258 million and the current portion of CZK 34 million. The deposit is held in the subsidy account with Komerční banka.

23.1. Receivables from Finance Leases

The Parent Group has leased the station buildings at Main Railway Station – Brno.

	Minimum lease payments			Present value of minimum lease payments		
(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2014	31 Dec 2016	31 Dec 2015	1 Jan 2015
Under 1 year	17	5	5	1	(9)	(8)
From 1 to 5 years	64	60	44	-	(3)	(17)
5 years and more	427	443	459	77	95	113
Total	**508**	**508**	**508**	**78**	**83**	**88**
Less: unrealised financial income	(430)	(425)	(420)	-	-	-
Present value of receivables of minimum lease payments	**78**	**83**	**88**	**78**	**83**	**88**
In the statements of financial position as:						
Other current financial assets				*1*	*(9)*	*(8)*
Other non-current financial assets				77	92	96
Total				**78**	**83**	**88**

The fair value of receivables from finance leases approximates their carrying amount. Negative values in certain lines of the table indicate that lease payments in the period are lower than unrealised financial income hence the present value of the minimum lease payments increases in this period.

24. Other Assets

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Prepayments	4	25	2
Other	1	2	105
Total non-current assets	**5**	**27**	**107**
Prepayments	153	280	271
Tax receivables - VAT	378	814	593
Tax receivable – other (except for taxes on corporate income)	8	112	37
Prepaid expenses	137	138	133
Grants	-	94	11
Other	14	22	107
Total current assets	**690**	**1,460**	**1,152**
Total	**695**	**1,487**	**1,259**

25. Equity

25. 1. Share Capital

The Parent Group's share capital is composed of the investment made by the Czech Republic as the sole shareholder, represented by the Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government.

25.2. Reserve and Other Funds

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Share premium	16,440	16,440	16,440
Statutory reserve fund	337	310	258
Foreign currency translation fund	2	8	13
Other	30	32	(9)
Total	**16,809**	**16,790**	**16,702**

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

25.2.1. Cash Flow Hedging

(CZK million)	31 Dec 2016	31 Dec 2015
Balance at the beginning of the year	(1,030)	(656)
Profit (loss) from revaluation	4	(543)
Settled deferred derivatives	21	-
Reclassifications to profit or loss upon settlement	198	178
Total change in the cash flow hedging reserve	**223**	**(365)**
Relating income tax	(14)	(9)
Balance at the year-end	**(821)**	**(1,030)**

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

Gains and losses reclassified during the year from equity are included in the statements of profit or loss lines 'Revenue from principal activities', 'Purchased consumables and services' and Financial expenses.

25.2.2. Foreign Currency Translation Fund

(CZK million)	31 Dec 2016	31 Dec 2015
Balance at the beginning of the year	8	13
Foreign exchange rate gains or losses arising from translation of foreign operations	(6)	(5)
Balance at the year-end	**2**	**8**

Foreign exchange rate gains or losses relating to the 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 fund.

26. Loans and Borrowings

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Payables from finance leases	867	947	925
Payable to EUROFIMA	811	811	1,250
Issued bonds	381	9,727	1,411
Other received short-term loans and borrowings	13	13	60
Total short-term	**2,072**	**11,498**	**3,646**
Payables from finance leases	3,030	3,856	4,739
Payable to EUROFIMA	-	811	1,664
Issued bonds	32,689	20,998	26,691
Other received short-term loans and borrowings	14	28	42
Total long-term	**35,733**	**25,693**	**33,136**
Total	**37,805**	**37,191**	**36,782**

Portions of long-term loans and borrowings that are repayable in a period shorter than one year from the financial Statements date are recognised as short-term loans and borrowings.

26.1. Issued Bonds

Date of issue	Nominal value	Maturity in years	Publicly traded	Coupon	Book value at 31 December 2016 in CZK million	Book value at 31 December 2015in CZK million	Book value at 31 December 2014 in CZK million
24 June 2011	EUR 300 million	5	Yes	4.50%	-	8,295	8,495
23 July 2012	EUR 300 million	7	Yes	4.125%	8,241	8,237	8,445
25 July 2013	CZK 4,000 million	5	Yes	6M PRIBOR + 1.7%	4,028	4,023	4,018
5 November 2014	EUR 30 million	10	No	2.875%	806	805	826
5 November 2014	EUR 150 million	15	No	3.50%	4,041	4,041	4,142
3 June2015	EUR 37.7 million	7	No	1.89%	1,030	1,030	-
3 June 2015	EUR 77.5 million	20	No	3.00%	2,122	2,122	-
25 May 2016	EUR 400 million	7	Yes	1.875%	10,804	-	-
20 June 2011	CZK 1,000 million (CZK 658 million after options' assertion)	5	No	3.183 % (1-3 year), 5%p.a. (4-5 year)	-	678	683
22 December 2011	CZK 500 million	4	No	movable 6M PRIBOR	-	1	497
12 January2012	CZK 200 million	4	No	movable 6M PRIBOR	-	-	199
19 January 2012	CZK 300 million	4	No	movable 6M PRIBOR	-	-	298
21 December 2011	CZK 500 million	5	No	3.8 %	-	499	499
26 November 2015	CZK 1,000 million	5	No	1.40%	996	994	-
17 June2016	CZK 500 million	5	No	1.28%	502	-	-
29 December 2016	CZK 500 million	7	Yes	1.26%	500	-	-
Total					**33,070**	**30,725**	**28,102**
- of which short term					*381*	*9,727*	*1,411*
- of which long-term					*32,689*	*20,998*	*26,691*

The Group did not violate any conditions of loan agreements in the reporting period.

26.2. Finance Lease Payables

The finance lease applies to railway vehicles, vehicles and equipment for computers and servers. The value of finance leases is as follows:

	Minimum lease payments			Present value of minimum lease payments		
(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015	31 Dec 2016	31 Dec 2015	1 Jan 2015
Less than 1 year	1,015	1,130	1,140	867	947	925
From 1 to 5 years	2,950	3,536	4,052	2,681	3,148	3,530
5 years and more	367	753	1,301	349	708	1,209
Total	**4,332**	**5,420**	**6,493**	**3,897**	**4,803**	**5,664**
Less future finance costs	(435)	(617)	(829)			
Present value of minimum lease payments	**3,897**	**4,803**	**5,664**	**3,897**	**4,803**	**5,664**
In the statements of financial position as:						
short-term loans				867	947	925
long-term loans				3,030	3,856	4,739
Total				**3,897**	**4,803**	**5,664**

In July 2016 ended the financial leasing of 8 railcars of range 854 and the subject of the ended leasing was repurchased for the amount CZK 8 thousand.

The fair value of finance lease liabilities is approximately equal to book value.

In the cash flow statement the acquisition of fixed assets under finance leases was recognized as non-cash transactions. Repayments of obligations under finance leases are recognized as cash flows from financing activities.

27. Provisions

(CZK million)	Balance at 1 Jan 2015	Charge	Use	Cancellation of unused parts	Balance at 31 Dec 2015	Charge	Use	Cancellation of unused parts	Balance at 31 Dec 2016
Provision for discounts and refunds	16	16	16	-	16	24	16	-	24
Provision for legal disputes	840	1,033	242	278	1,353	417	631	574	565
Provisions for employees benefits	395	97	93	-	399	91	101	4	385
Provisions for business risks	24	-	-	-	24	-	-	-	24
Provisions for restructuring	180	19	55	5	139	-	17	13	109
Provisions for loss-making transactions	525	54	-	-	579	-	55	-	524
Other provisions	76	84	62	32	66	209	70	32	173
Total provisions	**2,056**	**1,303**	**468**	**315**	**2,576**	**741**	**890**	**623**	**1,804**
long-term	826				853				708
short-term	1,230				1,723				1,096

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate important birthdays, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. In calculating the provision, the Group used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees of 5%, anticipated increase in salaries of 2%, anticipated inflation level of 2%, likelihood of death or disablement according to the data of the Czech Statistical Office. A change in the amount of the provision due to the change in these parameters is reported as actuarial gains (losses) in the statements of profit or loss. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

The Group recognises a provision for legal disputes according to the anticipated result of all ongoing legal disputes and the relating cash outflows of the Group. The detailed information on other legal disputes cannot be disclosed by the Group as it might negatively impact its position.

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

As at 31 December 2012, the management of ČD Cargo, a.s. decided to implement organizational changes drawn up on the basis of a restructuring plan whose mail features were communicated within the Group. Future cash outflows associated with the restructuring plans was estimated at CZK 535 million. During the year 2016 there was a drawing and specifying the amount of the reserve, which as of 31 December 2016 was amount to CZK 109 million. The restructuring plan is in the force continued and should be finished in 2017, in accordance with the approved business plan.

During the year, there was a provision for onerous contracts created for the Group ČD Cargo, a.s. The reserve amount is determined by a qualified estimate of the amount of the estimated future liability arising from loss. The value is the difference between the expected discounted net revenue and discounted expected expense. The total amount of reserves as of 31 December 2015 was amounted to CZK 579 million. At the end of 2016 and after the upgrade is worth CZK 524 million.

28. Trade Payables

(CZK million)

Year	Category	Before due date	Past due date (days 1 - 30 days	31 – 90 days	91 – 180 days	181 – 365 days	365 and more	Total past due date	Total
31 Dec 2016	Short-term	4,156	76	23	1	9	6	115	**4,271**
31 Dec 2015	Short-term	6,123	56	8	3	3	8	78	**6,201**
1 Jan 2015	Short-term	6,340	150	11	5	176	13	355	**6,695**

29. Other Financial Liabilities

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Hedging derivatives	853	899	494
Other financial derivatives	1	3	6
Liability arising from supplier loans	140	269	270
Other	216	340	413
Total long-term	**1,210**	**1,511**	**1,183**
Hedging derivatives	115	269	255
Other financial derivatives	4	3	17
Liability arising from supplier loans	173	198	155
Other	181	214	227
Total short-term	**473**	**684**	**654**
Total	**1,683**	**2,195**	**1,837**

Long-term other financial liabilities for the year ended 31 December 2015 primarily consist of the long-term portion of a payable of ČD Cargo, a.s. to SŽDC in the amount of CZK 215 million arising from the concluded out-of-court agreement regarding the dispute about the price of traction energy during 2009, the long-term portion of a payable of ČD Cargo, a.s. to SŽDC in the amount of CZK 42 million for the settlement of the damage due to SŽDC's traffic closures, and the amount of CZK 23 million relating to the settlement of the damage due to SŽDC's traffic closures pursuant to a court ruling dated 15 January 2014.

As of 31 December 2015, the short-term other financial liability of ČD Cargo, a.s. to SŽDC amounts to CZK 130 million. The increase is due to the reclassification of the long-term portion to the short-term portion as of the due date of the first payment, 30 June 2015.

As of 1 January 2015, short-term other financial liabilities primarily included a payable of ČD Cargo, a.s. to SŽDC of CZK 99 million. The amount of CZK 44 million consisted of the short-term portion of a payable arising from the concluded out-of-court agreement regarding the dispute about the price of traction energy during 2009 and the settlement of the damage due to SŽDC's traffic closures. The amount of CZK 55 million related to the settlement of the damage due to SŽDC's traffic closures pursuant to a court ruling dated 15 January 2014.

30. Other Liabilities

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Other *)	373	144	91
Total long-term *)	**373**	**144**	**91**
Payables to employees	183	582	431
Social security and health insurance payables	1,112	1,060	1,007
Liabilities for social security and health insurance	384	359	346
Tax liabilities - tax withheld employees	116	113	92
Tax liabilities - VAT	24	124	-
Accrual of revenues from passenger transport in national transportation	168	165	171
Repayment of the subsidies under ROP projects	379	-	-
Other *)	412	279	331
Total short-term *)	**2,778**	**2,682**	**2,384**
Total *)	**3,151**	**2,826**	**2,475**

*) After adjusting the data for 1 January 2015 and to 31 December 2015, see note 2.2.1.

Other short-term liabilities predominantly include leases received in advance, tax withheld from employees and deferred income.

In 2016 the item of other financial liabilities includes the advance granted in 2016 under the grant project on equipment powered vehicles of ČD Cargo, a.s. as on-board parts of the European safety system RTCS in total amount of CZK 292 million. This item is divided into long-term portion of CZK 258 million and the current portion of CZK 34 million.

Other current liabilities are represented mainly by rent received in advance, deferred revenue, consisting of security and other liabilities. The Group carries no payables to taxation authorities, social security authorities or health insurers past their due dates.

31. Related Party Transactions

31.1. Loans to Related Parties

The Group provided no loans to related parties as of 31 December 2016, 31 December 2015 and 1 January 2015.

31.2. Key Management Members Compensation

Directors and other members of key management of a total number of 114, received short-term employee benefits of CZK 141 million in 2016 (2015: CZK 156 million, total number of 118) and post-employment benefits of CZK 12 million (2015: CZK 3 million). The members of the Parent Group's statutory and supervisory bodies had the possibility of taking advantage of reduced fares. Cash bonuses to the members of the Group's statutory and supervisory bodies in the years ended 31 December 2016 amounted to CZK 82 million and 2014 amounted to CZK 73 million. Management of the Group is provided with a benefit-in-kind taking the form of the use of Group cars for private purposes.

31.3. Relationships with Companies Owned by the State

The Group České dráhy is wholly owned and controlled by the State of Czech Republic. Accordingly, except as specified in the IAS 24 Related Party Disclosures, theGroup does not disclose quantitative information related to individually insignificant transactions with companies owned by the state. Listed below are significant related party transactions that the Group managed to identify: transport purchasers in the public service obligation (Region and the Ministry of Transport), the state organization SŽDCand group CEZ.

(CZK million)

Revenues	Counterparty	2016	2015
Income from rental property	SŽDC	62	100
Payment for alternative bus transport	SŽDC	299	425
Payments from ordering the service – payment from the state budget	state – MD	4,485	4,409
Payments from ordering the service – payment from the regional budgets	regions	9,266	9,105
Revenue – Telecommunication Services	SŽDC	520	523
Revenues from freight transportation	ČEZ	388	420

(CZK million)

Costs	Counterparty	2016	2015
Use of railway route and allocated capacity of the railway – passenger transport	SŽDC	1,895	1,858
Use of railway route and allocated capacity of the railway – freight transport	SŽDC	1,295	1,488
Consumption of electric traction energy	SŽDC	623	609
Consumption of electric traction energy	ČEZ	579	616
Real Estate rental	SŽDC	24	3

(CZK million)

Receivables	Counterparty	31 Dec 2016	31 Dec 2015	1 Jan 2015
Payment for replacement bus service	SŽDC	43	133	3
Public service obligation	state – MD	17	24	19
Public service obligation	regions	9	1	5
Telecommunications services	SŽDC	193	136	75
Revenues from freight transportation	ČEZ	68	71	66

(CZK million)

Liabilities	Counterparty	31 Dec 2016	31 Dec 2015	1 Jan 2015
Use of railway route and allocated capacity of the railway – passenger transport	SŽDC	244	420	411
Use of railway route and allocated capacity of the railway – freight transport	SŽDC	153	487	458
Consumption of electric traction energy – freight transport	SŽDC	-	-	314
Consumption of electric traction energy – passenger transport	SŽDC	76	65	66
Consumption of electric traction energy – passenger transport	ČEZ	80	190	179

State institutions, enterprises and other parties controlled by the state utilize the services provided by the Group under the conditions applicable to other customers. On the cost side, Group buys some services and other supplies (water, electricity, etc.) from companies controlled by the state under the conditions applicable to other consumers.

From 1 July 2016 after the sale of the plant (see Note 15.1) the structure of costs and revenues related to SŽDC has changed. ČD has cost rental station buildings, while ČD has no income from rents in buildings, railway stations because of their sales.

32. Cash and Cash Equivalents

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

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Cash on hand and cash in transit	70	53	56
Cash at bank *)	7,584	3,181	3,737
Depository promissory notes *)	-	738	250
Celkem	**7,654**	**3,972**	**4,043**

*) The counterparties are banks with high credit ratings (investment grade required).

33. Contracts for Operating Leases

33.1. The Group as a Lessee

Assets under operating leases which are reported off balance sheet include a number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognised in expenses in the year 2016 amounted to CZK 107 million (in 2015: CZK 69 million).

Group's payments accounted among expenses arising from the leasing of railway wagons on the basis of an agreement on the use of wagons in international traffic amounted in 2016 the amount of CZK 781 million (in 2015: CZK 771 million). Other payments for operating leases of railway wagons in 2016 were CZK 319 million (in 2015 CZK 355 million).

Group as lessee paid for the rental of buildings and land in the Logistics Center in Lovosice in 2016 the amount of CZK 84 million, in 2015 it was CZK 83 million.

33.2. The Group as a Lessor

Operating leases applies to investment property and movable assets held by the Group with various lease periods.

The revenue from the lease of property that the Group acquired in 2016 from investment property based on the operating leases amounts to CZK 381 million (in 2015: CZK 523 million).

Direct operating expenses relating to investment property for the period amounted to CZK 97 million (in 2015: CZK 242 million).

Income from operating leases of movable assets in 2016 amounts to CZ 475 million (in 2015: CZK 503 million).

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

34. Contractual Obligations Relating to Expenses

As of the balance sheet date, the Group concluded contracts for the purchase of property, plant and equipment in the amount of CZK 2,835 million.

(CZK million)	31 Dec 2016
Supplies agreed for 2017	1,508
Supplies agreed for the following years	339
As of 31 Dec 2016 was paid	988
Total	**2,835**

A substantial part of the commitment of expenditure (CZK 1,202 million), shows investments in railway vehicles.

Another item is a Contractual Obligation of ČD Cargo, a.s. for renting in total amount of CZK 802 million from the contract of renting the buildings and lands in the Logistics Center in Lovosice. The commitment will be repaid annually on an ongoing basis until the 2025.

35. Contingent Liabilities and Contingent Assets

The Group holds a 1% equity investment in EUROFIMA. The shareholders of the entity are European national railway transporters and the purpose of this entity is to acquire funds for the funding of railway vehicle 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 required by EUROFIMA from its shareholders as needed pursuant to the resolution of the Administration Board. The nominal value of unpaid shares as of 31 December 2016 was CHF 20.8 million. The likelihood that the Group will be asked to pay the nominal value of the unpaid portion of the equity investment is considered to be low by the Group's management.

The aggregate costs of clean-ups in 2016 was CZK 27 million and in 2015 CZK 28 million respectively. 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 provisions for clean-ups of other environmental burdens are not recognised as the Group is unable to estimate the scope of these burdens and its potential involvement in their removal. The Group has not prepared an overall strategy and plan of clean-ups according to which it could recognise the provisions.

List of active bank guarantees issued by ČD Cargo, a. s., As at 31 December 2016

In behalf of	Type of insurance	Amount	Currency	Date of ending	Reason for a bank guarantee
WestInvest Waterfront Towers s.r.o., Jankovcova 1569/2c, 170 00 Praha 7, Holešovice, IČ 26178338	Warranty for rent	227,267.17	EUR	30 September 2017	Bank guarantee to meet all liabilities and obligations of tenant-based rental agreement with WestInvest Waterfront Towers Ltd. - Lighthouse.
HYPARKOS, s.r.o., Rohanské nábřeží 678/25, 186 00 Praha 8, IČ 27626130	Warranty for rent	16,517,056	CZK	30 June 2017	Bank guarantee in the event that ČD Cargo, Inc., does not comply with the obligations laid down in the agreement on the rental of buildings and land in the Logistics Center in Lovosice.
Celní úřad pro Jihočeský kraj, Kasárenská 6, 370 21 České Budějovice	Customs guarantee	2,000,000	CZK	No limits	Warranty Deed - operations other than transit (comprehensive guarantee), Reg. No. 1401798029 to ensure customs and tax debt, which means the obligation to pay duties, taxes and charges levied on imports, including their accessories, with the exception of fines.

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

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

35.1. Legal Disputes

35.1.1. Dispute with ŠKODA TRANSPORTATION a.s.

On 16 November 2015, an arbitration award was issued in which the arbitration court upheld the legal action brought by ŠKODA TRANSPORTATION, a.s. to the extent that it mandated České dráhy to make an addition to purchase price in the amount of CZK 370 million and to settle default interest of CZK 98 million. The total payment of CZK 468 million was made on 19 November 2015. The arbitration award additionally replaced the will of České dráhy to enter into an amendment to make an inflationary increase in the purchase price of CZK 754 million including VAT. On 22 April 2016 ČD paid the principal amount of inflationary increase in amount of CZK 754 million, default interests remain unpaid. On 18 November 2015 ČD has filed a legal action to revoke the arbitration award referred to above and on 29 October 2015 has filed a legal action to exclude one of the adjudicators due to his prejudice. On 7 April 2016 the Municipal Court in Prague stopped legal action to exclude adjudicator referring to the fact that general court does not have the competences to adjudicate in this case. On 2 January 2017 ČD lodged an appeal to the Supreme Court of Czech Republic against the decision of Municipal Court in Prague.

35.1.2. Railway Freight Transportation Market

Anti-Monopoly Office imposed a fine on ČD, a.s. for abusing its position on the market in the area of railway transportation of enormous amounts of natural resources and raw materials. Based on ČD defence the court case went to Administrative Court. In accordance to cassation appeal of Anti-Monopoly Office, which objected to the judgement cancelling judgement of Regional Court in Brno, this issue is judged by the Supreme Administrative Court.

35.1.3. Proceeedings in the Matter of the Exploitation of a Dominant Position on the Route Prague -Ostrava

In January 2012, the Anti-Monopoly Office initiated proceedings against ČD, a.s. regarding the alleged abuse of ČD, a.s.'s dominant position on the Prague – Ostrava line in the form of inadequately low (predatory) prices in response to an entry of a new competitor railway transporter. In November 2016 in reference to this case the formal investigation was initiated by the European Commission. Anti-Monopoly Office has suspended investigation due to initiation of European Commission investigation. The matter has not been decided yet. ČD has filed a legal action to EU Court against execution of the local European Commission investigation in the seat of ČD.

35.1.4. Legal Action by LEO Express Against ČD, a.s. for the Compensation of Damage Amounting to CZK 419 Million

In July 2014 LEO Express filed a legal action for the compensation of damage 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 legal action. LEO Express partially withdrawed the legal action, against which ČD applied the legal remedy, while Leo Express appealed against the decision of Court of first instance of dismissing the application. At the end of December 2016 Leo Express filed a new legal action against ČD for approximate amount of CZK 434 million with accessories and for similar reason. This legal action is mostly overlapped with part of legal action which was withdrawn by Leo Express after failure in first instance in Municipal Court in Prague.

35.1.5. RegioJet Legal Action for the Return of Allegedly Prohibited Public Support (the Defendants Being ČD, a.s., SŽDC, s.o., and the Czech Republic Represented by the Czech Ministry of Transportation)

In April 2015, RegioJet filed a legal action for the return of approximately CZK 7 billion and default interest due to allegedly prohibited public support. The assets involving the 'assets required to maintain rails and their operability' ("mrtvá dopravní cesta" in Czech), which were transferred by ČD to SŽDC in 2008 for CZK 12 billion, were allegedly overstated by this amount. ČD provided its statements to the legal action indicating that it does not agree with the assertions made in the legal action and considers it to lack merit.

35.1.6. RegioJet's Call for the Payment of Compensation for Detriment

RegioJet sent a pre-trial call to ČD, a.s. for the payment of the compensation for the detriment dated 10 April 2015 in which it seeks the payment of approx. CZK 717 million. The alleged detriment was caused by ČD's illegal activities in operating the Prague – Ostrava track, involving the application of dumping prices. ČD refused to pay the detriment. RegioJet filed a legal action seeking the payment of compensation of approximately CZK 717 million with accrued interest and charges which result in legal proceedings being initiated in the matter.

35.1.7. Legal Action by Grandi Stazioni Česká republika, s.r.o. against SŽDC and ČD for the transfer of Hlavní nádraží Praha to SŽDC

The Group Grandi Stazioni Česká republika, s.r.o. (GS) filed three legal actions against state organization Railway Infrastructure Administration (SŽDC) and against ČD. GS is seeking the payment of compensation of CZK 777 million, increased by fine for delayed payment and default interests from SŽDC or ČD, depending on the court decision as to who the owner of Prague Main Station (Praha hlavní nádraží) is. SŽDC and ČD agree that the owner of Prague Main Station is SŽDC, and for this reason ČD should not be the party in the payment dispute. In accordance to this ČD has the same position in legal procedures. SŽDC commissioned the expert opinion to legitimate the claim raised by GS and based on the expert opinion SŽDC paid the amount of CZK 566 million to GS.

35.1.8. Proceedings in the Matter of a Conclusion of a Cartel Agreement from 2016, the so-called Italia Express

In autumn 2016 started by the Office for the Protection of Competition („OPC") administrative proceedings by ČD and ČD Cargo, a.s. regarding a potential violation § 3 paragraph 1 Law on Protection of Competition and Artcile 101 of the Treaty on the Functioning of the European Union, which OPC sees as the concerted practice and / or agreement of the parties, possibly with other competitors, consisting in the distribution market and customer orders for goods transport, in price coordination and the exchange of sensitive information, the provision of transport and forwarding services via comprehensive freight trains, including related transport and forwarding services in moving goods to the loading station on a full train and to the transfer of goods from the unloading station to the destination. This hearing should take place by the OPC more than 10 years ago. The matter has not yet been decided. ČD Cargo, a.s. filed in late 2016, the Regional Court in Brno lawsuit against an investigation on the business premises in connection with an action for protection against unlawful interference of administration associated with the proposal for preliminary injunction. The court application for interim measures granted and ordered to OPC, among others. Refrained from further handling of the documents that were provided during the local investigation. However, those proceedings at the date of preparation of these consolidated financial statements have not yet been completed. Regarding the foregoing, it is currently impossible to estimate the outcome of the proceedings.

35.1.9. Proceeedings in the Matter of the Exploitation of a Dominant Position on the Route Prague – Liberec – Most

In April 2016 was initiated administrative proceedings. Alleged violations of competition rules ČD be committed by the tenders announced in 2005 to operate long-distance passenger rail services in the public service obligation on lines Pardubice - Liberec and Plzeň - Most, for the period 2006/2007 timetable, submit a quote which did not cover the cost of providing these services on the routes in question. Thus it agreed commitment ČD perform on those routes until the end of the 2013/2014 timetable. On 1 February 2017 Office issued the so-called as the statement of objections. A statement of objections is not the nature of a decision, but has the nature of the information which the Office gives its opinion on the deed, the documents submitted and the amount of the fine (Office states that the final amount of the fine will range from 4.0 to 4.8% (i.e. maximum CZK 381 million) reached the value of sales in the relevant market in 2013. Now they have a ČD entitled to comment on the matters referred to in the statement of objections, which also makes. After the statement of objections Office usually issues a decision against which is possible to receive remedies. However, it is also possible that the observations and ČD facts and evidence mentioned therein Office will cause a decision that it will not be accepted.

35.1.10. Dispute Regarding the Amount of Payment for 'easements' Relating to Plots of land Underneath the Backbone Optical Network owned by ČD - Telematika a.s.

SZDC action with the arbitration court seeks payment of the contract price for the use of land and facilities under the backbone optical network owned by ČD - Telematica a.s. (The same things apply with regard to ČD - Telematica a.s and its claim ČD. The scope of claim ČD is considerably lower, although factually identical entitled to SŽDC. The dispute is very complicated and the plaintiff nor the defendant cannot currently quantify the exact amount of the claim. On day 17 November2016 was issued in the arbitration proceedings or interim awards, which were established that: a) the basis of the applicants' claims for performance is due, not by virtue of unjust enrichment; b) the applicant shall not be entitled to a contractual penalty; c) the extent of the applicants will be determined in a separate decision, unless the parties to the agreement. On the basis of the interim arbitral findings a discussion between all participants was started regarding the possibility of resolving the dispute out of court when after mutual agreement an expertise on the valuation of the amount of unjust enrichment was entered.

35.2. Audits of Subsidies Used from the Regional Operational Programme (ROP) for the Acquisition of Railway Vehicle.

Since early 2014, the Audit Body of the Czech Ministry of Finance (the "Audit Body") has been conducting a due audit of operation at ČD, a.s. in terms of Section 7 (2) and Section 13a of Act No. 320/2001 Coll., on Financial Auditing in Public Administration and Changes to Certain Acts (the "Financial Auditing Act"), as amended, and Article 62 (1) (b) of Council Regulation (EC) No. 1083/2006. AB controlled 17 of 19 projects. In 2016 ČD, a.s. did not receive any other notification about initiation of audit operations within ROP. At the end of 2016 AB recognises high degree of severity in 11 of all controlled projects. Quantified corrections presents repayment of part of subsidy in anticipated amount of CZK 583.3 million. ČD, a.s. fully rejects to pay the determined amount of the subsidized discrepancy within the period stated by the Regional Council Authorities. ČD, a.s. disagrees with the audit conclusions and is pursuing the relevant procedural defence.

36. Financial Instruments

36.1. Capital Risk Management

Group's main objective in capital risk management is to maintain rating at investment grade and maintain balanced ratio between equity and debt. The Group uses issues of bonds as a principal source of long-term funding. Management of the Group considers equity as stated in the consolidated financial Statements, long-term loans and loans for capital Groups.

36.2. Significant Accounting Policies

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

36.3. Financial Instruments Classification

(CZK million)

Financial asset categories	Financial Asset classes		31 Dec 2016	31 Dec 2015	1 Jan 2015
Loans and receivables	Trade receivables	22	3,189	3,453	3,127
	Cash and equivalents	32	7,654	3,972	4,043
	Leases	23	78	83	88
	Other	23	360	97	94
Financial assets at fair value through profits and losses	Financial derivatives used in hedge accounting	23	318	977	1,436
	Other financial derivatives	23	-	4	-
	Sale financial assets	23	336	336	321
Total			**11,935**	**8,922**	**9,109**

(CZK million)

Financial liabilities category	Class of financial obligations		31 Dec 2016	31 Dec 2015	1 Jan 2015
Financial liabilities at fair value through profit or loss	Financial derivatives used in hedge accounting	29	968	1,168	749
	Other financial derivatives	29	5	6	23
Financial liabilities at amortized cost	Loans and advances	26	37,805	37,191	36,782
	Trade payables	28	4,271	6,201	6,695
	Liabilities arising from supplier loans	29	313	467	425
	Liabilities from settlement agreements	29	280	406	508
	Other	29	117	148	132
Total			**43,759**	**45,587**	**45,314**

Financial derivatives are classified as other financial asset / liability in fair value showed in profit or loss.

Within financial assets are recognized in equity investments that do not have a quoted market price in an active market and are stated at cost because their fair value cannot be reliably determined.

Income from individual categories of financial assets is as follows:

(CZK million) Category of financial assets	2016	2015	Reported in the statements of profit or loss line
Interest on cash in bank accounts	2	8	Financial gains
Interest on leasing receivables	14	12	Financial gains
Dividends from available-for-sale financial assets	2	-	Financial gains
Total	**18**	**20**	

Impairment losses on financial assets are presented in the Note 'Trade receivables'. No significant impairment was noted in respect of any other class of financial assets.

36.4. Fair Value of Financial Instruments

Financial assets (CZK million)	Level	Fair value as of 31 Dec 2016	Carrying value as of 31 Dec 2016	Fair value as of 31 Dec 2015	Carrying value as of 31 Dec 2015	Fair value as of 1 Jan 2015	Carrying value as of 1 Jan 2015
Derivative instruments in designated hedge accounting relationships	Level 2	318	318	977	977	1,436	1,436
Other financial derivatives	Level 2	-	-0	4	4	-	-
Finance lease receivables	Level 2	78	78	83	83	88	88
Available-for-sale financial assets	Level 2	*)	336	*)	336	*)	321
Total		**396**	**732**	**1,064**	**1,400**	**1,524**	**1,845**

*) The fair value is reliably determinable.

Financial liabilities (CZK million)	**Level**	**Fair value as of 31 Dec 2016**	**Carrying value as of 31 Dec 2016**	**Fair value as of 31 Dec 2015**	**Carrying value as of 31 Dec 2015**	**Fair value as of 1 Jan 2015**	**Carrying value as of 1 Jan 2015**
Derivative instruments in designated hedge accounting relationships	Level 2	968	968	1,168	1,168	749	749
Other financial derivatives	Level 2	5	5	6	6	23	23
Measured at amortised cost	Level 2	**40,158**	**38,515**	**39,281**	**38,212**	**39,550**	**37,848**
Liability to EUROFIMA	*Level 2*	*811*	*811*	*1,622*	*1,622*	*2,914*	2,914
Liabilities from financial lease	*Level 2*	*4,175*	*3,897*	*5,206*	*4,803*	*6,165*	5,664
ssued bonds	*Level 2*	*10,265*	*9,997*	*10,169*	*10,170*	*7,369*	7,143
Issued bonds (traded)	*Level 1*	*24,170*	*23,073*	*21,222*	*20,555*	*21,934*	20,959
Other financial liabilities	*Level 2*	*737*	*737*	*1,062*	*1,062*	*1,168*	1,168
Total		**41,131**	**39,488**	**40,455**	**39,386**	**40,322**	**38,620**

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

Determining the fair value of financial derivatives is carried out using the Group's own pricing models, discounted cash flows using observable market assumptions. The fair value of financial derivatives are classified as Level 2 in the fair value hierarchy.

36.5. Financial Risk Management Objectives

The Group manages financial risks by internal risk reports which include risk analysis by weight. Financial risks include market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

36.6. Currency Risk Management

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. These transactions predominantly include income from international transportation, received loans and issued bonds. 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 Group's Board of Directors.

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 Dec 2016	**EUR**	**USD**	**Other**	**Total**
Financial assets	2,911	6	3	2,920
Financial liabilities	(30,243)	(14)	(14)	(30,271)
Total	**(27,332)**	**(8)**	**(11)**	**(27,351)**

(CZK million)

31 Dec 2015	**EUR**	**USD**	**Other**	**Total**
Financial assets	2,915	104	12	3,031
Financial liabilities	(27,866)	(125)	(10)	(28,001)
Total	**(24,951)**	**(21)**	**2**	**(24,970)**

(CZK million)

1 Jan 2015	**EUR**	**USD**	**Other**	**Total**
Financial assets	2,491	9	7	2,507
Financial liabilities	(26,817)	(2)	(8)	(26,827)
Total	**(24,326)**	**7**	**(1)**	**(24,320)**

36.6.1. Foreign Currency Sensitivity Analysis

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

– Changes in the value of cash items denominated in foreign currencies; and
– Changes in the fair value of concluded financial derivatives.

The following table shows the impact that the strengthening of the Czech currency by one crown in respect of Euro would have on the profit and other comprehensive income. A positive number indicates an increase in the profit and other comprehensive income, a negative number indicates the decrease in the profit and other comprehensive income:

(CZK million)	2016	2015
Translation of items denominated in foreign currencies at the end of the period	1,012	922
Change in the fair value of derivatives at the end of the period	(590)	(750)
Total impact on the profit for the period	**422**	**172**
Change in the fair value of derivatives at the end of the period	6	(63)
Total impact on other comprehensive income	**6**	**(63)**

36.6.2. Currency Forwards and Options

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

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

Sale	Average currency exchange rate	Foreign currency	Nominal value	Fair value (in CZK million)
31 Dec 2016	26.868	EUR	EUR 96 million	6
	26.65 – 27.05	EUR	EUR 12 million	-
31 Dec 2015	26.95	EUR	EUR 24 million	1
	26.50 – 27.15	EUR	EUR 12 million	(1)
1 Jan 2015	27.182	EUR	EUR 55 million	(31)

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

Purchase	Average currency exchange rate	Foreign currency	Nominal value	Fair value (in CZK million)
31 Dec 2016	27.08	EUR	EUR 43 million	(2)
31 Dec 2015	24.33	USD	USD 6 million	3
	26.98	EUR	EUR 29 million	1
1 Jan 2015	22.51	USD	USD 0 million	-

Parent Group entered into a currency swap in 2016 in order to secure the euro instalment loan, payable in the first half of 2017. This derivative was designated as a real value.

Loss on hedging instruments of hedging fair value was CZK 2 million for the period ended 31 December 2016 (period ended 31 December 2015: CZK nil.) Profit from the hedged item has the same value and ensuring was 100% effective.

The expected realization of currency derivatives hedged items.

The following table shows the expected cash flows of hedged future sales in EUR:

(CZK million)

31 Dec 2016	Less than 1 month	1 - 3 months	3 months – 1 year	1 year – 5 years	5 years and more	Total
Secured future sales in EUR	162	324	1,459	973	-	2,918

(CZK million)

31.12.2015	Less than 1 month	1 - 3 months	3 months – 1 year	1 year – 5 years	5 years and more	Total
Secured future sales in EUR	81	162	730	-	-	973

(CZK million)

1.1.2015	Less than 1 month	1 - 3 months	3 months – 1 year	1 year – 5 years	5 years and more	Total
Secured future sales in EUR	166	305	1,054	-	-	1,525

36.6.3. Cross Currency Interest Rate Swaps

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.

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

31.12.2016	Nominal value (EUR million)	Collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK million
Less than 1 year	542	3.45%	(14,412)	3.63%	(24)
1 to 5 years	542	3.24%	(14,412)	3.38%	58
5 years and more	292	2.87%	(8,062)	2.95%	(571)
Total					**(537)**

31 Dec 2015	Nominal value (EUR million)	Collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK million
Less than 1 year	722	3.93%	(18,617)	3.98%	653
1 to 5 years	482	3.57%	(12,789)	3.78%	123
5 years and more	232	3.57%	(6,439)	3.26%	(571)
Total					**205**

1 Jan 2015	Nominal value (EUR million)	Collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK million
Less than 1 year	667	4.07%	(17,101)	4.13%	35
1 to 5 years	667	3.91%	(17,101)	4.09%	1,325
5 years and more	177	3.40%	(4,923)	3.55%	(177)
Total					**1,183**

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 profit or loss over the period that the coupon payments from the issued bonds affect the profit or loss.

Expected Realization of Hedged Items Interest Rate Swaps

Expected cash flows of hedged foreign currency bonds are listed in the Note 36.10.1 in tables with remaining contractual maturities of financial liabilities in line fixed interest rate Instruments.

36.7. Interest Rate Risk Management

The Group manages the 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 Parent Group.

36.7.1. Interest Rate Sensitivity Analysis

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

– Changes in interest expenses from loans and lease with a variable rate;
– Changes in the present value of long-term provisions resulting from the change in the discount rate; and
– Change in the fair value of concluded financial derivatives.

The following table shows the impact that an increase in interest rates of 200 basis points would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates the decrease in the profit and other comprehensive income:

(CZK million)	2016	2015
Interest from loans and lease with variable rate for the period	(162)	(209)
Change in the present value of long-term provisions at end of period	80	86
Change in the fair value of derivatives at the end of the period	6	11
Total impact on the profit for the period	**(76)**	**(112)**
Change in the fair value of derivatives at the end of the period	306	402
Total impact on other comprehensive income	**306**	**402**

36.7.2. Interest Rate Swap

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

31 December 2016	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value in CZK million as of 31 December 2016
Less than 1 year	Loan from Eurofirma	2.58%	EUR 30 million	(11)
	Float interest bonds	1.61%	EUR 4,000 million	(51)
	Leases	1.47%	EUR 952 million	(14)
				(76)
1 to 5 years	Float interest bonds	1,61%	CZK 4,000 million	(60)
	Leases	1,47%	CZK 602 million	(20)
				(80)
Total				**(156)**

31 December 2015	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value In CZK million
Less than 1 year	Loan from Eurofirma	2.43%	EUR 60 million	(30)
	Float interest bonds	1.61%	CZK 4,000 million	(49)
	Leases	1.43%	CZK 1,111 million	(19)
				(98)
1 to 5 years	Loan from Eurofirma	2.58%	EUR 30 million	(11)
	Float interest bonds	1.61%	CZK 4,000 million	(95)
	Leases	1.93%	CZK 882 million	(29)
				(135)
5 years and more	Leases	1.44%	CZK 122 million	-
Total				**(233)**

1 January 2015	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value In CZK million
Less than 1 year	Loan from Eurofirma	1.50%	EUR 105 million	(40)
	Float interest bonds	1.88%	CZK 5,000 million	(61)
	Leases	1.40%	CZK 1,261 million	(21)
				(122)
1 to 5 years	Loan from Eurofirma	2.43%	EUR 60 million	(39)
	Float interest bonds	1.61%	CZK 4,000 million	(139)
	Leases	1.85%	CZK 1,081 million	(45)
				(223)
5 years and more	Leases	1.87%	CZK 302 million	**(3)**
Total				**(348)**

The Company will pay the difference between fixed and variable interest rate on a net basis. Shift payments under the interest rate swaps and interest payments on the loan occur simultaneously and the amount accumulated in equity are reclassified to profit or loss in the period in which the variable interest rate on debt affect profit. Gains and losses reclassified during the year from equity are included in Other interest expense, included in the income statement as part of Financial expenses.

36.7.3. Interest Rate Options

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

	Hedged	Principal in CZK million	Fair value of assets (liabilities) in CZK million at 31 Dec 2016
Less than 1 year	1.13% - 3.13%	100	(3)
1 to 5 years	1.13% - 3.13%	284	(2)
5 years and more	0.00%	-	-
Total			**(5)**

	Hedged	Principal in CZK million	Fair value of assets (liabilities) in CZK million at 31 Dec 2015
Less than 1 year	1.13% - 3.13%	94	(3)
1 to 5 years	1.13% - 3.13%	385	(3)
5 years and more	1.13% - 3.13%	-	-
Total			**(6)**

	Hedged	Principal in CZK million	Fair value of assets (liabilities) in CZK million at 1 Jan 2015
Less than 1 year	1.13% - 3.13%	88	(4)
1 to 5 years	1.13% - 3.13%	301	(5)
5 years and more	1.13% - 3.13%	64	-
Total			**(9)**

36.7.4 Expected Realization of Hedged Items Interest Rate Swaps and Interest Rate Options

The expected hedged cash flows from interest on variable-rate loans are listed in Note 36.10.1 in tables with remaining contractual maturities of financial liabilities in rows Finance lease liabilities and instruments with a variable interest rate.

36.8. Commodity Risk Management

The Group is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically oil and electricity, is a significant cost item of the Group. The Group manages this risk so 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 Group's Board of Directors. The risk is managed by the Group using the combination of several instruments as follows:

– Conclusion of hedging derivatives for oil purchase and traction electricity;
– In the event of an increase in the price of the commodities the Group has the possibility of asking the regions and the state for increased payments for transportation; and
– INegotiating a fixed price of electricity always for the following calendar year.

36.8.1. Analysis of Sensitivity to Changes in Commodity Prices

Exposure to commodity price changes are measured sensitivity analysis. The Group is exposed to changes in commodity prices due to changes in the fair value of concluded financial derivatives. The following table shows the impact that an increase in the oil price of 10% would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates a decrease in the profit and other comprehensive income:

(CZK million)	2016	2015
Change in the fair value of derivatives at the end of the period	6	(2)
Total impact on the profit for the period	**6**	**(2)**
Change in the fair value of derivatives at the end of the period	32	30
Total impact on other comprehensive income	**32**	**30**

36.8.2. Commodity Derivatives

The table shows outstanding commodity contracts for the purchase of oil and electricity as of:

(CZK million)

Purchase of fuel	Hedged value	Volume of contracts (mt)	Fair value (CZK million)
31 Dec 2016	11,272 CZK/mt	15,300	26
	7,200 – 16,000 CZK/mt	16,800	(3)
31 Dec 2015	13,032 CZK/mt	12,600	(46)
	11,150 – 16,000 CZK/mt	13,500	(57)
	773 – 775 USD/mt	6,120	(60)
1 Jan 2015	16,751 CZK/mt	8,400	(35)
	14,200 – 20,450 CZK/mt	2,040	(49)
	773 – 970 USD/mt	10,200	(47)

(údaje v mil. Kč)

Purchase of electricity	Hedged value	Volume of contracts (mt)	Fair value (CZK million)
31 Dec 2016	29 EUR/MWh	122,640	16

Expected realization hedged items of commodity derivatives

The following table shows the expected cash flows of the hedged purchases of fuel and electricity:

(CZK million)

31.12.2016	Less than 1 month	1 - 3 months	3 months – 1 year	1 year – 5 years	5 years and more	Total
Ensuring future purchases of fuel	24	48	218	124	-	414
Ensuring future purchases of electricity	7	14	62	104	-	187

(CZK million)

31.12.2015	Less than 1 month	1 - 3 months	3 months – 1 year	1 year – 5 years	5 years and more	Total
Ensuring future purchases of fuel	18	36	150	57	-	261

(CZK million)

1.1.2015	Less than 1 month	1 - 3 months	3 months – 1 year	1 year – 5 years	5 years and more	Total
Ensuring future purchases of fuel	27	55	246	107	-	435
Ensuring future purchases of electricity	18	36	164	-	-	218

36.9. Credit Risk Management

The concentration of the Group's credit risk is low as a significant portion of the Group's revenues (passenger transportation fare) is collected in cash. In case of payments from public services orderers from state budget or regional budget, the risk is low due to bank's high. In other transactions, the Group seeks to deal only with creditworthy counterparties whom the Group reviews on an ongoing basis using publicly available information. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

To ensure that any additional risk receivables from ČD Cargo, a.s. they are used in various combinations of standard instruments (deposits, payment terms, customer tracking, internal tools etc.). To improve the Group's liquidity policy is used actively the policy of offsetting receivables and payables. At the same time the Group ČD

Cargo, Inc. applied continuous monitoring of receivables by individual companies and default periods with special attention to receivables more than 15 days overdue. Past due receivables are continuously dealing with individual responsibility and senior staff of the Commission claims.

The credit risk on liquid funds and derivative financial instruments is limited as the counterparties are banks with credit-ratings assigned on the investment grade.

(CZK million)

Bank	Bank balances at 31 Dec 2016	Bank balances at 31 Dec 2015	Promissory notes at 31 Dec 2015	Bank balances notes at 31 Dec 2014	Promissory notes at 31 Dec 2014
Komerční banka	2,080	935	250	1,201	250
ČSOB	2,466	590	488	1,232	-
Citibank	1,003	372	-	20	-
ING bank	253	164	-	25	-
Česká spořitelna	1,004	125	-	555	-
Equa bank	4	3	-	-	-
UniCredit Bank	373	503	-	347	-
GE Money Bank	-	-	-	8	-
Raiffeisenbank,a.s.	312	100	-	1	-
Sberbank CZ, a.s.	2	-	-	-	-
J& T BANKA, a.s.	-	300	-	200	-
Všeobecná úvěrová banka a.s.	45	28	-	28	-
Allior	1	11	-	87	-
Millennium Bank	24	34	-	18	-
Deutsche Bank	8	11	-	10	-
Frankfurter Sparkasse	4	4	-	4	-
Bank Austria	5	1	-	1	-
Total	**7,584**	**3,181**	**738**	**3,737**	**250**

The carrying amount of financial assets recognised in the financial Statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The credit quality of receivables that are not past their due dates and are not impaired in any other way, is good and corresponds to the carrying value.

36.10. Liquidity Risk Management

The ultimate responsibility for liquidity risk management rests with the Board of Directors which has established an appropriate liquidity risk management framework. The Group manages its liquidity risk by a process of planning future cash flows and provision of short-term funding with reputable financial institutions (promissory notes programme and agreed overdraft loans). With the minimum period of 12 months. To ensure sufficient short-term liquidity, the Group has concluded these binding credit facilities so that its available resources exceed its current liabilities. The liquidity is continuously monitored by the rating agency Moody's.

36.10.1. Liquidity and Interest Rate Risk Tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that instruments carry the floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period and may change, if interest rates will differ from determined estimates.

(CZK million)

31 Dec 2016	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	2,580	1,343	702	326	29	4,980
Derivatives	32	6	81	285	569	973
Finance lease liabilities	93	185	736	2,950	367	4,331
Float interest rate instruments	43	3	875	4,126	1	5,048
Fixed interest rate instruments	-	-	814	12,166	21,806	34,786
Total	**2,748**	**1,537**	**3,208**	**19,853**	**22,772**	**50,118**

(CZK million)

31 Dec 2015	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	2,591	2,756	1,236	587	53	7,223
Derivatives	54	29	189	330	572	1,174
Finance lease liabilities	95	191	844	3,536	753	5,419
Float interest rate instruments	42	-	1,535	5,061	-	6,638
Fixed interest rate instruments	1	2	9,612	11,172	10,274	31,061
Total	**2,783**	**2,978**	**13,416**	**20,686**	**11,652**	**51,515**

(CZK million)

1 Jan 2015	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	2,820	2,925	1,112	848	56	7,761
Derivatives	48	34	190	321	179	772
Finance lease liabilities	96	191	854	4,052	1,301	6,494
Float interest rate instruments	43	1,251	1,121	6,815	-	9,230
Fixed interest rate instruments	49	3	909	19,594	6,516	27,071
Total	**3,056**	**4,404**	**4,186**	**31,630**	**8,052**	**51,328**

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

(CZK million)

31 Dec 2016	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	9,395	996	505	304	337	11,537
Derivatives	2	3	39	274	-	318
Finance lease receivables	5	-	12	64	427	508
Total	**9,402**	**999**	**556**	**642**	**764**	**12,363**

(CZK million)

31 Dec 2015	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	4,210	1,499	1,059	4	343	7,115
Derivatives	3	1	680	297	-	981
Finance lease receivables	5	-	-	60	443	508
Fixed interest rate instruments	488	250	-	-	-	738
Total	**4,706**	**1,750**	**1,739**	**361**	**786**	**9,342**

(CZK million)

1 Jan 2015	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	5,605	702	673	30	321	7,331
Derivatives	-	-	49	1,387	-	1,436
Finance lease receivables	5	-	-	44	459	508
Fixed interest rate instruments	250	-	-	4	-	254
Total	**5,860**	**702**	**722**	**1,465**	**780**	**9,529**

36.10.2. Sources of Funding

The Group has access to the following credit lines:

(CZK million)

Overdraft loan facilities	ČSOB	Citibank	ING	VUB	KB	Total
Amount of the loan facility at 1 January 2015	**1,110**	**200**	**200**	**400**	**1,500**	**3,410**
Amount unused to 1 January 2015	**1,110**	**200**	**200**	**400**	**1,500**	**3,410**
Change of amount of the loan facility 2015	-	-	-	-	-	-
Amount of the loan facility at 31 December 2015	**1,110**	**200**	**200**	**400**	**1,500**	**3,410**
Amount unused to 31 December 2015	**1,110**	**200**	**200**	**400**	**1,500**	**3,410**
Change of amount of the loan facility 2016	-	-	-	-	100	100
Amount of the loan facility at 31 December 2016	**1,110**	**200**	**200**	**400**	**1,600**	**3,510**
Amount unused to 31 December 2016	**1,110**	**200**	**200**	**400**	**1,600**	**3,510**

(CZK million)

Promissory notes program	ČSOB	Citibank	ING	KB	Deutsche bank	Česká spořitelna	Total
Amount of the loan facility at 1 January 2015	**500**	**2,000**	**2,000**	**1,000**	**-**	**1,000**	**6,500**
Amount unused at 1 January 2015	**500**	**2,000**	**2,000**	**1,000**	**-**	**1,000**	**6,500**
Change of amount of the loan facility 2015	1,000	-	-	300	700	1 000	3,000
Amount of the loan facility at 31 December 2015	**1,500**	**2,000**	**2,000**	**1,300**	**700**	**2,000**	**9,500**
Amount unused at 31 December 2015	**1,500**	**2,000**	**2,000**	**1,300**	**700**	**2,000**	**9,500**
Change of amount of the loan facility in 2016	(1,000)	(1,000)	-	(300)	(700)	(1,000)	(4,000)
Amount of the loan facility at 31 December 2016	**500**	**1,000**	**2,000**	**1,000**	**-**	**1,000**	**5,500**
Amount unused at 31 December 2016	**500**	**1 000**	**2,000**	**1,000**	**-**	**1,000**	**5,500**

37. Post Balance Sheet Events

České dráhy is preparing for implementation of the provisions according to the amendment to the Railway Act no. 319/2016 Sb, which enters into force on 1 April 2017. The most significant step is creation of new organizational unit. Service facilities by extract of certain activities from current rail vehicles depots and regional property managements. This organizational change will not affect the future financial position of the Group.

No significant events occurred between the balance sheet date and the date of the preparation of the financial Statements.

38. Approval of the Consolidated Financial Statements

The financial Statements were approved by the Board of Directors on 11. April 2017.

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SEPARATE FINANCIAL

STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 PREPARED UNDER IFRS AS ADOPTED BY THE EU

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

Components of the Separate Financial Statements for 2016
Statement on Financial Position (Balance Sheet)
Statement of Profit or Loss
Statement of Comprehensive Income
Statement of Changes in Equity
Cash Flow Statement
Notes to the Financial Statements

Separate Financial Statements were prepared on 11 April 2017
Statutory body of the reporting entity

Pavel Krtek
Chairman of the Board
of Directors
České dráhy, a.s.

Martin Bělčík
Member of the Board
of Directors
České dráhy, a.s.

Statement of Financial Position (Balance Sheet) as at 31 December 2016

CZK million		31 Dec 2016	31 Dec 2015 (adjusted)*)	1 Jan 2015 (adjusted)*)
Property, plant and equipment	15	54,644	57,029	57,603
Investment property	16	715	1,958	2,140
Intangible assets	17	170	224	252
Investments in subsidiaries and associates and joint ventures	18	8,002	8,002	7,882
Other financial assets	21	1,122	728	1,797
Other assets	22	3	3	4
Total non-current assets		**64,656**	**67,944**	**69,678**
Inventories	19	1,032	988	975
Trade receivables	20	1,293	1,746	1,297
Other financial assets	21	176	832	256
Other assets	22	488	959	785
Cash and cash equivalents	31	6,019	2,024	2,607
Assets held for sale	15	-	34	49
Total current assets		**9,008**	**6,583**	**5,969**
TOTAL ASSETS		**73,664**	**74,527**	**75,647**
Share capital	23	20,000	20,000	20,000
Reserve and other funds	23	16,540	16,540	16,540
Cash flow hedging reserve		(838)	(987)	(574)
Retained earnings (accumulated losses)		(1,756)	(1,605)	434
Total equity		**33,946**	**33,948**	**36,400**
Loans and borrowings	24	31,775	22,264	29,086
Provisions	25	153	164	172
Other financial liabilities	27	880	946	542
Other liabilities	28	-	-	-
Total non-current payables		**32,808**	**23,374**	**29,800**
Trade payables	26	2,444	4,138	4,643
Loans and borrowings	24	1,761	9,871	2,227
Provisions	25	732	1,405	872
Other financial payables	27	144	267	199
Other payables	28	1,829	1,524	1,506
Total current payables		**6,910**	**17,205**	**9,447**
TOTAL LIABILITIES		**73,644**	**74,527**	**75,647**

*) After change in data as at 1. 1. 2015 and as at 31. 12. 2015, see note 2.2.1.

Statement of Profit or Loss for the Year ended 31 December 2016

		Year ended 31 Dec 2016 CZK million	Year ended 31 Dec 2015 (adjusted)**) CZK million
CONTINUING OPERATIONS			
Revenue from principal operations	5	21,571	21,074
Other operating income *)	6	1,788	1,896
Purchased consumables and services *)	7	(9,558)	(9,523)
Employee benefit costs *)	8	(7,943)	(7,673)
Depreciation and amortisation *)	9	(4,811)	(4,714)
Other operating costs *)	10	(441)	(1,316)
Profit (loss) from operating activities before tax *)		**606**	**(306)**
Financial expenses *)	11	(1,189)	(1,254)
Financial income	12	198	265
Loss before tax *)		**(385)**	**(1,295)**
Loss for the period from continuing operations *)		**(385)**	**(1,295)**
DISCONTINUED OPERATIONS			
Profit (loss) from discontinued operations *)	14	224	(750)
Loss for the year		**(161)**	**(2,045)**

Statement of Other Comprehensive Income for the Year ended 31 December 2016

	Year ended 31 Dec 2016 CZK million	Year ended 31 Dec 2015 (adjusted)**) CZK million
Loss for the year	(161)	(2,045)
Actuarial gains on employee benefit liabilities	10	6
Relating income tax	-	-
Other comprehensive income/(loss) for the year (items that are not reclassified to profit or loss)	**10**	**6**
Cash flow hedging	149	(413)
Relating income tax	-	-
Other comprehensive income/(loss) for the year (items that may be reclassified to profit or loss)	**149**	**(413)**
Other comprehensive income/(loss) for the year, net	**159**	**(407)**
Total comprehensive income/(loss) for the year	**(2)**	**(2,452)**

*) After reporting data change for the year ended 31 December 2015, see note 14.1
**) After change in data for the year ended 31 December2015, see note 2.2.1.

Statement of Changes in Equity for the Year ended 31 December 2016

	Share capital CZK million	Reserve and other funds CZK million	Cash flow hedging reserve CZK million	Retained earnings (accumulated losses) CZK million	Total equity CZK million
Balance as at 1 January 2015	**20,000**	**16,540**	**(574)**	**434**	**36,400**
Comprehensive income					
Loss for the period	-	-	-	(2,045)	(2,045)
Other comprehensive income for the year	-	-	(413)	6	(407)
Comprehensive income for the year - total	**-**	**-**	**(413)**	**(2,039)**	**(2,452)**
Balance as at 31 December 2015	**20,000**	**16,540**	**(987)**	**(1,605)**	**33,948**
Comprehensive income					
Loss for the period	-	-	0	(161)	(161)
Other comprehensive income for the year	-	-	149	10	159
Comprehensive income for the year - total	**-**	**-**	**149**	**(151)**	**(2)**
Balance as at 31 Dec 2016	**20,000**	**16,540**	**(838)**	**(1,756)**	**33,946**

*) After change in data as at 1 January 2015 and as at 31 December 2015, see in note 2.2.1.

Cash Flow Statement for the Year ended 31 December 2016

		Year ended 31 Dec 2016 (CZK million)	Year ended 31 Dec 2015 (CZK million) (adjusted)**)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year before tax		**(161)**	**(2,045)**
Dividend income	12	(109)	(75)
Financial expenses - interest	11	1,099	1,163
Profit from the sale and disposal of non-current assets	6	(462)	(340)
Profit from the sale of part of the business		(302)	-
Depreciation and amortisation of non-current assets *)	9	4,811	4,714
Impairment of property, plant and equipment, investment property and assets held for sale *)	10	738	99
Impairment of trade receivables *)	10	30	39
Increase (decrease) in provisions	25	(673)	524
Foreign exchange rate gains (losses)		(10)	(170)
Other *)		118	733
Cash flows from operating activities before changes in working capital		**5,081**	**4,642**
Decrease (increase) in trade receivables	20	278	(487)
Decrease (increase) in inventories	19	(124)	(123)
Decrease (increase) in other assets	21,22	1,132	(196)
Increase (decrease) in trade payables	26	(1,710)	(145)
Increase (decrease) in other payables	27,28	409	30
Total changes in working capital		**(15)**	**(921)**
Cash flows from operating activities		**5,066**	**3,721**
Interest paid	11	(1,137)	(1,077)
Net cash flows from operating activities		**3,929**	**2,644**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment	15	(4,900)	(5,137)
Proceeds from disposal of property, plant and equipment	6	547	574
Payments for acquisition of subsidiaries and associates and joint ventures	18	-	(121)
Payments for investment property	16	(36)	(22)
Costs of acquisition of intangible assets	17	(82)	(79)
Net cash flows from the sale of part of the business	14	3,389	-
Interest received	12	16	16
Loans and borrowings provided to related parties	29.6	(590)	-
Reayments of loans and borrowings from related parties	29.6	121	58
Dividends received	12	109	75
Net cash flows (used in) from investment activities		**(1,426)**	**(4,636)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings	24	10,833	3,152
Repayments of loans and borrowings	24	(8,897)	(1,295)
Payment of financial leasing		(444)	(448)
Net cash flows from financing activities		**1,492**	**1,409**
Net increase (decrease) in cash and cash equivalents		**3,995**	**(583)**
Cash and cash equivalents at the beginning of the reporting period		2,024	2,607
Cash and cash equivalents at the end of the reporting period	**31**	**6,019**	**2,024**

*) After change in reporting data for the year ended 31 December 2015, see in note 14.1
**) After change in data for the year ended 31 December2015, see in note 2.2.1.

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NOTES TO THE SEPARATE FINANCIAL

STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. General Information

1.1. Formation of the Company

On the basis of Act 77/2002 Coll. on the Joint Stock Company Czech Railways, the State Organisation Railway Route Administration and the Changes to the Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll. as amended, České dráhy, a. s. (the "Company" or "ČD") was estabilished on 31 March 2002. On 1January 2003 the state organisation Czech Railways discontinued its activities and operations and the Company and the state organisation Railway Route Administration ("SŽDC") were formed as its legal successors. As of that date, the Company was recorded in the Commercial Register.

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 located at nábř. L. Svobody 1222, Prague 1.

The separate financial statements have been prepared as at and for the year ended 31 December 2016 (hereinafter "financial statement). The reporting period is the calendar year from 1 January 2016 to 31 December 2016. The Company additionally prepares the consolidated financial statements under IFRS that will be approved as of the same date as the separate financial statements.

1.2. Principal Operations

The Company has been principally engaged in operating railway passenger transportation. Other activities of the Company predominantly include the administration of immovable assets. In addition, the Company is engaged in other activities relating to its principal business activities.

The assets comprising the railway routes are owned by the State, not the Company. The right of management of these assets rests with SŽDC. SŽDC secures the operability and service of the railway routes.

2. Significant Accounting Policies

2.1. Statement of Compliance

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

2.2. Basis of Preparation

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

Accounting policies used in reported period are consistent with the accounting policies used in previous periods.

Preparation of Financial Statement in accordance with IFRS approved by the EU requires use of certain critical accounting estimates. It also requires from management use of judgement in the process of applying accounting rules. Areas involving high degree of judgment or complexity, or areas including significant assumptions and estimates in relation to this financial statement are enclosed in note 4.

2.2.1. Changes in the Application of Accounting Procedures and Modification of the Method of Reporting

Changes in the Reporting Method for Leaseback

The leaseback that has occured in prior accounting periods between 1.1.2008 - 31.12.2015 has been presented as financial leasing in accordance with theIAS 17 During the complilation of the financial statements for the year 2016 this accounting method has been revised with the interpretation of SIC 27 taken into accont - The evaluation of transactions in the legal form od the lease as well as comparable periods of this financial statement have been retrospectively amended. In essence it concerns arrangements which cannot be regarded as a leave, instead it is a loan from a lender with a relevant property liability. The amendment consists mainly the reduction of the value of fixed values as well as the reduction of Other liabilities (short and long term). It was also necessary to partially modify the Retained earnings.

Reclassification of Items in the Financial Statemens

In the year 2016, the Company has taken away the row labeled Other profits (losses) from the Profit and Loss statement. This row was presented in the financial statements for 2015 in Chapter 12. The items found here wered moved by the Company in the following way:

Foreign Exchange rate gains in the amount of 50 million CZK were moved to Other operating income; Operating Exchange rate losses in the amount of 48 million CZK were moved to Other operating costs.

Financial Exchange rate losses in the amount of 44 million CZK and Other financial items in the amount of 45 million CZK have been moved to Financial expenses. Financial Exchange rate gains in the amount of 174 million CZK have been moved to Financial assets.

Discontinued Operations

In May 2016 the Government have approved the draft budget of the Ministry of Transport addressing the financial cover for the transfer of a part of Czech Railways property to the State, respectively the Railway Route Administration(SŽDC). In June 2016 the Company has sold the property in question to the Railway Route Administration. The profit (loss) analysis of discontinued operation is presented in chapter 14.1.

1.1.2015		Formerly presented in million CZK	Restatement in million CZK	Reclassification in million CZK	Modified in million CZK
Property, plant and equipment	15	57,990	(387)*)	-	57,603
Retained earings		578	(144)*)	-	434
Other liabilities – short-term	28	1,691	(243)*)	58	1,506
Reserves – short-term	25	930	-	(58)	872

31.12.2015		Formerly presented in million CZK	Restatement in million CZK	Reclassification in million CZK	Modified in million CZK
Property, plant and equipment	15	57,389	(360)*)	-	57,029
Retained earings		(1,439)	(166)*)	-	(1,605)
Other liabilities – short-term	28	1,646	(193)*)	71	1,524
Reserves – short-term	25	1,476	-	(71)	1,405

Year 2015		Formerly presented in million CZK	Restatement) in million CZK	Reclassification in million CZK	Discontinued operations in million CZK	Modified in million CZK
Other operation profits	6	2,204	(50)*)	49	(357)	1,846
Services, consumed material and energy	7	(9,868)	-	0	345	(9,523)
Employee benefit costs	8	(7,817)	-	(13)	157	(7,673)
Depreciation and amortization	9	(4,871)	28*)	0	129	(4,714)
Other operating costs	10	(1,756)	-	(36)	476	(1,316)
Financial costs	11	(1,165)	-	(89)	0	(1,254)
Financial profits	12	183	-	82	0	265
Profit (loss) for the period		(2,017)	(22)*)	(6)	0	(2,045)
Profits from discontinued operations	14	-	-	0	(750)	(750)
Total for the period		**(2,430)**	**(22)*)**	**0**	**0**	**(2,452)**

*) The effect of change in the reporting of leaseback transactions

2.3. Revenue Recognition

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

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

Sales of services are recognised when services are rendered to counterparties. Revenues related to transportation services are recognised in the period in which the services are provided by reference to the stage of completion of the service (e.g. period of validity of long-term travel documents).

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

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

Information on revenues are introduced into the accounting from passenger information system, which registers cash income, credit cards payments, incomes from e-shop and other incomes. Revenues accounting takes place at the moment of collection of revenue. Revenues from prepaid products are charged by applying accruals. Prepaid products include for example: annual tickets, annual employee tickets, kilometric bank, loyalty program.

Compared to the national transportation, in international transportation there are incomes and revenues with foreign railways and international ticket sellers recognized. This reconciliation may be delayed for months in some cases, therefore accruals are used.

Significant revenues from transport, apart from the sale of tickets and other vouchers, are also revenues from use of motor cars in RIC system (under the agreement of mutual usage of motor cars in international transport), which are accounted annually therefore accruals are used.

Key revenues included in passenger transport are payments from orderers – Ministry of Transportation and regions. These revenues are accounted monthly in accordance to annually approved documents and volume of the services.

2.4. Leases

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

2.4.1. The Company as a Lessor

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

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2.4.2. The Company as a Lessee

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

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

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

2.4.3. Sale and Leaseback

The sale and leaseback involves the sale of an asset and the subsequent leaseback of the same asset. Leasing payments and the sale price are often interdependent because they are negotiated upon in a single transaction. The accounting treatment of the sale transaction and leaseback depends on the type of leasing, which constitutes apart of this transaction.

If the leaseback is a financial leasing the lessor provides cash through this transaction to the lessee with the leased asset as a guarantee. Due to this the excess proceeds from the sale and the carrying amount cannot be considered as an income.

If the sale operation and leaseback leads to an operating lease and it is evident that the operation was established at fair value, all profits and losses are to be recognized immediately. The exception is when the loss is compensated by future lease payments set out below market price. In this case the loss must be postponed and compensated in relation to the lease payments over the intended use of the asset.

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

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

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

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

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

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

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

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

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

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

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

The reserve for long-term employee benefits is reported in the current value of future cash outflowswhich will be necessary for their payment. The discount rate used will be the rate of return on government bonds at the balance sheet date. This is due to a non-existent market of high quality corporate bonds denominated in Czech crowns. . The currency and terms of these bonds is consistent with with the currency and terms of the respective long-term benefits. The value of this reserve set annually on the basis of a calculation of independent insurance actuaries. The profits and losses arising from the modificationsand changes of actuarial assumptions for the benefits at retirement are included in other comprehensive income, changes in the reserve for other benefits are included in the income statement.

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

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

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

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

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

2.9.3. Current Tax Payable and Deferred Tax for the Period

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

2.10. Property, Plant and Equipment

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

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

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

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

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

The Company capitalises major (periodical) repairs of rail vehicles. The costs of repairs are recorded as a separate asset item (component) and are depreciated over the useful life of repairs. The depreciation period of the components is determined for the series of rail vehicles and type of the components (periodical repairs – major, significant and overhaul). The average period of depreciation is six years.

2.11. Property Investments

Property investments, which constitute property held with the purpose of profit from renting and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, the Company measures its investment property using the cost valuation model in accordance with the requirements of IAS 16 Property, Plant and Equipment.

2.12. Intangible Assets

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

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

2.13. Impairment of Tangible and Intangible Assets

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

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

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

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

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

2.14. Investments in Subsidiaries, Associates and Joint Ventures

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

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

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

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

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

2.15. Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.16. Inventories

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

2.17. Provisions

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

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

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

2.18. Financial Instruments

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

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

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

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

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

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

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

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

The Company holds equity investments (other than subsidiaries and associates) that are not traded on an active market, classified as financial assets available for sale and carried at cost less any impairment losses as their fair value cannot be reliably determined.

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

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

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

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

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

The Company records impairment losses (allowances) based on an individual assessment of trade receivables as equal to 50% of the outstanding carrying amount of the receivables that are past due by more than 18 months and full allowances against receivables registered for recovery under insolvency proceedings. In addition, full allowances are recognised in respect of receivables that are past due by more than 12 months and whose carrying amount does not exceed CZK 30 thousand. The Company recognises no allowances against receivables from subsidiaries and SŽDC.

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

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

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

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

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

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

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

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

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

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

Derivatives that do not meet criteria for being recognised as hedging are treated by the Company as at fair value through profit or loss.

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

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

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

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

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

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

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

3. Adoption of New and Revised International Financial Reporting Standards

3.1. Standards and Interpretations Effective for Annual Period Ended 31 December 2016

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

Modifications, new and revised standards and interpretations	Effective for accounting periods beginning on or after the date
IFRS 10, IFRS 12 and IAS 28 – Modification of IFRS 10, IFRS 12 and IAS 28 Investments in Associates and Joint Ventures	1 January 2016
IFRS 11 – Modifications of IFRS 11 Joint Arrangements	1 January 2016
IAS 1 – Modification of IAS 1 Presentation of Financial Statements	1 January 2016
IAS 16, IAS 38 – Modifications of IAS 16 a IAS 38 – Intangible Assets	1 January 2016
IAS 16, IAS 41 - Modifications of IAS 16 a IAS 41 – Agriculture	1 January 2016
IAS 19 – Modifications of IAS 19 Emplyee Benefits*)	1 July 2014
IAS 27 – Modification of IAS 27 – Separate Financial Statements	1 January 2016
Annual improvements to IFRS – cycle 2010 - 2012 (issued in December 2013)*)	1 July 2014
Annual improvements to IFRS – cycle 2012 - 2014 (issued in September 2014)	1 January 2016

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

Mentioned improvements and interpretations have no impact on the reporting or disclosure.

3.2. Standards and Interpretations used Prior to the Effictive Date

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

3.3. Standards and Interpretations Issued but not Yet Used

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

Modifications, new and revised standards and interpretations	Effective for periods beginning on or after the date
IFRS 9 – Financial instruments (2014)	1 January 2018
IFRS 14 – Regulatory Deferral Accounts	1 January 2016*)
IFRS 15 – Revenue from Contracts with Customers	1 January 2018
IFRS 16 - Leases	1 January 2019**)
IFRS 2- Modification of IRFS 2 Share-based Payment	1 January 2018**)
IFRS 4 – Modification of IFRS 4 using IFRS 9 Financial instruments together with IFRS 4 Insurance Contracts	1 January 2018**)
IFRS 10, IAS 28 – Modification of IFRS 10 and IAS 28 – Investments in Associates and Joint Ventures	Date yet to be released**)
IFRS 15 – Modification of IFRS 15 – Clarification of IFRS 15	1 January 2018**)
IAS 7 – Modifications of IAS 7 Statement of Cash Flow	1 January 2017**)
IAS 12 – Modification of IAS 12 – Income Taxes	1 January 2017**)
IAS 40 – Modification of IAS 40 Investment Property	1 January 2018**)
Annual improvements to IFRS – cycle 2014 - 2016 (issued in December 2016)	1 January 2017/ 1 January 2018**)
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018**)

*) The European Union has decided not to apply for approval of the temporary standard.
**) Standards, modifications and interpretations not yet approved for use in the EU

The management of the Company expects that the adoption of most of these standards, amendments and interpretations in the future periods will have no material effect on the company. For IFRS 9 and 15, the Company expects greater scope of disclosed information.

For IFRS 16, the Comapany expects the need for recognition of significant number of lease agreements on the Balance sheet. IFRS 16 will become mandatory at proper accounting period beginning 1 January 2019, but may be applied before its mandatory effective date provided that IFRS 15 Revenue from Contracts with Customers has already been adopted or will be adopted at the same date. The Standard has yet to undergo the approval process of the EU. The Company is currently assessing the impact of the new standard and assumes that it will be implemented no sooner than at its mandatory effective date.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

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

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

4.3. Provisions for legal Disputes and Business Risks
The Company is involved in a number of court and out-of-court commercial disputes. Where the criteria for the recognition of provisions are met, the Company 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.

5. Revenues from Principal Operations

All of the below additional information on the statement of profit or loss relates to continuing operations. Profits and losses from discontinued operations are disclosed in a separate note.

(CZK million)	**2016**	**2015**
Revenue from passenger transportation - fare	7,820	7,560
Domestic passenger transportation	5,152	5,076
International passenger transportation	2,668	2,484
Revenue from passenger transportation - payments from public service orderers	13,752	13,514
Payment from the state budget	4,485	4,409
Payment from the regional budget	9,266	9,105
Total revenue from principal operations – continuing operations	**21,571**	**21,074**

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

The Company provides transport services in public railway transport for a set (often reasonable) proces and assures transport services in the designated categories of public transport trains on the railway systém of the Czech republic. The scope of these services and the compensation (Company profits) are set in agreements between the State and regional authorities. A contract concerning the obligation for public service provision for the period of 2010-2019 was signed on 2.12.2009

The Czech Republic has reconciled its legislatives in the area of public transport with the EU legislature by adopting the Act no. 194/2010 Coll. concerning the public transport services and amendments of other laws. České dráhy, a.s. has arranged a public service obligation agreement for the duration of ten years and more, and is governed by the law prior to the adoption of the law in question.

The Government resolution no. 1132/2009 from 31.8.2009 states the securing of additional funding of the regional railway transport by regional subsidies including the rules for the increase or reduction of the scope of purchased railway transport and the increase of this special purpose subsidiary during the following years. The Government of the Czech republic has adopted a resolution on the organizationand financing of regional railway transport for the period following the end of a majority of contracts in the public service. This document is crucial for the decision of individual purchasers concerning the regional transport in the year 2019.

There are intensive discussions being held on the matter of amendments to the long-term contracts for the year 2017 to the date of the financial statements for the year 2016 Eight amendments concerning regional transport have been concluded in 2017. Other amendments are in the proces of discussion at the appropriate regional level. The closing of all amendments is likely according to the opinion of the management. In relation to the provision of public transport services this does not consitute any restriction. Due to long-term contracts there will not occur an interruption of services or discontinuation of funding. Advances for payments from regional budgets are sent at an appropriate amount – in the case of yet unsigned amendments for the year 2017.

Significant transactions with main customers with state participation are stated in Note 29.8.

6. Other Operating Income

(CZK million)	2016	2015
Gain from sale of property, plant and equipment and investment property **)	462	340
Gain from the sale of inventory	98	37
Sales of other services *)	348	350
Rental income *)	303	346
Compensations for deficits and damage	32	89
Contractual penalties and default interest	38	74
Payment for alternative bus transport	293	425
Commission from ticket sales and other transactions at cash desks	52	51
Foreign Exchange gains – operating	22	52
Other *)	140	82
Total other operating income – continuing operations *)	**1,788**	**1,846**

*) After change in reporting data for the year ended 31 December 2015, see in note 14.1
**) After change in data for the year ended 31 December2015, see in note 2.2.1.

7. Purchased Consumables and Services

(CZK million)	2016	2015
Traction costs	(2,303)	(2,401)
Traction fuel (diesel)	*(1,101)*	*(1,176)*
Traction electricity	*(1,202)*	*(1,225)*
Payment for the use of railway route	(1,842)	(1,808)
Other purchased consumables and services	(5,413)	(5,314)
*Consumed material *)*	*(942)*	*(846)*
*Consumed other energy *)*	*(285)*	*(307)*
Consumed fuel	*(60)*	*(67)*
*Repairs and maintenance *)*	*(552)*	*(457)*
Travel costs	*(114)*	*(110)*
Telecommunication, data and postal services	*(102)*	*(144)*
Other rental	*(120)*	*(94)*
Rental for rail vehicles	*(503)*	*(493)*
Transportation charges	*(18)*	*(15)*
Rail replacement bus service	*(480)*	*(692)*
Services of dining and sleeping carriages	*(143)*	*(120)*
Services associated with the use of buildings	*(253)*	*(277)*
Operational cleaning of rail vehicles	*(331)*	*(328)*
Border area services	*(438)*	*(373)*
Advertising and promotion costs	*(145)*	*(151)*
Commission from ticket sales to other carriers and vendors	*(144)*	*(148)*
Infrastructure capacity allocation	*(53)*	*(50)*
Services related to IT	*(281)*	*(263)*
Fire brigade services	*(30)*	*(30)*
Expenses related to the environment	*(36)*	*(40)*
Other services)*	*(383)*	*(309)*
Total purchased consumables and services – continuing operations *)	**(9,558)**	**(9,523)**

*) After change in reporting data for the year ended 31 December 2015, see in note 14.1

Other services include mostly expenses related to education, health care, consulting, expert opinions and other services.

(CZK million)

Audit services	2016	2015
Obligatory audit of the annual financial statements *)	1	2
Tax advisory	1	1
Other services	11	8
Total	**13**	**11**

*) expenses for audit of the annual financial statement 2015

8. Employee Benetif Costs

(CZK million)	2016	2015
Payroll costs *)	(5,644)	(5,442)
Severance pay	(37)	(43)
Statutory social security and health insurance *)	(1,898)	(1,829)
Benefits resulting from the collective agreement	(76)	(71)
Other social costs *)	(263)	(263)
Other employee benefit costs	(25)	(24)
Total employee benefit costs – continuing operations *)	**(7,943)**	**(7,673)**

*) After change in reporting data for the year ended 31 December 2015, see in note 14.1

From the value reported as mandatory social and health insurance of the Company in the year 2016 a total amount of CZK 1,213 million was recorded in the state pension insurance system (in year 2015: CZK 1,170 million).

9. Depreciation and Amortisation

(CZK million)	2016	2015
Depreciation of property, plant and equipment *) **)	(4,660)	(4,576)
Depreciation of investment property *)	(26)	(29)
Amortisation of intangible assets *)	(125)	(109)
Total depreciation and amortisation – continuing operations *))**	**(4,811)**	**(4,714)**

*) After change in reporting data for the year ended 31 December 2015, see in note 14.1
**) After change in data for the year ended 31 December2015, see in note 2.2.1.

10. Other Operating Loses

(CZK million)	2016	2015
Change in other provisions	673	(530)
Reversal of losses (loss) from impaired receivables	(16)	(13)
Losses from impaired property, plant and equipment, investment property and assets held for sale *)	(738)	(99)
Reversal of write-down (write-down) of inventories to their net realisable value	(42)	(48)
Costs of contractual fines and default interest	(54)	(112)
Taxes and fees *)	(20)	(22)
Insurance	(73)	(66)
Foreign Exchange loses - operating	(11)	(48)
Other operating expenses - arbitration award in the dispute with ŠKODA TRANSPORTATION	-	(208)
Shortages and damages	(38)	(62)
Expenses for uniforms and personal protective equipment	(44)	(36)
Other operating expenses *)	(78)	(72)
Total other operating losses – continuing operations *)	**(441)**	**(1,316)**

*) After change in reporting data for the year ended 31 December 2015, see in note 14.1

Material account balances in "Change in reserves", "Losses from impairment" and "Other operating expenses" – arbitral award in dispute Škoda Trasportation is related to dispute with Škoda Transportation. In 2015 the Company paid the amount of CZK 468 million in accordance to arbitral award. For another part of payment the Company created a provision, due to uncertainty about kind of financial execution and whether the Company will pay. After subsequent negotiations with the counterparty the Company decided to pay the amount of CZK 628 million. Expenditure turned out to be an investment and represents increase in acquisition cost of assets (locomotive). The Company dissolved provision and recognized impairment loss of the additional part of the acquisition value due to assumption that increase of purchase price is not commensurate to the recoverable value of assets

11. Financial Expenses

(CZK million)	2016	2015
Interest on issued bonds	(986)	(1,026)
Interest on finance lease payables	(59)	(74)
Other interest	(87)	(75)
Less: amounts capitalised as part of the costs of an eligible asset	33	12
Foreign Exchange loses– financial	(58)	(46)
Other financial expenses	(32)	(45)
Total financial expenses – continuing operations *)	**(1,189)**	**(1,254)**

*) After change in data for the year ended 31 December2015, see in note 2.2.1.

The capitalisation rate in the year 2016 je 2.81 % p. a. (2015: 3.65 % p. a.).

12. Financial Gains

(CZK million)	2016	2015
Foreign Exchange gains – financial	68	174
Received dividends	109	75
Received interest	16	16
Other financial gains	5	-
Total financial gains – continuing operations	**198**	**265**

13. Income Taxation

13.1. Income Tax Reported in Profit or Loss

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

(CZK million)	2016	2015
Loss for the period from continuing operations	(385)	(1,295)
Profit (loss) from discontinued operations	224	(750)
Profit (loss) for the period before tax	**(161)**	**(2,045)**
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected income tax expense	**31**	**389**
Adjustments:		
Effect of the unrecognised deferred tax asset	74	(352)
Revenues exempt	20	14
Income tax related to prior periods – arbitral award Škoda Transportation	-	(40)
Tax non-deductible expenses – creation(-)/cancellation(+) provisions for penalty from the Competition Bureau	(72)	39
Tax non-deductible expenses - deficits and damage	(7)	(12)
Tax non-deductible payroll expenses	(21)	(21)
Other tax non-deductible items, net	(25)	(17)
Income Tax Reported in Profit or Loss	**-**	**-**

13.2. Deferred Tax

(CZK million)	Unutilised tax losses	Non-current assets	Provisions	Leases **)	Receivables	Other	Total
Balance at 1 Jan2015 – calculated)**	**412**	**742**	**150**	**(87)**	**21**	**150**	**1,388**
Balance at 1 Jan 2015 - recognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deferred tax recognised in profit or loss:	-	-	-	-	-	-	-
– of which current changes	*(75)*	*348*	*137*	*(40)*	*-*	*(18)*	*352*
*– of which impairment *)*	*75*	*(348)*	*(137)*	*40*	*-*	*18*	*(352)*
Deferred tax recognised in other comprehensive income	-	-	-	-	-	-	-
– of which current changes	*-*	*-*	*1*	*-*	*-*	*81*	*82*
*– of which impairment *)*	*-*	*-*	*(1)*	*-*	*-*	*(81)*	*(82)*
Balance at 31 Dec 2015 – calculated)**	**337**	**1,090**	**288**	**(127)**	**21**	**213**	**1,822**
Balance at 31 Dec 2015 – recognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deferred tax reported in Profit or Loss	-	-	-	-	-	-	-
– of which current changes	*(129)*	*279*	*(211)*	*(40)*	*5*	*22*	*(74)*
*– of which impairment *)*	*129*	*(279)*	*211*	*40*	*(5)*	*(22)*	*74*
Deferred tax recognised in other comprehensive income	-	-	-	-	-	-	-
– of which current changes	*-*	*-*	*2*	*-*	*-*	*(31)*	*(29)*
*– of which impairment *)*	*-*	*-*	*(2)*	*-*	*-*	*31*	*29*
Balance at 31 Dec 2016 – calculated	**208**	**1,369**	**79**	**(167)**	**26**	**204**	**1,719**
Balance at 31 Dec 2016 - recognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**

*) The decrease in the deferred tax asset recognised in the balance sheet (directly or indirectly as items decreasing deferred tax liabilities) to its recoverable value.
**) After change of data as at 1 January 2015 and as at 31 December 2015, see in note 2.2.1.

According to the preliminary due corporate income tax return for the 2016 taxation period, the Company records a utilisable tax loss for the 2013 taxation period in the aggregate amount of CZK 1,095 million. The tax loss is utilisable always in five taxation periods subsequent to the period in which the relevant loss was assessed, i.e. between 2014 and 2018. Given the low anticipated taxable profits, the realisation of deferred tax assets is uncertain. For this reason, the Company attributes a zero recoverable value to this deferred tax asset when the resulting net position as of the balance sheet date is a deferred tax asset.

14. Discontinued Operations and Assets Held for Sale

14.1. Sale of Part of the Business

In May 2016 the Government of Czech Republic approved proposal budget plan of Ministry of Transport, which provides financing of transfer of part of assets of České dráhy to the state or Railway Infrastructure Administration. The transfer involves railway buildings especially, other buildings at railway stations and related lands.

On 24 June 2016 the contract on sale of part of the business between České Dráhy, a.s. and SŽDC, s.o was signed. The sale took place on 1 June 2016. Part of the business held for sale was recognised as organizational unite of ČD ''Railway station" (CZ: "Železniční stanice"), its material, technological and human resources. The purchase price was amounted to CZK 3,310 million. As of 1 June 2016 312 employees have moved to SŽDC in accordance to sale of part of the business.

Analysis of profit (loss) and cash flows from discontinued operations

(CZK million)	2016	2015
Revenue from principal operations	-	-
Other operating income	200	357
Purchased consumables and services	(123)	(345)
Employee benefit costs	(79)	(157)
Depreciation and amortisation	(65)	(129)
Other operating expenses	(11)	(476)
Loss from operating activities before tax	**(78)**	**(750)**
Profit or loss from sale of the part of the business	**(78)**	**(750)**
Consideration received – purchase price	3 310	0
Consideration received – working capital matching	79	-
Net assets transferred to Railway Infrastructure Administration	(3,087)	-
Income tax recognized as expense	-	-
Profit from purchase of discontinued operations	**302**	**-**
Profit (loss) from discontinued operations	**224**	**(750)**

According to the requirements of standard IFRS 5 it was a change in reporting comparable data in Profit or Loss. Profit or loss from sale of part of the business for the year ended as at 31 December 2015 was transferred to discontinued operations.

(CZK million)	2016	2015
Cash flows from operating activities	(12)	(149)
Cash flows from investment activities	3,361	(47)
Net cash flows from sale of part of the Company	3,389	-
Gains from property, plant and equipment	-	-
Payments for property, plant and equipment	(28)	(47)
Cash flows from financing	-	-
Net cash flows from discontinued operations	**3,349**	**(196)**

Following table presents loss of value of net assets of sold part of the business to the date of sale to SŽDC.

(CZK million)	1 July 2016
Property, plant and equipment	2,119
Investment property	1,124
Inventories	1
Receivables from related parties	59
Other current financial assets	9
Other current assets	22
Total assets	**3,334**
Liabilities from related parties	96
Other current financial liabilities	9
Other current liabilities	138
Loans and borrowings received	1
Provisions	3
Liabilities related to assets held for sale	**247**
Net assets	**3,087**

15. Property, Plant and Equipment

(CZK million)

Cost	Balance at 1 Jan 2015	Additions	Disposals	Reclassification	Balance at 31 Dec 2015	Additions	Disposals	Reclassification	Balance at 31 Dec 2016
Land	5,939	4	2	(15)	5,926	-	299	-	5,627
Constructions	13,631	137	47	(168)	13,553	183	4,243	44	9,537
Individual movable assets	82,436	4,032	2,328	-	84,140	5,722	1,968	-	88,894
- Machinery, equipment, and furniture and fixtures	*2,242*	*44*	*46*	-	*2,240*	*58*	*224*	*1*	*2,075*
- Vehicles	*79,368*	*3,986*	*2,278*	-	*81,076*	*5,654*	*1,732*	*(1)*	*84,997*
- Vehicles acquired under finance leases	*786*	*2*	*0*	-	*788*	*10*	*7*	-	*791*
- Other	*40*	-	*4*	-	*36*	-	*5*		*31*
Other assets	13	-	-	-	13	-	-		13
Assets under construction	1,146	3,483	2,776	-	1,853	3,844	4,487	-	1,210
Prepayments	117	-	117	-	-	-	-	-	-
Total	**103,282**	**7,656**	**5,270**	**(183)**	**105,485**	**9,749**	**10,997**	**44**	**104,281**

(CZK million)

Accumulated depreciation	Balance at 1 Jan 2015	Additions	Disposals	Reclassification	Balance at 31 Dec 2015	Additions	Disposals	Reclassification	Balance at 31 Dec 2016
Constructions	6,836	273	28	(83)	6,998	231	2,087	(2)	5,140
Individual movable assets	37,835	4,236	2,120	-	39,951	4,363	1,665	1	42,649
- Machinery, equipment, and furniture and fixtures	*1,766*	*81*	*46*	-	*1,801*	*74*	*175*	*1*	*1,701*
- Vehicles	*35,775*	*4,118*	*2,070*	-	*37,823*	*4,252*	*1,479*	*(1)*	*40,595*
- Vehicles acquired under finance leases	*256*	*36*	*0*	-	*292*	*37*	*6*	-	*323*
- Other	*38*	*1*	*4*	-	*35*	-	*5*		*30*
Other assets	-	-	-	-	-	-	-	-	-
Total	**44,671**	**4,509**	**2,148**	**(83)**	**46,949**	**4,594**	**3,752**	**(2)**	**47,789**

(CZK million)

Impairment	Balance at 1 Jan 2015	Additions	Disposals	Reclassification	Balance at 31 Dec 2015	Additions	Disposals	Reclassification	Balance at 31 Dec 2016
Land	59	44	-	-	103	68	103	-	68
Constructions	39	384	-	-	423	64	424	-	63
Individual movable assets	775	207	1	-	981	567	21	-	1,527
- Machinery, equipment, and furniture and fixtures	*1*	-	*1*	-	-	-	-	-	-
- Vehicles	*774*	*207*	-	-	*981*	*567*	*21*	-	*1,527*
Assets under construction	135	-	135	-	-	190	-	-	190
Total	**1,008**	**635**	**136**	**-**	**1,507**	**889**	**548**	**-**	**1,848**

Reclassifications predominantly include transfers of asset items between individual groups (IAS 16, IAS 40)

(CZK million)

Net book value	Balance at 1 Jan 2015*)	Balance at 31 Dec 2015*)	Balance at 31 Dec 2016
Land	5,880	5,823	5,559
Buildings	6,756	6,132	4,334
Individual movable assets	43,826	43,208	44,718
- Machinery, equipment, and furniture and fixtures	475	439	374
- Vehicles	*42,819*	*42,272*	*42,875*
- Vehicles acquired under finance leases	*530*	*496*	*468*
- Other	*2*	*1*	*1*
Other assets	13	13	13
Assets under construction	1,011	1,855	1,020
Prepayments	117	-	-
Total	**57,603**	**57,029**	**54,644**

The following useful lives were used in the calculation of depreciation:

	Number of years
Buildings	30 – 50
Constructions	20 – 50
Locomotives	20 – 30
Passenger coaches	20 – 30
Wagons	25 – 33
Components	2 - 15
Machinery and equipment	8 – 20

*) After change of data as at 1 January 2015 and as at 31 December 2015, see in note 2.2.1

Principal additions from 1 January 2015 to 31 December 2016 include the acquisition of railway vehicles as part of the renewal of the Company's rolling stock. Given the long-term nature of the acquisition of this type of assets, significant balances are reported on the accounts of assets under construction. In the year 2016, the Company provided no significant prepayments.

In 2016, the Company acquired fixed assets financed through government grants in the amount of CZK 1,343.5 million for long-term assets, which were purchased in 2015 („Renewal of the vehicle fleet for the railway line R13 Brno - Břeclav - Olomouc" – CZK 1,109.7 million "Transport connection to the Leoš Janáček airport" – CZK 223.9 million, "Transfer terminal Třinec" – CZK 9.9 million).

The Company has obtained subsidies at a value of CZK 83.6 million for long-term assets, which were purchased in 2014(„Equipment of railway vehicles with the ČD system GSM-R - 2" – CZK 81.7 million) and in year 2015 („Reconstruction of the Třinec terminal" – CZK 1.9 million).

15.1. Impairment Loses Recognised in the Reporting Period
Vehicles predominantly include railway vehicles (locomotives, passenger coaches, other railway vehicles) used for operating passenger railway transportation. Pursuant to the inventory count and analyses, the Company identified items of assets for which there is a significant doubt about their future usability. The Company recognised an impairment loss for these items in the amount of the difference between the net book value and the estimated recoverable value. The recoverable value is usually determined as net proceeds from the sale less cost to sell.

The principal impairment loss as of 31 December 2016, 2015 and 1 January 2015 is the loss on the 680 series tilting trains (Pendolino) amounting to CZK 709 million, CZK 764 million and CZK 582 million. In 2013, the impairment was determined on the basis of an independent expert's assessment reflecting the market value net of the costs of sale. In 2014, the independent expert's assessment does not indicate any decline in the value. In 2015, the level of the allowance was significantly affected by the inoperability of train no. 3 due to an accident. In 2016 the value of 380 series locomotives was reduced in amount CZK 628 million, as of 31 December 2016 in amount CZK 612 million. The value is stated in amount of inflation clause according to arbitration award.

Since 2010 in the field of acquistion and modernization in accordance to Regional Operational Programs (ROP) ČD completed in particular regions 19 grant project plans to purchase 79 new and 11 modernized vehicles for regional transportation in amount more than CZK 7,6 billion. All the projects have been substantially completed and currently are in phase of sustainable development. Audit Authority of Ministry of Finance (AA) inspected 17 of 19 projects. In 11 of all inspected projects AO recognized detection with a high significance due to changes in the conditions of the contract by conclusion of amendments to trial operation with passengers As of 31 December 2016 based on quantified correction AA recognizes purchase of property amounted to CZK 379 million and impairment amounted to CZK 190 million.

Impairment losses are included in other operating expenses and losses in the statement of profit or loss.

15.2. Pledged Assets
The Company holds assets at the net book value of CZK 1,336 million, of which train sets of the 471 series amounted to CZK 1,233 million, and the Ampz passenger coaches amounted to CZK 103 million. The pledge was established in favour of EUROFIMA.

15.3. Redundant Immovable Assets
In the property, plant and equipment class, the Company reports assets of CZK 183 million which are currently not used. These are primarily vacant buildings. The Company anticipates selling the assets in the future but it did not report these assets as assets held for sale, as they have not yet complied with the criteria set out in IFRS 5.

16. Investment Property

(CZK million)	2016	2015
Balance at the beginning of the year	1,958	2,140
Additions from subsequent capitalised expenses	10	23
Disposals	(1,256)	(126)
Disposals, annual depreciation	(50)	(78)
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	77	129
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	(121)	(48)
Transfers to assets held for sale (from IAS 40 to IFRS 5)	-	(10)
Change in the value	97	(71)
Transfers of assets held for sale (from IFRS 5 to IAS 40)	-	(1)
Balance at the end of the year	**715**	**1,958**

(CZK million)	Balance at 31 Dec 2016	Balance at 31 Dec 2015	Balance at 1 Jan 2015
Cost	1,324	3,699	3,733
Accumulated depreciation and impairment	(609)	(1,741)	(1,593)
Net book value	**715**	**1,958**	**2,140**

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

The property is located around the railway route, in train stations and depots of rail vehicles. The fair value based on market comparison cannot be determined with a reasonable certainty given the different nature and location of the property. The Company used a valuation model in determining the fair value of investment property. In respect of land, the calculation includes the product of the market price for m2 for the specific locality and the area of the land. In respect of buildings, the calculation is based on the yield method from market rental. The estimate of the fair value as of 31 December 2016, 2015 and 1 January 2015 is CZK 3,926 million, CZK

7,851 million and CZK 6,033 million, respectively. In terms of the method used to arrive at the fair value, investment property has been included in level 3.

The Company determines the depreciation method and useful lives of investment property on the same basis as for property included in property (see note 15.1).

17. Intangible Assets

(CZK million)

Cost	Balance at 1. 1. 2015	Additions	Disposals	Reclassification	Balance at 31. 12. 2015	Additions	Disposals	Reclassification	Balance at 31. 12. 2016
Development costs	2	-	-	-	2	-	-	-	2
Software	704	115	-	-	819	32	-	(1)	850
Valuable rights	584	15	-	-	599	20	2	1	618
Assets under construction	76	81	129	-	28	75	56	-	47
Total	**1,366**	**211**	**129**	**-**	**1,448**	**127**	**58**	**-**	**1,517**

(CZK million)

Accumulated amortisation	Balance at 1. 1. 2015	Additions	Disposals	Reclassification	Balance at 31. 12. 2015	Additions	Disposals	Reclassification	Balance at 31. 12. 2016
Development costs	2	-	-	-	2	-	-	-	2
Software	607	70	-	-	677	98	-	-	775
Valuable rights	505	40	-	-	545	27	2	-	570
Total	**1,114**	**110**	**-**	**-**	**1,224**	**125**	**2**	**-**	**1,347**

(CZK million)

Net book value	Balance at 1 Jan 2015	Balance at 31 Dec 2015	Balance at 31 Dec 2016
Development costs	-	-	-
Software	97	142	75
Valuable rights	79	54	48
Assets under construction	76	28	47
Total	**252**	**224**	**170**

The costs of amortisation were reported in the line 'Depreciation and amortisation' in the statement of profit or loss. The Company used useful lifes presented in table below in calculating amortisation:

	Number of years
Software	3
Other valuable rights	6

Intangible fixed assets include software used in business activities entitled DISOD, PARIS, APS, In-karta, POP, UNIPOK, IS OPT, KASO, valuable rights including software license and items relating to the SAP R/3 accounting software and its modules.

18. Investments in Subsidiaries, Associates and Joint Ventures

18.1. Information on subsidiaries

(CZK million)

Name of the entity	Registered office	Value of investment as of 31 Dec 2016	Value of investment as of 31 Dec 2015	Value of investment as of 1 Jan 2015
Výzkumný Ústav Železniční, a. s.	Prague	383	383	383
ČD – Telematika a. s.	Prague	1,060	1,060	939
DPOV, a. s.	Přerov	385	385	385
ČD Cargo, a. s.	Prague	5,908	5,908	5,908
ČD – Informační systémy, a.s.	Prague	122	122	122
Dopravní vzdělávací institut, a. s.	Prague	6	6	6
ČD travel, s. r. o.	Prague	8	8	8
Total		**7,872**	**7,872**	**7,751**

Name of the entity	Principal activities	Ownership percentage as of 31 Dec 2016	Ownership percentage as of 31 Dec 2015	Ownership percentage as of 1 Jan 2015
Výzkumný Ústav Železniční, a. s.	Research and development in rail vehicles	100%	100%	100%
ČD – Telematika a. s.	Provision of ITC services	69.18%	69.18%	59.31%
DPOV, a. s.	Repairs and renovations of rail vehicles	100%	100%	100%
ČD Cargo, a. s.	Operations of railway freight transportation	100%	100%	100%
ČD – Informační systémy, a.s.	Provision of ITC services	100%	100%	100%
Dopravní vzdělávací institut, a. s.	Provision of educational services	100%	100%	100%
ČD travel, s. r. o.	Travel agency	51.72%	51.72%	51.72%

18.1.1. Details on Significant Co-owned Subsidiaries

Summary of financial information on ČD – Telematika, a. s.:

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Fixed assets	1,696	1,728	1,798
Current assets	1,296	1,563	1,140
Long-term payables	134	145	150
Short-term payables	929	1,270	989
Equity	1,929	1,876	1,799
Equity attributable to the owners of the Company	1 334	1 298	1 066
Non-controlling interests	595	578	733

(CZK million)	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Income	1,678	1,634
Expenses	(1,625)	(1,556)
Profit for the period	**53**	**78**
Profit attributable to company owners	37	54
Other comprehensive income attributable to company owners	-	-
Total comprehensive income attributable to company owners	**37**	**54**
Profit attributable to non-controlling interests	16	24
Other total profit attributable to non-controlling interests	-	-
Total profit attributable to non-controlling interests	**16**	**24**
Net cash flows from operating activities	(90)	521
Net cash flows from investment activities	(150)	(147)
Net cash flows from financing activities	(10)	(13)
Net cash flow	**(250)**	**361**

18.2. Information on Associates

(CZK million)

Name of the entity	Registered office	Investment as of 31 Dec 2016	Investment as of 31 Dec 2015	Investment as of 1 Jan 2015
JLV, a. s.	Prague	110	110	110
Masaryk Station Development, a.s.	Prague	-	-	-
Smíchov Station Development, a. s.	Prague	-	-	-
Žižkov Station Development, a. s.	Prague	1	1	1
Centrum Holešovice, a. s. *)	Prague	-	-	1
RAILREKLAM, spol. s r. o.	Prague	19	19	19
Total		**130**	**130**	**131**

*) In 2015 an 51 % share in entity Centrum Holešovice a.s. was sold.

Name of the entity	Principal activities	Ownership percentage as of 31 Dec 2016	Ownership percentage as of 31 Dec 2015	Ownership percentage as of 1 Jan 2015
JLV, a. s.	Catering services	38.79%	38.79%	38.79%
Masaryk Station Development, a.s.	Development of the Masaryk train station	34%	34%	34%
Smíchov Station Development, a. s. *)	Development of the Smíchov train station	51%	51%	51%
Žižkov Station Development, a. s. *)	Development of the Žižkov train station	51%	51%	51%
Centrum Holešovice, a. s. *)	Dvelopment of the Holešovice train station	0%	0%	51%
RAILREKLAM, spol. s r. o. *)	Advertising and mediation of services	51%	51%	51%

*) In accordance with the Articles of Association of these entities, it is necessary to have at least 52% of all votes to adopt significant resolutions.

Summary of financial information on associates and joint ventures:

(CZK million)

31 December 2016	Masaryk Station Development, a.s.	JLV, a. s.	Joint ventures	Total
Total assets	11	517	161	689
Of which: long-term assets	*7*	*332*	*87*	*426*
short-term assets	*4*	*185*	*74*	*263*
Total liabilities	5	184	131	320
Of which: long-term liabilities	*0*	*108*	*92*	*200*
short-term liabilities	*5*	*76*	*39*	*120*
Net assets	5	333	30	368
The Company's share of net assets	**2**	**129**	**15**	**146**
Total income	155	455	118	728
Profit (loss) for the period	7	14	11	32
The Company's share of profit	**2**	**5**	**6**	**13**

(CZK million)

31 December 2015	Masaryk Station Development, a.s.	JLV, a. s.	Joint ventures	Total
Total assets	141	501	129	771
Of which: long-term assets	*76*	*354*	*71*	*501*
short-term assets	*65*	*147*	*58*	*270*
Total liabilities	175	178	102	455
Of which: long-term liabilities	*138*	*125*	*70*	*333*
short-term liabilities	*37*	*53*	*32*	*122*
Net assets	(34)	323	27	316
The Company's share of net assets	**(12)**	**125**	**14**	**127**
Total income	9	405	114	528
Profit (loss) for the period	(4)	8	5	9
The Company's share of profit	**(1)**	**3**	**3**	**5**

(CZK million)

1 January 2015	Masaryk Station Development, a.s.	JLV, a. s.	Joint ventures	Total
Total assets	107	419	149	675
Of which: long-term assets	*43*	*257*	*83*	*383*
short-term assets	*64*	*162*	*66*	*292*
Total liabilities	136	95	119	350
Of which: long-term liabilities	*110*	49	55	*214*
short-term liabilities	*26*	46	64	*136*
Net assets	(29)	323	28	322
The Company's share of net assets	**(10)**	**125**	**14**	**129**
Total income	9	348	103	460
Profit (loss) for the period	(5)	15	4	14
The Company's share of profit	**(2)**	**6**	**2**	**6**

19. Inventories

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Spare parts for machinery and equipment	80	73	66
Spare parts and other components for rail vehicles and locomotives	779	732	673
Other machinery, tools and equipment and their spare parts	93	76	68
Fuels, lubricants and other oil products	24	25	26
Work clothes, work shoes, protective devices	74	64	99
Other	97	91	68
Total cost	**1,147**	**1,061**	**1,000**
Write-down of inventories to their net realisable value	(115)	(73)	(25)
Total net book value	**1,032**	**988**	**975**

The Company's inventories are principally gathered in the Supply Centre in Česká Třebová.

20. Trade Receivables

20.1. Aging of Trade Receivables

(CZK million)	Category	Before due date	Past due date (days) 1 - 30 days	31 – 90 days	91 – 180 days	181 – 365 days	365 and more	Total past due date	Total
31 Dec 2016	Gross	1,270	17	3	2	2	171	195	1,465
	Allowances	-	-	-	(2)	(2)	(168)	(172)	(172)
	Net	**1,270**	**17**	**3**	**-**	**-**	**3**	**23**	**1,293**
31 Dec 2015	Gross	1,717	17	4	2	21	163	207	1,924
	Allowances	-	-	-	-	(15)	(163)	(178)	(178)
	Net	**1,717**	**17**	**4**	**2**	**6**	**-**	**29**	**1,746**
1 Jan 2015	Gross	1,283	-	9	18	35	121	183	1,466
	Allowances	(14)	-	-	(15)	(29)	(111)	(155)	(169)
	Net	**1,269**	**-**	**9**	**3**	**6**	**10**	**28**	**1,297**

20.2. Movements in Allowances for Doubtful Receivables

(CZK million)	2016	2015
Balance at the beginning of the year	178	169
Recognition of allowances	22	81
Use of allowances	(28)	(72)
Balance at the end of the year	**172**	**178**

21. Other Financial Assets

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Financial assets for sale	330	330	308
Receivables from finance leases	77	92	96
Hedging derivatives	263	297	1,387
Loans in Group ČD	450	-	-
Other	2	9	6
Total non-current financial assets	**1,122**	**728**	**1,797**
Receivables from finance leases	1	(9)	(8)
Hedging derivatives	19	681	49
Group cash pooling	-	89	97
Receivables for deficits and damage	33	31	47
Loans in Group ČD	107	-	50
Other	16	40	21
Total current financial assets	**176**	**832**	**256**
Total	**1,298**	**1,560**	**2,053**

21.1. Receivables From Finance Leases

The Company leased the station buildings at Brno - hlavní nádraží.

	Minimal lease payments			Present value of minimal lease payments		
(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015	31 Dec 2016	31 Dec 2015	1 Jan 2015
Under 1 year	17	5	5	1	(9)	(8)
From 1 to 5 years	64	60	44	0	(3)	(17)
5 years and more	427	443	459	77	95	113
Total	**508**	**508**	**508**	**78**	**83**	**88**
Less: unrealized finance gains	(430)	(425)	(420)	0	0	0
Present value of receivables of minimum lease payments	**78**	**83**	**88**	**78**	**83**	**88**
In the statement of financial position as:						
Other current financial assets				*1*	*(9)*	*(8)*
Other non-current financial assets				77	92	96
Total				**78**	**83**	**88**

The fair value of receivables from finance leases approximates their carrying amount.

22. Other Assets

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Total non-current assets	**3**	**3**	**4**
Prepayments made	68	106	101
Tax receivables – value-added tax	349	668	494
Tax receivables – other (except for the corporate income tax)	7	17	25
Prepaid expenses	57	58	55
Subsidies	-	94	93
Other	7	16	17
Total current assets	**488**	**959**	**785**
Total	**491**	**962**	**789**

23. Equity

23.1. Share Capital

The Company's share capital has been composed of the investment made by the Czech State as the sole shareholder, represented by the Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government.

23.2. Reserve and Other Funds

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Share premium	16,439	16,439	16,439
Statutory reserve fund	101	101	101
Total	**16,540**	**16,540**	**16,540**

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

23.3. Cash Flow Hedging Reserve

(CZK million)	2016	2015
Balance at the beginning of the year	**(987)**	**(574)**
Revaluation loss	(30)	(513)
Settled deferred derivatives	21	-
Reclassification to profit or loss	158	100
Total change in the cash flow hedging reserve	**149**	**(413)**
Relating income tax	-	-
Balance at the year-end	**(838)**	**(987)**

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

Gains and losses reclassified during the year from equity are included under 'Purchased consumables and services' and 'Financial expenses' in the statement of profit or loss.

24. Loans and Borrowings

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Payable to EUROFIMA	811	812	1,250
Payables from finance leases	378	449	449
Group cash pooling	193	58	117
Issued bonds	379	8,552	411
Total short-term	**1,761**	**9,871**	**2,227**
Payable to EUROFIMA	-	811	1,663
Issued bonds	30,693	19,998	25,516
Payables from finance leases	1,082	1,455	1,907
Total long-term	**31,775**	**22,264**	**29,086**
Total	**33,536**	**32,135**	**31,313**

Portions of short-term loans and borrowings that are repayable in a period shorter than one year from the financial statements date are recognised as short-term loans and borrowings.

The Company received in several tranches a long-term loan from EUROFIMA to finance the purchase of railway vehicles. The interest rate is determined based on the Euribor reference rate. As of 31 December 2016, the principal of EUR 30 million needs to be repaid to EUROFIMA according to the relevant due date 3 April 2017.

24.1. Issued Bonds

Issue date	Nominal value	Maturity	Public traded	Coupon	Carrying value at 31 Dec 2016 CZK million	Carrying value at 31 Dec 2015 CZK million	Carrying value at 1 Jan 2015 CZK million
24.6.2011	EUR 300 million	5	Yes	4.50%	-	8,295	8,495
23.7.2012	EUR 300 million	7	Yes	4.125%	8,241	8,237	8,445
25.7.2013	CZK 4,000 million	5	Yes	6M PRIBOR + 1.7%	4,028	4,023	4,019
5.11.2014	EUR 30 million	10	No	2.875%	806	805	826
5.11.2014	EUR 150 million	15	No	3.50%	4,041	4,039	4,142
3.6.2015	EUR 37.7 million	7	No	1.89%	1,030	1,030	-
3.6.2015	EUR 77.5 million	20	No	3.00%	2,122	2,121	-
25.5.2016	EUR 400 million	7	Yes	1.875%	10,804	-	-
Total					**31,072**	**28,550**	**25,927**
- of which current					*379*	*8,552*	*411*
- of which non-current					*30,693*	*19,998*	*25 516*

The Company breached no loan covenants in the reporting period.

24.2. Finance Lease Payables

Finance leases relate to railway vehicles with the lease period of 10 and more years. The Company gradually assumed railway vehicles renovated pursuant to the lease contracts concluded in 2010, older contracts are still effective. In 2013, the Company renewed the car fleet, under finance lease arrangements. Payables arising from finance leases are as follows:

	Minimal lease payments			Present vanue of minimum lease payments		
(CZK million)	**31.12.2016**	**31.12.2015**	**1.1.2015**	**31.12.2016**	**31.12.2015**	**1.1.2015**
Less than 1 year	423	508	521	378	449	449
From 1 to 5 years	1,145	1,404	1,627	1,074	1,291	1,466
5 years and more	8	166	456	8	164	441
Total	**1,576**	**2,078**	**2,604**	**1,460**	**1,904**	**2,356**
Less future finance costs	(116)	(174)	(248)	-	-	-
Present value of minimum lease payments	**1,460**	**1,904**	**2,356**	**1,460**	**1,904**	**2,356**
In the statement of financial position as:						
short-term loans				*378*	*449*	*449*
long-term loans				*1,082*	*1,455*	*1,907*
Total				**1,460**	**1,904**	**2,356**

In June 2016 the financial lease related to eight railcars 854 series ended and the subject of the lease was repurchased for the amount of CZK 8 thousand.

The fair value of finance lease payables approximates their carrying amount.

The acquisition of fixed assets under finance leases is reported as a non-cash transaction in the statement of cash flows. Repayments of finance lease liabilities are recognized as cash flows from financial activities.

25. Provisions

(CZK million)	Balance at 1 Jan 2015	Creation	Use	Release	Balance at 31 Dec 2015	Creation	Use	Release	Balance at 31 Dec 2016
Provision for allowances	4	-	-	-	4	-	1	3	-
Provision for legal disputes	774	1,033	226	277	1,304	417	630	574	517
Other provision	-	-	-	-	-	119	-	-	119
Provisions for employees benefits	266	82	87	-	261	83	92	3	249
Total provisions	**1,044**	**1,115**	**313**	**277**	**1,569**	**619**	**723**	**580**	**885**
long-term	*172*				*164*				*153*
short-term	*872*				*1,405*				*732*

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate important birthdays, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. In calculating the provision, the Company used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees of 5%, anticipated increase in salaries of 2%, anticipated inflation level of 2%, likelihood of death or disablement according to the data of the Czech Statistical Office. A change in the amount of the provision due to the change in these parameters is reported as actuarial gains (losses) in the statement of profit or loss. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

The Company recognises a provision for legal disputes according to the anticipated result of all ongoing legal disputes and the relating cash outflows of the Company. The detailed information on provisions recognised with respect to particular legal disputes cannot be disclosed by the Company as it might negatively impact its position.

26. Trade Payables

(CZK million)

Year	Category	Before due date	1 - 30 days	31 – 90 days	91 – 180 days	181 – 365 days	365 and more	Total past due date	Total
					Past due date (days				
31 Dec 2016	Short-term	2,391	29	17	1	3	3	53	**2,444**
31 Dec 2015	Short-term	4,116	12	3	2	2	3	22	**4,138**
1 Jan 2015	Short-term	4,459	6	4	1	166	7	184	**4,643**

27. Other Financial Liabilities

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Financial derivatives	847	886	471
Other	33	60	71
Total long-term	**880**	**946**	**542**
Financial derivatives	106	228	177
Other	38	39	22
Total short-term	**144**	**267**	**199**
Total	**1,024**	**1,213**	**741**

28. Other Liabilities

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Prepayments received	72	247	268
Payables to employees	793	762	728
Social security and health insurance payables	235	229	221
Tax liabilities - tax withheld from employees	70	66	63
Accruals of revenues from intrastate passenger transportation	168	165	171
Repayment of part of subsidy within ROP project	379	-	-
Other *)	112	55	55
Total short-term *)	**1,829**	**1,524**	**1,506**

*) After change of data as at 1 January 2015 and as at 31 December 2015, see in note 2.2.1

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

29. Related Parties

29.1. Income Generated from Subsidiaries and Associates

(CZK million)

2016	Sale of inventories	Sale of services	Other income	Total
ČD – Telematika a. s.	-	5	-	5
Výzkumný Ústav Železniční, a. s.	-	2	-	2
DPOV, a.s.	229	38	3	270
ČD Cargo, a. s.	488	143	2	633
ČD-Informační systémy, a.s.	-	17	1	18
JLV, a. s.	-	5	-	5
Dopravní vzdělávací institut, a.s.	-	3	-	3
ČD travel, s.r.o.	-	7	1	8
Total	**717**	**220**	**7**	**944**

*) Including financial income

(CZK million)

2015	Sale of inventories	Sale of services	Other income	Total
ČD – Telematika a. s.	-	8	2	10
Výzkumný Ústav Železniční, a. s.	-	3	1*)	4
DPOV, a.s.	206	44	9*)	259
ČD Cargo, a. s.	577	157	2	736
ČD-Informační systémy, a.s.	-	17	-	17
JLV, a. s.	-	11	2	13
Dopravní vzdělávací institut, a.s.	-	4	-	4
ČD travel, s.r.o.	-	12	2	14
Total	**783**	**256**	**18**	**1,057**

*) Including financial income

29.2. Purchases from Subsidiaries and Associates

(CZK million)

2016	Purchase of material	Services	Other expenses	Total
ČD - Telematika a. s.	9	46	-	55
Výzkumný Ústav Železniční, a. s.	-	1	-	1
DPOV, a.s.	12	94	-	106
ČD Cargo, a.s.	1	19	-	20
ČD Informační systémy, a.s.	3	203	-	206
JLV, a. s.	-	158	1	159
Dopravní vzdělávací institut, a.s.	-	40	-	40
ODP-software, spol. s r.o.	2	11	-	13
ČD travel, s.r.o.	-	30	-	30
Total	**27**	**602**	**1**	**630**

(CZK million)

2015	Purchase of material	Services	Other expenses	Total
ČD - Telematika a. s.	3	80	-	83
DPOV, a.s.	25	137	-	162
ČD Cargo, a.s.	-	29	1	30
ČD Informační systémy, a.s.	3	191	-	194
JLV, a. s.	-	135	1	136
Dopravní vzdělávací institut, a.s.	-	40	-	40
ČD travel, s.r.o.	-	29	-	29
Total	**31**	**641**	**2**	**674**

29.3. Purchases and Sales of Fixed Assets and Financial Assets with Subsidiaries and Associates

(CZK million) Sales	Tangible fixed assets 2016	Tangible fixed assets 2015
Výzkumný Ústav Železniční, a. s.	-	1
DPOV, a.s.	1	-
ČD Cargo, a.s.	71	233
JLV, a. s.	-	109
Total	**72**	**343**

(CZK million) Purchases	Intangible fixed assets 2016	Tangible fixed assets 2016	Intangible fixed assets 2015	Tangible fixed assets 2015
ČD - Telematika a. s.	1	26	1	6
DPOV, a.s.	-	1,079	-	860
ODP-software, spol. s r.o.	15	54	-	-
ČD-Informační systémy, a.s.	33	4	24	3
Total	**49**	**1,163**	**25**	**869**

Purchases of fixed assets from DPOV, a.s. include the purchases of railway vehicle components – major periodical repairs.

29.4. Outstanding Balances at the end of the Reporting Period with Subsidiaries and Associates

(CZK million)

31 Dec 2016	Receivables	Payables
ČD - Telematika a. s.	58	24
DPOV, a.s.	73	199
ČD Cargo, a.s.	269	3
JLV, a. s.	-	35
ČD-Informační systémy, a.s.	1	57
Dopravní vzdělávací institut, a.s.	-	3
ČD travel, s.r.o.	1	3
ODP-software, spol. s r.o.	-	19
Total	**402**	**343**

(CZK million)

31 Dec 2015	Receivables	Payables
ČD - Telematika a. s.	58	13
Výzkumný Ústav Železniční, a. s.	1	-
DPOV, a.s.	60	374
ČD Cargo, a.s.	484	10
JLV, a. s.	-	38
ČD-Informační systémy, a.s.	-	63
Dopravní vzdělávací institut, a.s.	-	3
ČD travel, s.r.o.	3	5
Total	**606**	**506**

(CZK million)

1 Jan 2015	Receivables	Payables
ČD - Telematika a. s.	59	13
DPOV, a.s.	50	317
ČD Cargo, a.s.	206	4
JLV, a. s.	-	47
ČD-Informační systémy, a.s.	12	49
Dopravní vzdělávací institut, a.s.	-	3
ČD travel, s.r.o.	2	5
Total	**329**	**438**

Outstanding balances are not collateralised and are paid in cash. No guarantees were received or provided. In the reporting period and prior reporting periods, the Company reported no expenses relating to bad or doubtful receivables from related parties.

29.5. Contractual Obligations Relating to Expenses

As of the financial statements preparation date, the Company concluded contracts for the purchase of fixed assets, inventory and services with related parties:

(CZK million)	31 Dec 2016	31 Dec 2015
ČD - Telematika a. s.	4	0
DPOV, a.s.	52	66
ČD-Informační systémy, a.s.	201	22
ODP-software, spol. s r.o.	76	0
Total	**333**	**88**

29.6. Loans to Related Parties

(CZK million)

Counterparty	Loan amount	Date of supply	Maturity
Výzkumný Ústav Železniční, a.s.	CZK 50 million	26.6.2014	26 November 2015
Výzkumný Ústav Železniční, a.s.	CZK 50 million	5.5.2015	5 November 2015
ČD-Informační systémy, a.s.	CZK 20 million	16.5.2016	5 September 2016
ČD-Informační systémy, a.s.	CZK 30 million	15.9.2016	15 March 2017
ČD Cargo, a.s.	CZK 540 million	17.10.2016	Monthly payment to 17 October 2023

29.7. Key Management Members Compensation

Directors and other members of key management in the amount of 13 received short-term employee benefits of CZK 29 million (2015: CZK 36 million, in the amount of 13).

In addition to the possibility of using reduced fares, the members of the Company's statutory and supervisory bodies were provided with cash bonuses of CZK 25 million in 2016 and CZK 24 million in 2015. Management of the Company is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.

29.8. Transactions with SŽDC and the ČEZ Group

The Company is wholly owned by the state. In concordance with the exception stated in the IAS 24 standard - Related party disclosures. The Company does not disclose quantitative information concerning the individually insignificant transactions with companies owned by the state. Material transactions with related parties which were recognized by the Company are presented below: purchasers of transport in public services (region and Ministry of Transportation), government organization SŽDC and the ČEZ group.

(CZK million)

Income	Counterparty	2016	2015
Gains from rental property	SŽDC	62	100
Payment for alternative bus transport	SŽDC	299	425
Payments from public services customers – payment from the state budget	state – Ministry of Transportation	4,485	4,409
Payments from public services customers – payment from the region budget	regions	9,266	9,105

(CZK million)

Expenses	Counterparty	2016	2015
Use of railway route and allocated capacity of the railway	SŽDC	1,895	1,858
Consumption of traction electricity	SŽDC	623	609
Consumption of traction electricity	ČEZ	579	616
Rental estate	SŽDC	24	3

(CZK million)

Receivables	Counterparty	31 Dec 2016	31 Dec 2015	1 Jan 2015
Payment for alternative bus transport	SŽDC	43	133	3
Public service commitment	state – Ministry of Transportation	17	24	19
Public service commitment	regions	9	1	5

(CZK million)

Liabilities	Counterparty	31 Dec 2016	31 Dec 2015	1 Jan 2015
Use of railway route and allocated capacity of the railway	SŽDC	244	420	411
Consumption of traction electricity	SŽDC	76	65	66
Consumption of traction electricity	ČEZ	80	190	179

State insitutions, companies and other parties controlled by the state dispose of the the services provided by the Company under the same conditions as for other customers. Based on the costs of the Company the Company purchased certain services and other supplies (water, elektricity, etc.) from companies controlled by the state under the same conditions as other consumers.

Since 1 July 2016, after sale of part of the plant (see note 15.1), the structure of expenses and income of ČD has changed in accordance to SŽDC. ČD expenses include rental of train station and currently does not have a rental income due to its sale.

30. Cash and Cash Equivalents

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

(CZK million)	31 Dec 2016	31 Dec 2015	1 Jan 2015
Cash on hand and cash in transit	67	49	53
Cash at banks *)	5,952	1,237	2,304
Depository promissory notes *)	-	738	250
Total	**6,019**	**2,024**	**2,607**

*) The counterparties are banks with high credit-ratings assigned (the investment grade is required).

31. Contracts for Operating Leases

31.1. The Company as a Lessee

Assets under operating leases which are reported off balance sheet include a number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognised in expenses in the year 2016 amounted to CZK 74 million (in 2015: CZK 49 million).

Payments of the Company as accounted into costs for the purpose of the lease of railway vehicles, and on the basis of agreemnt of the usage of railway vehicles in internation transport have consituted the total amount of CZK 482 million in 2016 (in year 2015 there have been payments of CZK 467 million). Other payments for the operating lease of railway vehicles were CZK 21 million in 2016 (in 2015: CZK 26 million).

The Company as a lessee has not concluded any irrevocable lease contracts, contingent lease contracts or onerous contracts

31.2. The Company as a Lessor

OOperating leases applies to investment property and movable assets held by the Company with various lease periods.

Revenue from the lease of property that the Company acquired in 2016 from investment property based on the operating leases amounts to CZK 381 million (in 2015: CZK 523 million).

Direct operating expenses relating to investment property for the period amounted to CZK 97 million (in 2015: CZK 242 million).

Income from operating leases of movable assets in 2016 amounts to CZ 65 million (in 2015: CZK 96 million).

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

32. Contractual Obligations Relating to Expenses

As of the balance sheet date, the Company concluded contracts for the purchase of fixed assets in the amount of CZK 1,790 million.

(CZK million)	31 Dec 2016
Supplies agreed for 2017	1,017
Supplies agreed for the following years	92
As of 31 Dec 2016 was paid	681
Total	**1,790**

A significant part of the obligations relating to expenses (CZK 708 million) include investments in railway vehicles

33. Contingent Liabilities and Contingent Assets

SThe Company holds a 1% equity investment in EUROFIMA. The shareholders of the entity are European national railway transporters and the purpose of this entity is to acquire funds for the funding of railway vehicle 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 required by EUROFIMA from its shareholders as needed pursuant to the resolution of the Administration Board. The nominal value of unpaid shares as of 31 December 2016 was CHF 20.8 million. The likelihood that the Company will be asked to pay the nominal value of the unpaid portion of the equity investment is considered to be low by the Company's management.

The aggregate costs of clean-ups in 2016 was CZK 27 million and in 2015 CZK 28 million respectively. The Company is not aware of any environmental burdens that would exceed legislative limits and represent harm to human health or property of third parties. The provisions for clean-ups of other environmental burdens are not recognised as the Company is unable to estimate the scope of these burdens and its potential involvement in their removal. The Company has not prepared an overall strategy and plan of clean-ups according to which it could recognise the provisions.

33.1. Legal Disputes

33.1.1. Dispute with ŠKODA TRANSPORTATION a.s

On 16 November 2015, an arbitration award was issued in which the arbitration court upheld the legal action brought by ŠKODA TRANSPORTATION, a.s. to the extent that it mandated České dráhy to make an additional purchase price payment of CZK 370 million and to settle default interest of CZK 98 million. The total payment of CZK 468 million was made on 19 November 2015. The arbitration award additionally replaced the will of České dráhy to enter into an amendment to make an inflationary increase in the purchase price of CZK 754 million (including VAT). On 22 April 2016 ČD paid the principal amount of inflationary increase in amount of CZK 754 million, default interests remain unpaid. On 18 November 2015 ČD has filed a legal action to revoke the arbitration award referred to above and on 29 October 2015 has filed a legal action to exclude one of the adjudicators due to his prejudice. On 7 April 2016 the Municipal Court in Prague stopped legal action to exclude adjudicator referring to the fact that general court does not have the competences to adjudicate in this case. On 2 January 2017 ČD lodged an appeal to the Supreme Court of Czech Republic against the decision of Municipal Court in Prague.

33.1.2. Railway Freight Transportation Market

Anti-Monopoly Office imposed a fine on ČD, a.s. for abusing its position on the market in the area of railway transportation of enormous amounts of natural resources and raw materials. Based on ČD defense the court case went to Administrative Court. In accordance to cassation appeal of Anti-Monopoly Office, which objected to the judgement cancelling judgement of Regional Court in Brno, this issue is judged by the Supreme Administrative Court.

33.1.3. Proceedings for Alleged Abuse of Dominant Position outhe Prague – Ostrava line

In January 2012, the Anti-Monopoly Office initiated proceedings against ČD, a.s. regarding the alleged abuse of ČD, a.s.'s dominant position on the Prague – Ostrava line in the form of inadequately low (predatory) prices in response to an entry of a new competitor railway transporter. In November 2016 in reference to this case the formal investigation was initiated by the European Commission. Anti-Monopoly Office has suspended investigation due to initiation of European Commission investigation. The matter has not been decided yet. ČD has filed a legal action to EU Court against execution of the local European Commission investigation in the seat of ČD.

33.1.4. Legal Action by LEO Express against ČD, a.s. for the compensation of damage amounting to CZK 419 million

In July 2014 LEO Express filed a legal action for the compensation of damage 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 legal action. LEO Express partially withdrawed the legal action, against which ČD applied the legal remedy, while Leo Express appealed against the decision of Court of first instance of dismissing the application. At the end of December 2016 Leo Express filed a new legal action against ČD for approximate amount of CZK 434 million with accessories and for similar reason. This legal action is mostly overlapped with part of legal action which was wthdrawed by Leo Express after failure in first instance in Municipal Court in Prague.

33.1.5. RegioJet Legal Action for the Return of Allegedly Prohibited Public Support (the Defendants Being ČD, a.s., SŽDC, s.o., and the Czech Republic Represented by the Czech Ministry of Transportation)

In April 2015, RegioJet filed a legal action for the return of approximately CZK 7 billion and default interest due to allegedly prohibited public support. The assets involving the 'assets required to maintain rails and their operability' ("mrtvá dopravní cesta" in Czech), which were transferred by ČD to SŽDC in 2008 for CZK 12 billion, were allegedly overstated by this amount. ČD provided its statement to the legal action indicating that it does not agree with the assertions made in the legal action and considers it to lack merit.

33.1.6. RegioJet's Call for the Payment of Compensation for Detriment

RegioJet sent a pre-trial call to ČD, a.s. for the payment of the compensation for the detriment dated 10 April 2015 in which it seeks the payment of cca. CZK 717 million. The alleged detriment was caused by ČD's illegal activities in operating the Prague – Ostrava track, involving the application of dumping prices. ČD refused to pay the detriment. RegioJet filed a legal action seeking the payment of compensation of approximately CZK 717 million with accrued interest and charges which result in legal proceedings being initiated in the matter.

33.1.7. Legal Action by Grandi Stazioni Česká republika, s.r.o. against SŽDC a ČD for the transfer of Hlavní nádraží Praha to SŽDC

The Company Grandi Stazioni Česká republika, s.r.o. (GS) filed three legal actions against state organization Railway Infrastructure Administration (SŽDC) and against ČD. GS is seeking the payment of compensation of CZK 777 million, increased by fine for delayed payment and default interests from SŽDC or ČD, depending on the court decision as to who the owner of Prague Main Station (Praha hlavní nádraží) is. SŽDC and ČD agree that the owner of Prague Main Station is SŽDC, and for this reason ČD should not be the party in the payment dispute. In accordance to this ČD has the same position in legal procedures. SŽDC commissioned the expert opinion to legitimate the claim raised by GS and based on the expert opinion SŽDC paid the amount of CZK 556 million to GS.

33.1.8. Proceedings in the Matter of a Possible Abuse of the Dominant Position on the Routes Pardubice - Liberec a Plzeň - Most

In April 2016 the Office for the Protection of Competition (OPC) initiated administrative proceedings. Alleged violation of competition rules were charged to ČD for the reason that during the tender held in 2005 concerning the railway transport and provision of public services on the route Pardubice-Liberec-Plzeň-Most for the duration of the 2006/2007 timetable they have presented a price offer which did not cover the costs of service provision on the routes in question. Such an agree upon commitment was to be performed by ČD on the stated routes until the end of the 2013/2014 timetable. On the 1.2.2017 the Office for the Protection of Competition issued a so--called statement of objections. The statement of objections does not constitute a decision, but has the value of information in which the OPC states its opinion on the deed, supplied documents and the amount of the penalty (the OPC states that the total amount of the penalty will oscilate between 4,0 – 4,8 % (maximum of CZK 381 million) of the reached sales on the relevant market in 2013ČD is now entitled to make a comment on the statement of objections as it is currently doing. After the issuing the objections the OPC issues a decision against which remedial procedures can be issued. It is also possible that on the basis of the statement of ČD as well as the presentation of proof and facts the OPC will not be accepted.

33.1.9. Proceedings in the Matter of an Alleged Cartel Agreement from the Year 2006, the so-called „Italia Express“

In Autumn 2016, the Office for the Protection of Competition initiated proceedings with ČD and ČD Cargo, a.s. in the matter of a possible violation of the Law on the Protection of Competition and the Treaty of the European Union ČD a ČD Cargo have allegedly commited a violation by providing transport and mail services with the help of railway vehicles including related transport and forwarding services for the moving of goods to the loading station and moving goods to the destination. ., This violation occured in a period longer than ten years ago according to the OPC. The matter has not yet been decided. ČD Cargo, a.s. has filed an action at the Regional Court in Brno at the end of 2016 againt an on-site investigation in the business premises of ČD Cargo, a.s. coupled with the proposal for preliminary injunction. On the basis of this proposal the Court has demanded that the OPC restrain from further handling of the documents, which were obtained during the on-site inspection. However, these proceedings at the data of the preparation of the annual report have not yet been completed. In respect to the above stated it is currently not possible to predict the outcome of these proceedings.

33.1.10. Audits of Subsidies Used from the Regional Operational Programme (ROP) for the Acquisition of Railway Vehicles

Since early 2014, the Audit Body of the Czech Ministry of Finance (the “Audit Body”) has been conducting a due audit of operation at ČD, a.s. in terms of Section 7 (2) and Section 13a of Act No. 320/2001 Coll., on Financial Auditing in Public Administration and Changes to Certain Acts (the “Financial Auditing Act”), as amended, and Article 62 (1) (b) of Council Regulation (EC) No. 1083/2006. AB controlled 17 of 19 projects. In 2016 ČD, a.s. did not receive any other notification about initiation of audit operations within ROP. At the end of 2016 AB recognises high degree of severity in 11 of all controlled projects. Quantified corrections presents repayment of part of subsidy in anticipated amount of CZK 583.3 million. ČD, a.s. fully rejects to pay the determined amount of the subsidized discrepancy within the period stated by the Regional Council Authorities. ČD, a.s. disagrees with the audit conclusions and is pursuing the relevant procedural defence.

34. Financial Instruments

34.1. Capital Risk Management

Company’s main objective in capital risk management is to maintain rating at investment grade and maintain balanced ratio between equity and debt. The Company uses issues of bonds as a principal source of long-term funding. The Company uses authorized overdrafts and bill of exchange program in managing short-term liquidity.

34.2. Significant Accounting Policies

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

34.3. Categories of Financial Instruments

(CZK million)

Category of financial assets	Class of financial assets		31 Dec 2016	31 Dec 2015	1 Jan 2015
Loans and receivables	Trade receivables	20	1,293	1,746	1,297
	Cash and cash equivalents	30	6,019	2,024	2,607
	Financial leases	21	78	83	88
	Loans in the CD Group	21	557	89	97
	Others	21	51	80	124
Financial assets at fair value through profits and losses	Financial derivatives used in hedge accounting	21	282	977	1,436
	Other financial derivatives	21	-	1	-
Realizable financial assets	Realizable financial assets	21	330	330	308
Total			**8,610**	**5,330**	**5,957**

(CZK million)

Category of financial liabilities	Class of financial obligations		31 Dec 2016	31 Dec 2015	1 Jan 2015
Financial liabilities at fair value through profits and losses	Financial derivatives used in hedge accounting	27	953	1,114	648
Financial liabilities at amortized cost	Loans and advances	24	33,536	32,135	31,313
	Trade payables	26	2,444	4,138	4,643
	Others	27	71	99	93
Total			**37,004**	**37,486**	**36,697**

Available-for-sale financial assets include investments in equity investments that do not have listed market values on an active market and are measured at cost as their fair value cannot be reliably determined.

Income from individual categories of financial assets is as follows:

(CZK million)

Category of financial assets	2016	2015	Reported in the statement of profit or loss line
Interest on cash in bank accounts	1	3	Financial gains
Interest on cash pooling	1	1	Financial gains
Interest on leasing receivables	14	12	Financial gains
Dividends from available-for-sale financial assets	2	-	Financial gains
Total	**18**	**16**	

Impairment losses on financial assets are presented in the Note 'Trade receivables'. No significant impairment was noted in respect of any other class of financial assets.

34.4. Fair Value of Financial Instruments

Financial assets (CZK million)	**Level**	**Fair value as of 31 Dec 2016**	**Carrying value as of 31 Dec 2016**	**Fair value as of 31 Dec 2015**	**Carrying value as of 31 Dec 2015**	**Fair value as of 1 Jan 2015**	**Carrying value as of 1 Jan 2015**
Derivative instruments in designated	Level 2	282	282	977	977	1,436	1,436
hedge accounting relationships	Level 2	-	-	1	1	-	-
Other financial derivatives	Level 2	635	635	172	172	235	235
Loans	Level 2	*)	330	*)	330	*)	308
Available-for-sale financial assets		**917**	**1,247**	**1,150**	**1,480**	**1,671**	**1,979**

*) The fair value is not reliably determinable.

Financial liabilities (CZK million)	**Level**	**Fair value as of 31 Dec 2016**	**Carrying value as of 31 Dec 2016**	**Fair value as of 31 Dec 2015**	**Carrying value as of 31 Dec 2015**	**Fair value as of 1 Jan 2015**	**Carrying value as of 1 Jan 2015**
Derivative instruments in designated hedge accounting relationships	Level 2	953	953	1,114	1,114	648	648
Measured at amortised cost		**34,894**	**33,536**	**32,781**	**32,135**	**32,555**	**31,313**
Liability to EUROFIMA	*Level 2*	*811*	*811*	*1,623*	*1,623*	*2,913*	2,913
Liabilities from financial lease	*Level 2*	*1,460*	*1,460*	*1,904*	*1,904*	*2,356*	2,356
Issued bonds	*Level 2*	*8,260*	*7,999*	*7,974*	*7,995*	*5,235*	4,967
Issued bonds (traded)	*Level 1*	*24,170*	*23,073*	*21,222*	*20,555*	*21,934*	20,960
Other financial liabilities	*Level 2*	*193*	*193*	*58*	*58*	*117*	117
Total		**35,847**	**34,489**	**33,895**	**33,249**	**33,203**	**31,961**

Cash and cash equivalents, trade receivables, other financial assets and other short-term financial liabilities are not stated in the table because their fair value is the same as the accounted amount due to its short-term maturity.

Determinging the fair value of the financial derivatives are carried out using the Company's own pricing model of discounted cash flows using observable market assumptions. The fair value of the financial derivatives is classified as level 2 in the hierarchy of fair values.

34.5. Financial Risk Management Objectives

The Company manages financial risks by internal risk reports which include risk analysis by weight. Financial risks include market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

34.6. Currency Risk Management

The Company undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. These transactions predominantly include income from international transportation, received loans and issued bonds. In line with the approved Risk Management Strategy, the Company 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 carrying amounts of the Company'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 Dec 2016	EUR	USD	Other	Total
Financial assets	1,411	-	3	1,414
Financial liabilities	(29,302)	-	-	(29,302)
Total	**(27,891)**	**-**	**3**	**(27,888)**

(CZK million)

31.12.2015	EUR	USD	Other	Total
Financial assets	1,305	-	3	1,308
Financial liabilities	(26,855)	-	-	(26,855)
Total	**(25,550)**	**-**	**3**	**(25,547)**

(CZK million)

1 Jan 2015	EUR	USD	Other	Total
Financial assets	1,020	-	3	1,023
Financial liabilities	(25,794)	-	-	(25,794)
Total	**(24,774)**	**-**	**3**	**(24,771)**

34.6.1. Foreign Currency Sensitivity Analysis

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

– Changes in the value of cash items denominated in foreign currencies; and
– Changes in the fair value of concluded financial derivatives.

The following table shows the impact that the strengthening of the Czech currency by one crown in respect of Euro would have on the profit and other comprehensive income. A positive number indicates an increase in the profit and other comprehensive income, a negative number indicates the decrease in the profit and other comprehensive income:

(CZK million)	2016	2015
Translation of items denominated in foreign currencies at the end of the period	1,032	944
Change in the fair value of derivatives at the end of the period	(592)	(763)
Total impact on the profit for the period	**440**	**181**
Change in the fair value of derivatives at the end of the period	(96)	(95)
Total impact on other comprehensive income	**(96)**	**(95)**

34.6.2. Cross Currency Interest Rate Swaps

In accordance with the currency risk management requirements, the Company has entered into a cross-currency interest rate swap which reduces the risk of the bond funding in EUR.

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

31 Dec 2016	Nominal value (EUR million)	Collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK million
Less than 1 year	542	3.45%	(14,412)	3.63%	(24)
1 to 5 years	542	3.24%	(14,412)	3.38%	58
5 years and more	292	2.87%	(8,062)	2.95%	(571)
Total					**(537)**

31 Dec 2015	Nominal value (EUR million)	Collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK million
Less than 1 year	722	3.93%	(18,617)	3.98%	653
1 to 5 years	482	3.57%	(12,789)	3.78%	123
5 years and more	232	3.12%	(6,439)	3.26%	(571)
Total					**205**

1 Jan 2015	Nominal value (EUR million)	Collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK million
Less than 1 year	667	4.07%	(17,101)	4.13%	35
1 to 5 years	667	3.91%	(17,101)	4.09%	1,325
5 years and more	177	3.40%	(4,923)	3.55%	(177)
Total					**1,183**

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 profit or loss over the period that the coupon payments from the issued bonds affect the profit or loss.

The Expected Realization of Hedged items by Inter-currency Interest Rate Swaps

The expected secured cash flow from foreign currency bonds are stated in the chapter 34.10.1 in tables with remaining contractual maturities in the row Tools with fixed interest rate.

34.6.3. Currency Forwards

(CZK million)

31 Dec 2016	Average agreed exchange rate (CZK/EUR)	Principal	Fair value in CZK million
In 3 months	27.08	EUR 43 million	(2)

(CZK million)

31 Dec 2015	Average agreed exchange rate (CZK/EUR)	Principal	Fair value in CZK million
In 1 month	26.98	EUR 29 million	1

As of 1 January 2015 the Company recorded no currency forwards.

In 2016, the Company concluded currency forwards in order to hedge repayments of EUR loans that fell due in the first half of 2017. These derivatives were classified as fair value hedges. Currency forward opened on 31 Dec 2015 was classified as trading derivative.

The loss from from fair value hedging instruments amounted to CZK 2 million for the year ended 31 December 2016 (2015: CZK 0 million). The gain from the hedged item was identical and the hedging was fully effective.

34.7. Interest Rate Risk Management

The Company manages the interest rate risk by maintaining an appropriate mix between fixed and floating rate financing; for this purpose, the Company concludes contracts for interest rate swaps so 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.

34.7.1. Interest Rate Sensitivity Analysis

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

- Changes in interest expenses from loans and lease with a variable rate;
- Changes in the present value of long-term provisions resulting from the change in the discount rate; and
- Change in the fair value of concluded financial derivatives.

The following table shows the impact that an increase in interest rates of 200 basis points would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates the decrease in the profit and other comprehensive income:

(CZK million)	2016	2015
Interest from loans and lease with variable rate for the period	(103)	(163)
Change in the fair value of derivatives at the end of the period	25	23
Total impact on the profit for the period	**(78)**	**(140)**
Change in the fair value of derivatives at the end of the period	299	390
Total impact on other comprehensive income	**299**	**390**

34.7.2. Interest Rate Swap Contracts

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

	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value in CZK million as of 31 December 2016
Less than 1 year	Loan from Eurofirma	2.58%	EUR 30 million	(11)
	float interest bonds	1.61%	CZK 4,000 million	(51)
	leases	1.23%	CZK 843 million	(7)
				(69)
1 to 5 years	float interest bonds	1.61%	CZK 4,000 million	(60)
	Leases	1.23%	CZK 395 million	(14)
				(74)
Total				**(143)**

	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value in CZK million as of 31 December 2015
Less than 1 year	Loan from Eurofirma	2.43%	EUR 60 mil	(30)
	float interest bonds	1.61%	CZK 4,000 mil	(49)
	l leases	1.23%	CZK 1,004mil.	(8)
				(87)
1 to 5 years	Loan from Eurofirma	2.58%	EUR 30 million	(11)
	float interest bonds	1.61%	CZK 4,000 million	(95)
	leases	1.23%	CZK 579 million	(16)
				(122)
5 years and more	leases	1.23%	CZK 109 million	-
Total				**(209)**

	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value in CZK million as of 1 January 2015
Less than 1 year	Loan from Eurofirma	1.50%	EUR 105 million	(40)
	float interest bonds	1.61%	CZK 4,000 million	(48)
	leases	1.23%	CZK 1,158 million	(8)
				(96)
1 to 5 years	Loan from Eurofirma	2.43%	EUR 60 million	(39)
	float interest bonds	1.61%	CZK 4,000 million	(139)
	leases	1.23%	CZK 753 million	(22)
				(200)
5 years and more	leases	1.23%	CZK 207 million	**(2)**
Total				**(298)**

The Company settles the difference between the fixed and float 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 float 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 "Financial expenses" in Profit or Loss.

The Expected Realization of the Hedged items with Interest rate Swaps
The expected secured cash flows from interest on variable rate loans are stated in chapter 34.10.1 in the tables remaining contractual maturities of financial liabilities in the rows Financial lease liabilities and Tolls with a variable interest rate.

34.8. Commodity Risk Management

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

- Conclusion of hedging derivatives for fuel purchase and traction electricity;
- In the event of an increase in the price of the commodities the Company has the possibility of asking the regions and the state for increased payments for transportation; and
- Negotiating a fixed price of electricity always for the following calendar year.

34.8.1. Analysis of Sensitivity to Changes in Commodity Prices

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

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

(CZK million)	2016	2015
Change in the fair value of derivatives at the end of the period	6	(2)
Total impact on the profit for the period	**6**	**(2)**
Change in the fair value of derivatives at the end of the period	16	23
Total impact on other comprehensive income	**16**	**23**

34.8.2. Commodity Derivatives

The table shows outstanding commodity contracts for the purchase of fuel and electricity as of:

Purchase of fuel	Hedged value	Volume of contracts (mt)	Fair value (CZK million)
31 Dec 2016	14,100 CZK/mt	2,100	(2)
	7,200 – 16,000 CZK/mt	16,800	(3)
31 Dec 2015	13,670 CZK/mt	4,200	(15)
	11,150 – 16,000 CZK/mt	13,500	(57)
	773 - 775 USD/mt	6,120	(60)
1 Jan 2015	17,244 CZK/mt	-	(2)
	14,200 – 20,450 CZK/mt	2,040	(49)
	773 - 970 USD/mt	10,200	(47)

Purchase of electricity	Hedged value	Volume of contracts (mt)	Fair value (CZK million)
31 Dec 2016	29 EUR/MWh	122,640	16

Expected Realization of Hedged Items in Commodity Derivatives

The following table states the expected secrured cash flows from the purchasing of fuel and electricty

(CZK million)

31 December 2016	Less then one month	1 - 3 months	3 months up to one year	1 - 5 years	5 years and more	Total
Secured future purchases of fuel	15	30	137	62	-	244
Secured future purchases of electricity	7	14	62	104	-	187

(CZK million)

31 December 2015	Less then one month	1 - 3 months	3 months up to one year	1 - 5 years	5 years and more	Total
Secured future purchases of fuel	12	25	99	57	-	193

(CZK million)

1 January 2015	Less then one month	1 - 3 months	3 months up to one year	1 - 5 years	5 years and more	Total
Secured future purchases of fuel	18	36	164	107	-	325
Secured future purchases of electricity	18	36	164	-	-	218

34.9. Credit Risk Management

The concentration of the Company's credit risk is low as a significant portion of the Company's revenues (passenger transportation fare) is collected in cash. In case of payments from public services orderers from state budget or regional budget, the risk is low due to bank's high (see note 29.8.). In other transactions, the Company seeks to deal only with creditworthy counterparties whom the Company reviews on an ongoing basis using publicly available information. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

The credit risk on liquid funds and derivative financial instruments is limited as the counterparties are banks with credit-ratings assigned on the investment grade.

(CZK million)

Bank	Bank balances at 31 Dec 2016	Promissory notes at 31 Dec 2016	Bank balances at 31 Dec 2015	Promissory notes at 31 Dec 2015	Bank balances at 1 Jan 2015	Promissory notes at 1 Jan 2015
Komerční banka	1,883	-	634	250	1,050	250
ČSOB	1,968	-	21	488	703	-
Citibank	998	-	358	-	(3)	-
ING bank	100	-	100	-	-	-
Česká spořitelna	1,003	-	124	-	554	-
Total	**5,952**	**-**	**1,237**	**738**	**2,304**	**250**

The carrying amount of financial assets recognised in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk. The credit quality of receivables that are not past their due dates and are not impaired in any other way, is good and corresponds to the carrying value.

34.10. Liquidity Risk Management

The Company manages its liquidity risk by a process of planning future cash flows and provision of short-term funding with reputable financial institutions (promissory notes programme and agreed overdraft loans). With the minimum period of 12 months. The Company's short-term liabilities significantly exceed its short-term assets as of 31 December 2016. In order to secure sufficient short--term liquidity, the Company has contracted committed credit facilities so that its available funds exceed its short-term liabilities. The liquidity balance is monitored by the Moody´s rating agency on an ongoing basis.

34.10.1. Liquidity and Interest Rate Risk Tables

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that instruments carry the floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period and may change, if interest rates will differ from determined estimates. The contractual maturity is based on the earliest date on which the Company may be required to pay.

(CZK million)

31 Dec 2016	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1,281	736	467	4	29	2,517
Derivatives	30	4	72	277	570	953
Finance lease liabilities	41	82	300	1,145	8	1,576
Float interest rate instruments	234	-	861	4,101	-	5,196
Fixed interest rate instruments	-	-	784	10,574	21,293	32,651
Total	**1,586**	**822**	**2,484**	**16,101**	**21,900**	**42,893**

(CZK million)

31 Dec 2015	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1,616	1,983	634	9	53	4,295
Derivatives	50	21	158	314	572	1,115
Finance lease liabilities	43	87	378	1,404	167	2,079
Float interest rate instruments	42	-	863	5,061	-	5,966
Fixed interest rate instruments	-	-	9,051	10,082	10,274	29,407
Total	**1,751**	**2,091**	**11,084**	**16,870**	**11,066**	**42,862**

(CZK million)

1 Jan 2015	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1,637	2,251	711	199	56	4,854
Derivatives	38	14	125	292	179	648
Finance lease liabilities	43	87	391	1,627	456	2,604
Float interest rate instruments	43	1,251	55	6,125	-	7,474
Fixed interest rate instruments	-	-	877	19,028	6,516	26,421
Total	**1,761**	**3,603**	**2,159**	**27,271**	**7,207**	**42,001**

The following tables present the Company's expected maturity for its financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets reflecting the anticipated maturity period. The table includes cash flows from the interest and principal.

(CZK million)

31 Dec 2016	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	6,471	462	391	38	330	7,692
Finance lease assets	5	-	12	64	427	508
Float interest rate instruments	-	30	-	-	-	30
Fixed interest rate instruments	6	13	58	308	141	526
Derivatives	-	-	19	263	-	282
Total	**6,482**	**505**	**480**	**673**	**898**	**9,038**

(CZK million)

31 Dec 2015	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1,910	425	855	-	341	3,531
Finance lease assets	5	-	-	60	443	508
Fixed interest rate instruments	488	250	-	-	-	738
Derivatives	1	-	680	297	-	978
Total	**2,404**	**675**	**1,535**	**357**	**784**	**5,755**

(CZK million)

1 Jan 2015	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	2,984	276	587	27	308	4,182
Finance lease assets	5	-	-	44	459	508
Fixed interest rate instruments	250	-	-	-	-	250
Derivatives	-	-	49	1,387	-	1,436
Total	**3,239**	**276**	**636**	**1,458**	**767**	**6,376**

34.10.2. Financing Facilities

The Group has access to the below loan facilities:

(CZK million)

Overdraft loan facilities	ČSOB	KB	Total
Amount of the loan facility at 1 Jan2015	**700**	**1,500**	**2,200**
Amount unused at 1 Jan 2015	**700**	**1,500**	**2,200**
Change in amount of the loan facility in 2015	-	-	-
Amount of the loan facility at 31 Dec 2015	**700**	**1,500**	**2,200**
Amount unused at 31 Dec 2015	**700**	**1,500**	**2,200**
Change of amount of the loan facility in 2016	-	-	-
Amount of the loan facility at 31 Dec 2016	**700**	**1,500**	**2,200**
Amount unused at 31 Dec 2016	**700**	**1,500**	**2,200**

(CZK million)

Promissory notes program:	ČSOB	Citibank	ING	KB	Deutsche bank	Česká spořitelna	Total
Amount of the loan facility at 1 Jan2015	**-**	**2,000**	**2,000**	**-**	**-**	**1,000**	**5,000**
Amount unused at 1 Jan 2015	**-**	**2,000**	**2,000**	**-**	**-**	**1,000**	**5,000**
Change of amount of the loan facility in 2015	1,000	-	-	300	700	1,000	3,000
Amount of the loan facility at 31 Dec 2015	**1,000**	**2,000**	**2,000**	**300**	**700**	**2,000**	**8,000**
Amount unused at 31 Dec 2015	**1,000**	**2,000**	**2,000**	**300**	**700**	**2,000**	**8,000**
Change of amount of the loan facility in 2016	(1,000)	(1,000)	-	(300)	(700)	(1,000)	(4,000)
Amount of the loan facility at 31 Dec 2016	**-**	**1,000**	**2,000**	**-**	**-**	**1,000**	**4,000**
Amount unused at 31 Dec 2016	**-**	**1,000**	**2,000**	**-**	**-**	**1,000**	**4,000**

35. Post Balance Sheet Events

České dráhy is preparing for implementation of the provisions according to the amendment to the Railway Act no. 319/2016 Sb, which enters into force on 1 April 2017. The most significant step is creation of new organizational unit. Service facilities by extract of certain activities from current rail vehicles depots and regional property managements.

No significant events occurred between the balance sheet date and the date of the preparation of the financial statements.

36. Approval of the Financial Statement

The financial statements were approved by the Board of Directors and authorised for issue on 11 April 2017.

PROVIDING INFORMATION

PURSUANT TO ACT NO. 106/1999 COLL., ON FREE ACCESS TO INFORMATION FOR 2016

Pursuant to Section 18 of Act No. 106/1999 Coll., on Free Access to Information, as amended (hereinafter the "Act") České dráhy, a.s., hereby publishes its annual report on its activities in providing information pursuant to the Act in 2016:

a) The number of submitted information requests and the number of issued decisions:

- In the reporting period, the total number of 122 information requests were responded to.

b) Pursuant to Section 15 of the Act, the following fist-instance decisions were issued:

- 12 decisions to decline the request; and

- 7 decisions to partially decline the request.

c) Pursuant to Section 90 (1)(b) of Act no. 500/2004 Coll., the Code of Administrative Procedure, as amended, the following number of decisions was rejected and returned by the Chairman of the Board of Directors of České dráhy a.s. based on the requesting party's appeal:

- A total of 21 first-instance decisions.

- Based on these decisions, 17 first-instance declining decisions and 4 partial first-instance party declining decisions were repeatedly issued.

- Pursuant to Section 90 (5) of Act No. 500/2004 Coll., the Code of Administrative Procedure, as amended, one appeal was approved by the decision of the Chairman of the Board of Directors of České dráhy a.s.

d) Pursuant to Section 14 (5) (d) of the Act:

- 13 pieces of information were provided.

e) Pursuant to Section 16a of the Act, the Chairman of the Board of Directors of České dráhy a.s. received:

- 3 complaints for late settlement; these complaints were rejected as having no grounds.

f) Pursuant to Section 14 paragraph 5 (1) (a) and (b) of the Act:

- 15 requests for information were postponed.

g) Based on the decision of the Supreme Administrative Court of 22 October 2014, ref.no. 8As 55/2012-62, www.nssoud.cz) and pursuant to Section 4(4) of Act no. 500/2004 Coll., the Code of Administrative Procedure, as amended, České dráhy, a.s. provided statements to the Ministry of Transport;

- to 10 requests relating to the operation of České dráhy, a.s.

h) České dráhy, a.s., as an interested party in the appeal proceedings expressed to the Ministry of Interior in 8 cases.

ch) České dráhy, a.s., as an interested party in the appeal proceedings expressed to the Regional Offices in 4 cases.

i) České dráhy, a.s., se as a defendant person according to § 74 paragraph 1 provided comment to the Municipal Court in Prague in seven České dráhy, a.s. prosecutions.

j) List of exclusive license, including a justification of the necessity to grant exclusive license:

- In the period under review none of the application procedure under the provisions of the license or sub-license agreement in providing information were adhered to.

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POST-BALANCE SHEET EVENTS

After the balance sheet date there were no significant events that would affect 2016 Annual Report.

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INFORMATION ABOUT

PERSONS RESPONSIBLE FOR THE ČD GROUP'S ANNUAL REPORT

Responsibility for the Annual Report

Affidavit
With due care and to the best of our knowledge, the consolidated annual report gives a true and fair view of the financial position, business activities and operational results of the Company and its consolidation group for the year ended 31 December 2016, and of the prospects of the future development of the financial position, business activities and operational results of the Company and its consolidation group and no facts that could change its meaning have been concealed in this report.

In Prague on 11 April 2017

Pavel Krtek
Chairman of the Board of Directors
České dráhy, a.s.

Martin Bělčík
Member of the Board of Directors
České dráhy, a.s.

REPORT ON RELATIONS

BETWEEN THE CONTROLLING PARTY AND THE CONTROLLED PARTY AND PARTIES CONTROLLED BY THE SAME CONTROLLING PARTY FOR THE YEAR ENDED 31 DECEMBER 2016

The Board of Directors of České dráhy, a.s., with its registered office in Prague 1, Nábřeží L. Svobody 1222, ID: 70994226, maintained by the Municipal Court in Prague, Section B, File 8039, presents the following Report on Relations between the Controlling Party and the Controlled Party and between the Controlled Party and Parties Controlled by the Same Controlling Party (hereinafter the **„Report on Relations“**) prepared under Section § 82 of Act 90/2012 Coll., the Corporations Act (**the „Corporations Act“**) for the accounting period from 1 January 2016 to 31 December 2016.

I. The Controlling Party and the Party Preparing the Report on Relations

For the purposes of the Report on Relations, the controlling party is the Czech Republic (hereinafter also the „State“ or the „CR“).

The controlled party for the purposes of the Report on Relations is České dráhy, a.s. (hereinafter the „Company“ or „ČD“), with its registered office in Prague 1, Nábřeží L. Svobody 1222, corporate ID 70994226, maintained by the Municipal Court in Prague, Section B, File 8039.

Related parties, for the purposes of the Report on Relations, include entities controlled, directly or indirectly, by the State.

II. Methods and Means of Control

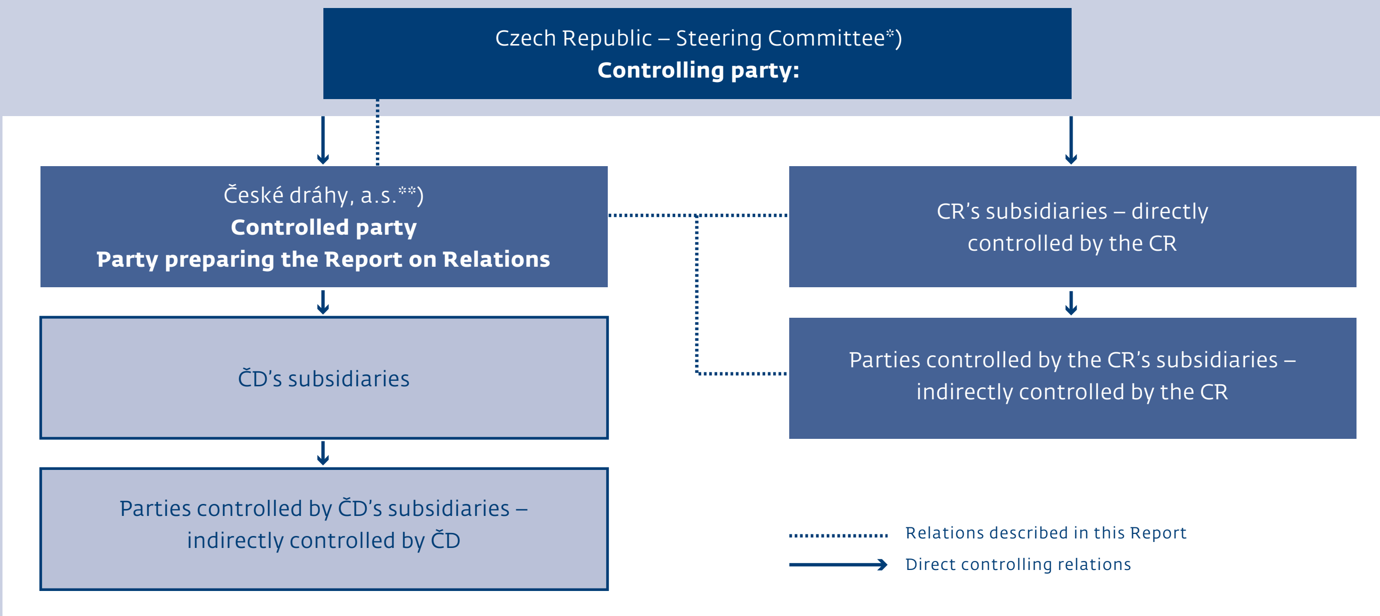
1) A directly controlled related party is a business corporation in which the State has a share of voting rights of at least 40% of all the votes in the given business corporation, unless another party or other parties in concern have the same or bigger share of voting rights in the given business corporation.

2) An indirectly controlled related party is a business corporation controlled by a party specified in paragraph 1).

The Report on Relations includes only such related parties of which the Company is aware and with which the Company in the respective reporting period established relations that are described in this Report.

The Company's Board of Directors declares that it identified the relations between the Company and the State and between the Company and relevant related parties, and described the relations in the Report on Relations.

III. The Structure of Relations between the Company and the State and the Parties Controlled by the State



*) The Czech Republic exercises the rights of a shareholder in the Company through the Company's Steering Committee. The Steering Committee comprises the relevant employees of the Ministry of Transport (three members), the Ministry of Finance (one member), The Ministry of Defence (one member), the Ministry of Industry and Trade (one member) and the Ministry of Regional Development (one member), authorised by the Government in writing.

**) In the structure of relations of the parties controlled by the Czech Republic, České dráhy, a.s., fulfils the role of the national railway carrier in terms of Section 8, 9 and 17 of Act No. 77/2002 Coll., as amended.

IV. Contracts Entered into between the Company and the State or the Company and Related Parties

This list below outlines the contracts entered into between the Company and the State and the Company and its Related Parties that were valid and effective in 2016.

ČEPRO, a.s.

Contract	Description
E294-V/39475/2016	Supplies of drinking water
E296-DS-0091/07-A	Water and sewage fees
E900-14C/08221/008/003/TA	Light fuel oil supplies (TOEL)
2927202209	Equipment siding
2937706306	Plot of land no. 855/20
2967271207	Siding – plot of a land no.12, Nová Víska
2977408603	Plot of land - Veselí nad Lužnicí
2977735207	Plot of land no. 3203/22, cadastrial territory no. 722120

ČEZ Distribuce, a. s.

Contract	Description
2012295510014	ČEZ Distribuce, drinking water supplies for own facilities (SCI)
E293-ELEKTŘINA83	Leština u Světlé
E296-DS-0014/11-G	Electricity
E296-DS-0067/15-G	Electricity
E297-14_NN_1006403996	Contract on the connection of an electric device
E297-14_NN_1006532097	Electricity connection Kozolupy 69,
E297-14_NN_11005805508	Contract on connection and electricity
2657012216	Plot of land under construction NBK
2667102516	Under constructions
2927402414	1S44 powerhouse Olomouc
2927852807	Plot of land Ostrava
2947003102	Plot of land H. Králové
2947004110	Plot of land no.2013/1 a 1921/1 Vrchlabí
2947012007	Plot of land, Všestary siding
2947104514	Plot of land no.2798/36 Pardubice railway station
2957019705	Svojšovice cadastral territory, plot of land no. 474/11 and 161

ČEZ Distribuční služby, s.r.o.

Contract	Description
E123-91901021	Central settlement of transport

ČEZ Prodej, s.r.o.

Contract	Description
2015295517764	ČEZ, Contract on electricity supplies, PRM
2016405518111	Electricity, flat Ústí nad Labem
E002-14R/09556/SLU/002/PK	Supplies of traction electricity for the year 2015-2016
E002-16R/23835/SLU/003/PK	Traction power supply of electricity
E166-SML_D-EE-0577130	Contract on joint services of electricity supplies
E166-SML_D-EE-1074230	Electricity supplies - Hlinsko, Nádražní 545,
E292-S-00142/15	Contract on electricity supplies Frýdek-Místek
E293-ELEKTŘINA71	Okrouhlice
E296-DS-0038/16-G	Electricity
E296-DS-0105/10-G	Electricity
E296-DS-0106/10-G	Electricity
E297-10_NN_1_02438410	The sampling device connections
E297-11_NN_1_03104725	Electricity connection Pavlovice
E297-13_CEZDI_05702646	Electricity services Nýřany 84 - Vladař
E297-13_CEZDI_05702663	The bundled electricity supply services
E297-15_CEZDI_07326651	The bundled electricity supply services
E297-15_CEZDI_07335871	The bundled electricity supply services
E408-03186059	Electric energy Borová

ČEZ Teplárenská, a.s.

Contract	Description
E166-SML_D-EN-T-007TRU	Heat supplies to PJ TRU
E266-DS-0039/16-C	Heat energy-Chomutov
E294-T/0003/2009	Contract on the provisions of the heat supplies no. 6990
E296-DS-0018/10-C	Heat supplies
E296-DS-0025/16-C	Heat supplies

E296-DS-0187/07-C	Supply and consumption of thermal energy
E296-DS-0197/07-C	Thermal energy supply
E296-OS-0015/12-A	Water- sewerage
1668000510	OP Trutnov

ČEZ, a. s.

Contract	Description
E296-DS-0223/08-A	Water and sewerage fees
2937105107	Plot of land under siding 2864/610
2937302207	Plot of land no. 4515/20 and 4177/23
2947007207	Plot of land no 311/21 siding Dvůr Kr./L.
2947007307	Plot of land no 1529 siding Poříčí u Trutnova
2967106911	Siding Trmice no. 1493/1
2977100708	Plot of land under siding

Elektrárna Počerady, a.s.

Contract	Description
2967362307	Siding Počerady, no. 310/14 and 385/2

EVČ s.r.o.

Contract	Description
2010295506412	EVČ, Heat in the administration building NBK
2010295506412	EVČ, Rent of the boiler room NBK
E293-T18	Heat-H. Brod
2937705510	Rooms 1S16 and 1S17 Havlíčkův Brod

MARTIA a.s.

Contract	Description
E028-SOPS-M-UK05055	Ensuring the operation of heating equipment Bílina
E028-SOPS-M-UK05059	Ensuring the operation of heating equipment Chomutov
E028-SOPS-M-UK05067	Ensuring the operation of heating equipment Ústí st.5
E028-SOPS-M-UK05071	Ensuring the operation of heating equipment Úpořiny

E028-SOPS-M-UK05075	Ensuring of the heating equipment Ústí dílny
2967348607	Rent of the boiler room and storage Chomutov

Ministerstvo dopravy

Contract	Description
E-004-MD/2014	Contract for the lease of commercial space
E016-16/2009-190-EKO/1	Contract for PSO in passenger rail transport
E060-59344/2015-O16	SŽDC – transport services Plzeň - Most
E060-59345/2015-O16	SŽDC - transport services Pardubice - Liberec
E060-59346/2015-O16	SŽDC - transport services Brno-Břeclav-Olomouc

SD - Kolejová doprava, a.s.

Contract	Description
2015001516854	Traction el. 2015,2016 - SD Rail transport
E018-70548/2009	Cooperation with MÚ SD Rail transport
E296-OS-0022/13-T	Heat and hot water supply
E296-OS-0026/13-A	Water, sewerage, storm water

Severočeské doly a.s.

Contract	Description
2667100215	Vlečka Bílina no. 2251/1 a 2386

Tepelné hospodářství města Ústí nad Labem s.r.o.

Contract	Description
E296-DS-0202/07-C	Heat delivery TUV

V. Other Relations
The Company made no other legal acts in the interest or at the initiative of the controlling party or the Company's related parties that would concern assets with a value exceeding 10% of the Company's equity as determined in the most recent set of financial statements.

VI. Other Information
Credibility of information: Confidential information comprises information and facts that are part of the related parties' business secret and information that was designated as confidential by any party that is part of the structure of relations described in this Report on Relations. In addition, confidential information includes any business information that could, on its own or in connection with other information, cause damage to any party belonging to the structure of relations described in this Report on Relations. For this reason, the Report on Relations contains no information on the prices (or amounts) of construction work, supplies, services or the relevant amounts.

VII. Declaration
All the above-specified contracts and amendments were entered into and the performance and counter-performance were provided under arm's length conditions. The Company suffered no detriment arising from the business relations.

The Company's statutory body states that the relations described in this Report on Relations primarily bring the Company advantages and that it is not aware of any risks arising to the Company from the relations described in this Report on Relations.

VIII. Conclusion
The Company's statutory body prepared the Report on Relations within the deadline stipulated by law. The Report on Relations was prepared to the best of the Company's knowledge and belief, using available data and documents and taking all reasonable efforts. The scope of the Czech Republic's controlling relations was identified using the data provided by the shareholder. The Report was submitted for the review to the Supervisory Board which will provide its statement at the Company's Steering Committee.

In Prague, 31 March 2017

Pavel Krtek
Chairman of the Board
of Directors
České dráhy, a.s.

Martin Bělčík
Member of the Board
of Directors
České dráhy, a.s.

Appendix 1

List of business corporations controlled by the State from 1 January 2016 to 31 December 2016 with which relations as described in this Report were established in the respektive reporting period

Related Entity	Corporate ID	Share of the State	Means of Control
ČEPRO, a.s.	60193531	100.00%	Related entity directly controlled by the State.
ČEZ Distribuce, a. s.	24729035	0.00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
ČEZ Prodej, s.r.o.	27232433	0.00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
ČEZ Teplárenská, a.s.	27309941	0.00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
ČEZ, a. s.	45274649	69.78%	Related entity directly controlled by the State.
Elektrárna Počerady, a.s.	24288110	0.00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
EVČ s.r.o.	13582275	0.00%	Related entity indirectly controlled by the State through ČEZ ESCO, a. s., which has a 75% share in this entity.
MARTIA a.s.	25006754	0.00%	Related entity indirectly controlled by the State through ČEZ Teplárenská, a. s., which has a 100% share in this entity.
SD - Kolejová doprava, a.s.	25438107	0.00%	Related entity indirectly controlled by the State through Severočeské doly a.s, which has a 100% share in this entity.
Severočeské doly a.s.	49901982	0.00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
Tepelné hospodářství města Ústí nad Labem s.r.o.	49101684	0.00%	Related entity indirectly controlled by the State through ČEZ Teplárenská, a. s., which has a 55,83% share in this entity.

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QUALITY STANDARDS

ASSESSMENT FOR 2016

Introduction
The quality of service provided to the travelling public forms a substantial part of České dráhy's image as it is visible and monitored by the general public, mass media, competitive carriers and passenger transport orderers of the regional and long-haul transport. ČD's quality standards determine a single quality level of provided services to passengers and orderers and are based on the Company's current financial abilities.

The quality management system in ČD is applied in the scope of all requirements as defined in the ČSN EN ISO 9001 and ČSN OHSAS 18001 norms and the new ČSN EN ISO 50001 norm.

Measurement of compliance with quality standards is utilising inputs from the internal control, deliverables from the orderers' inspections, received complaints and suggestions and it is complemented by the measurement of the customer satisfaction in the form of a questionnaire survey, mystery shopping and specific research.

Quality Standard Assessment for 2016
Compliance with the required quality standards is very good; although partial standards are not entirely met, the compliance level is higher than 90%. Failures to comply concerns the following areas:

- Sales of tickets at train stations (partial under-performance of one indicator);
- Providing information at train stations (partial under-performance of one indicator);
- Information Systems in vehicles (partial under-performance of one indicator);
- Information systems at train stations (partial under-performance of one indicator);
- Customer satisfaction survey (incomplete questionnaire for the required criteria).

Failure (partial) to meet the above indicators is not critical in the context of the ongoing closures and exceptionalities. This situation is caused by, among others, by increase in the number of complaints from passengers in the affected areas and by adjustments to the scope of inspection activities.

Where the level of compliance with individual standards for the defined period was lower than the determined minimum value, the individual organisational units are obliged to verify the reasons, adopt measures remedying the situation and implement them immediately.

Conclusions of inspection activities for 2016 comply with the outcome of the quality standard assessment. In 2016, a total of 134,687 inspections were realised, of which 21,818 inspections were carried out at train stations and 112,869 on board of trains. Inspection activities in 2017 will focus on the verification of effectiveness of the measures adopted to meet the quality standards.

Sheet of standards		Level of requirements	2016	Meeting standards
1.	**Information and tickets**			
1.1.	**Sale and inspection of tickets on trains**			
	Sale of tickets (except for rail replacement bus service)	99%	99.9%	Met
	Quality of work of train personnel when selling tickets	95%	98.8%	Met
1.2.	**Providing information on trains**			
	Providing information on trains (except for rail replacement bus service)	99%	99.9%	Met
	Quality of work of train personnel	95%	99.6%	Met
1.3.	**Sale of tickets at railway stations**			
	Sale of tickets in every staffed railway station or stop	99%	97.7%	Not met
	Alternative ticket sale	99%	99.8%	Met
1.4.	**Providing information at railway stations**			
	Providing information to passengers in a staffed railway station/stop	99%	98.8%	Not met
	Providing information by SŽDC	99%	98.4%	Not met
	Quality of work of railway station personnel	95%	88.2%	Not met
1.5.	**Behaviour of the train and railway station personnel**	98%	99.3%	Met
1.6.	**Information systems in trains**			
	Functionality of providing information	99%	99.9%	Met
	Quality of work of train and vehicle personnel	99%	98.6%	Not met

Sheet of standards		Level of requirements	2016	Meeting standards
1.7.	**Information systems at railway stations**			
	Functionality of providing information	99%	99.9%	Met
	Quality of work of railway station personnel	99%	98.7%	Not met
2.	**Accuracy of train connections and the general principle for procedures in operational extraordinary events**			
2.1.	**Operational extraordinary events in railway transport**	98%	99.9%	Met
2.2.	**Compliance with the planned requirements and planned train capacity**	91%	98.1%	Met
2.3	**Accuracy of compliance with the timetable of the long-haul, regional and commercial transport**			Met
	Long-haul transport			
	Trains arriving within the tolerance limit for accurate transportation	78%	78%	Met
	Trains arriving within 60 minutes		98%	Met
	Trains arriving beyond 60 minutes	2%	2%	Met
	Regional transport			
	Trains arriving within the tolerance limit	91%	91%	Met
	Trains arriving within 60 minutes		99%	Met
	Trains arriving beyond 60 minutes	1%	1%	Met
2.4.	**Connecting trains**	90%	97.7%	Met
3.	**Compliance with the contracted scope of transport and cancellation of transport connections**	99%	99,6%	Met

Sheet of standards		Level of requirements	2016	Meeting standards
4.	**Cleanliness of trains and railway station facilities**			
4.1.	**Cleanliness of train stations and operational facilities / availability of restrooms**	85%	90%	Met
4.2.	**Cleanliness of trains**	95%	96.2%	Met
5.	**Customer satisfaction survey**	100%	96%	Not Met
6.	**Handling complaints, reimbursement of transportation costs and compensation in the event of non-compliance with service quality standards**			
6.1.	**Handling passengers' complaints**	100%	100%	Met
	Filing coefficient per 100 thousand transported passengers	7	7	Met
	Justified filing coefficient per 100 thousand transported passengers	4	2,3	Met
	Average time for handling a complaint	30 days	11 days	Met
6.2.	**Exercising of the right arising from the transportation contracts and refunds to passengers**	100%	100%	Met
	Unjustified request rejections	None	None	Met
	Loss of the request	None	None	Met
	Dealing with the request in the determined period	100%	100%	Met
	Average length of dealing with the request	4 weeks	4 weeks	Met
7.	**Assistance provided to disabled people and people with reduced mobility and orientation**			
	Satisfying a customer's order or requirement	99%	99% (93%)	Partly Met
	Sorting requirements by orders	99%	99%	Met
	Functionality and technical capacity of mobile platforms	99%	99%	Met

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LIST OF USED ABBREVIATIONS

Abbreviation	Description
AO	Audit body
APA	Analysis of the Application Portfolio
CER	Community of European Railways
CSM	Security method for evaluating and assessing risks
ČD	České dráhy, a. s.
ČD-IS	ČD – Informační Systémy, a. s.
ČDT	ČD - Telematika a. s.
ČSN	Czech technical norm
ČSN EN	European norm
ČR	Czech Republic
DB	Deutsche Bahn AG
DISOD	Dispatcher Information System for Passenger Transport
DJŽV	Diagnostics of moving railway vehicles
DMS	Document Management System
DPOV	Dílny pro opravy vozidel (DPOV, a.s.)
DVI	Transport Education Institute (Dopravní vzdělávací institut, a.s.)
DÚ	Railway Authority
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EC	Passenger train category of higher quality (EuroCity)
EIA	Environmental Impact Assessment
EU	European Union
Ex	Long-haul passenger train of the express category
IC	Passenger train category of higher quality (InterCity)
ICT	Information and communication technology
IDS	Integrated transport system
IFRS	International Financial Reporting Standards
IRRB	International Railway Research Board
IS	Information system

Abbreviation	Description
ISIC	International Student Identity Card
ISO	International Organisation for Standardisation
IT	Information technologies
JLV	Jídelní a lůžkové vozy, a. s.
JŘ	Train timetable
KAC	Control and Analytical Centre for Transport Management
MAP	Multi-application platform (Production automation protocol)
MPSV	Ministry of Labor and Social Affairs
MŘV	Extraordinary Steering Committee
NAD	Rail replacement bus service
OSŽ	Railway Workers Union
OSŽD	Organisation for Railway Cooperation
ÖBB	Österreichische Bundesbahnen
POP	Portable Personal Cashier
ROP	EU Regional Operational Programme
Rx	Higher-quality express train (train category)
SAP	Bookkeeping system
SC	Passenger train category of highest quality (SuperCity)
SŽDC	Správa železniční dopravní cesty, státní organizace/Railway Transport Route Administration, state organisation
TAP	Telematic application for passenger transport
TSI	Technical specifications of interoperability
UIC	International Union of Railways
Vlkm	Train kilometres (the total of the product of the number of trains and the distances travelled)
VUZ	Výzkumný Ústav Železniční, a.s./ Railway Research Institute
ZSSK	Železničná spoločnosť Slovensko, a.s./ Slovak Railway Company
ZVS	Public service commitment (závazek veřejné služby)
ŽKV	Railway vehicle

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IDENTIFICATION

AND CONTACT INFORMATION

Name of the company: České dráhy, a. s.

Registered office: Praha 1, Nábřeží L. Svobody 1222, PSČ 110 15

Corporate ID: 70994226

Tax ID: CZ70994226

Registration court: Praha

File no.: Section B, File 8039

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