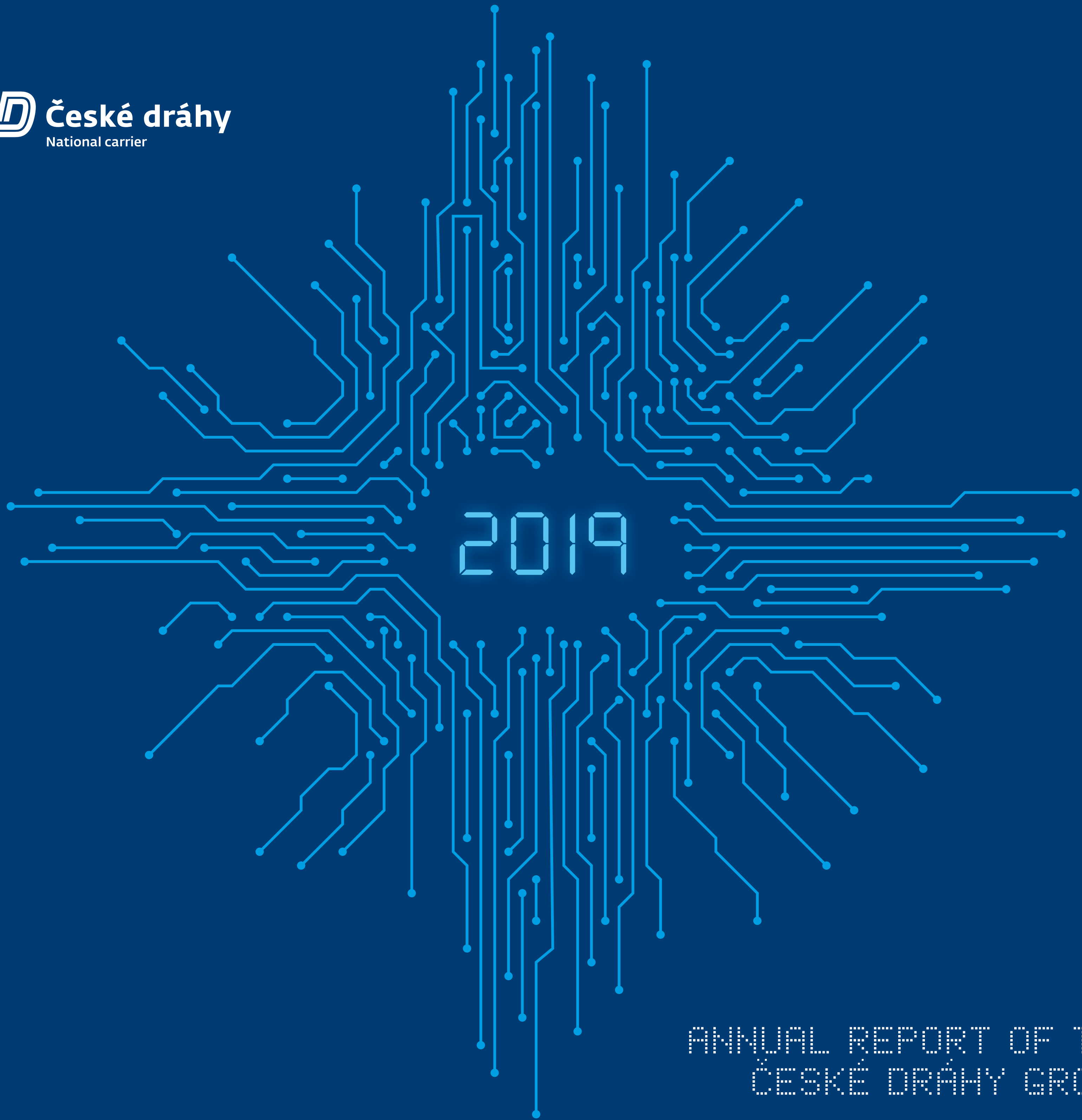
České dráhy
National carrier



ANNUAL REPORT OF THE ČESKÉ DRÁHY GROUP

CONTENT

01

FOREWORD OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Ladies and Gentlemen,

The Group reached the profit of more than CZK 1.3 billion according to the International Financial Reporting Standards (IFRS). This result is a merit of all our companies including the segment of passenger transport, which was also profitable.

Due to investments into new vehicles and better services the number of passengers grew to more than 182 million. This supports the prior years' trend where trains successfully compete with other types of transportation and people gladly use them for longer distances. Higher sales and careful management of costs positively impacted the passenger transport segment's result that ended in profit of CZK 58 million. Year 2019 was important for the passenger transportation due to the continuous liberalisation of the market. Despite we have managed to uphold most of the previous levels of performance so far, our total market share slightly decreased with the start of a new 2019/20 timetable.

The second most significant segment of freight transport was also profitable. This segment reported profit of CZK 608 million and transported 65 million tons of goods. ČD Cargo expands to foreign markets and due to this our largest subsidiary expects a gradual stabilisation of the traffic performance. Any possible losses in domestic transportation caused by strong competition should be offset by the foreign performance.

Further development of business depends on the ability to continue the planned investments into vehicle fleet. Our intentions in this area are likely to be affected by the impact of the measures announced in relation to the spread of the coronavirus disease COVID-19 in Europe. Despite this, in 2021 we will gradually put into operation dozen of vehicles that are already being produced for our needs. We also want to keep ČD Group profitable.

Václav Nebeský
Chairman of the Board of Directors
České dráhy, a.s.

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OUR VISION

Pleasing people every day and being an ally on their way through life.

Being an open company that is not afraid to meet new challenges and stand with honour in a competitive environment.

The present world as well as the needs of our customers are changing very quickly and the demands for quality of travel in all segments of transport are increasing. The time when the main criterion for selecting a carrier was price, is gone. Nor is it the only - though still the most important - condition to transport customers safely and without delay. Many other factors come into play, such as comfort, reliability, speed, but also the user-friendly environment of the e-shop and a wide range of complementary products that are on the side-lines, but for many customers their availability may be essential when choosing the right travel partner. We feel it is essential to provide added value for rail travel. We would like to be not only the first choice for our customers, but to go far beyond the everyday ideas of traveling.

We perceive care for our customers as a mission and we are proud to welcome more and more passengers aboard our trains and deserve the designation of a national carrier. With the help of our customers, we would like to keep the trend set. We perceive that the offer of competition is expanding, and passengers are more oriented in the offered products. We understand that it is necessary to earn every customer. Therefore, we would like to offer our customers several connections in new or fully modernized cars, which will provide a comfortable travel experience, while making the journey more pleasant with aromatic coffee, wi-fi technology, or the possibility of a child sitting in the cinema. The passengers can in that way look forward to more than two hundred new cars, the expansion of catering services and new connections.

Our main goal remains to offer the most modern and efficient transport, coupled with additional ever-expanding services, not only within the so-called first and last mile, which will enable customers to reach their destination comfortably and quickly.

And, so as other companies, we would like to fulfil these ambitions in harmony with nature. To be a company that respects the principle of environmental sustainability and prefers planet-friendly solutions. Being trendy in promoting new technologies in rail transport. However, our behaviour will be judged by future generations.

Nevertheless, each success is primarily driven by people, meaning the loyal employees with the heart in the right place and courage to improve and move things forward. It is no different in our case. That is why we are grateful to them, and we would like to reward and invest in their development and satisfaction.

Even in the future we have a great desire to succeed in this very dynamically developing time and to move things for the better.

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MAIN INDICATORS FOR ČD GROUP

Key indicators	2019	2018	Difference	Index
Revenue	40,656	39,097	1,559	**104.0**
EBITDA from continued operations (CZK million)	9,728	8,848	880	**109.9**
EBIT from continued operations (CZK million)	2,537	2,625	(88)	**96.6**
Profit (loss) for the period from continued operations (CZK million)	1,315	1,185	130	**111.0**
Total assets (CZK million)	95,991	84,832	11,159	**113.2**
CAPEX (CZK million)	8,761	7,392	1,369	**118.5**
Depreciation and amortisation (CZK million)	7,191	6,223	968	**115.6**
Leverage – liabilities / total assets (%)	56.3	52.8	3.5	**106.6**
Debt / EBITDA – loans and borrowings / EBITDA	4.3	3.6	0.7	**119.4**
Current liquidity (%) – current assets / current liabilities	127.9	60.2	67.7	**212.5**
Average full time employees equivalent	23,529	23,374	155	**100.7**
Passenger transport				
Number of passengers (mil.)	182.1	179.2	2.9	**101.6**
Traffic performance (mil. person-kilometres)	8,685	8,225	460	**105.6**
Transport performance (mil. train-kilometres)	124.0	123.6	0.4	**100.3**
Average traffic distance (km)	47.7	45.9	1.8	**103.9**
Occupancy ratio (%)	31.2	29.9	1.3	**104.3**
Freight transport				
Traffic volume (mil. tones)	65.0	68.4	(3.4)	**95.0**
Traffic performance (mil. tariff ton-kilometres)	11,516	12,928	(1,412)	**89.1**
Transport performance (bn. gross ton-kilometres)	23.0	25.7	(2.7)	**89.5**

BOARD OF DIRECTORS OF THE COMPANY

Václav Nebeský

Václav Nebeský is a graduate of the Faculty of Transport of Jan Perner of the University of Pardubice. He started his career after studies in 1996 as a dispatcher at OPŘ Praha and after as technologist at OPŘ Pardubice. Later, he found his place in the department of strategy and technology in General Directorate of ČD. In subsidiary ČD- Telematika, he worked as Project manager and Project manager senior. In 2009, he held position of Deputy of director in the company CDT International, where he stayed as statutory representative and director after its transformation to company RPP International. He also performed managerial positions in the company Uni Controls, VISEF or XT-Card. In 2015-2017 he worked externally for the Ministry of Regional Development as advisor, where in December 2017 he became Deputy of the Minister. He was a member of the Steering Committee of ČD and member of Government Council for Information Society.

Michal Kraus

Michal Kraus is a graduate of the Pedagogic faculty of the West-Bohemian University in Pilsen and the post-gradual study program in the field of law and management. He started his career in 1989 in Czech Radio and after several years working in the media he joined the engineering company ŠKODA, a.s. in 1993 where he worked in several managerial positions till 2002. After, till 2003, he worked as HR vice-president in ČSA, a.s. and since 2004 he held position as CEO and since 2014 also as member of Board of Pilsen City Transport Company. In October 2019, he joined České dráhy where he holds position of the Board of Directors member and Deputy CEO for Operations. He is responsible for operations and development of the service and manintenance of rail vehicles and the operation and development of the strategic management of these areas.

as at 31 December 2019

Radek Dvořák

Radek Dvořák is a graduate of the Transport faculty of the University of Pardubice. He started his career in 2006 in the automotive industry at Toyota Peugeot Citroen Automotive. In 2007, he moved from the automotive industry to České dráhy where he gradually held positions of project manager, Director of the Office of a Member of the Board of Directors for Passenger Transport, and Director of the Development and Strategy of Passenger Transport. Since 2018 he held position as a member of the Board of Directors, firstly, as Deputy CEO for Economics and since January 2019 as Deputy CEO for Passenger Transport. He is responsible for the development of regional and long distance passenger transport and related strategies.

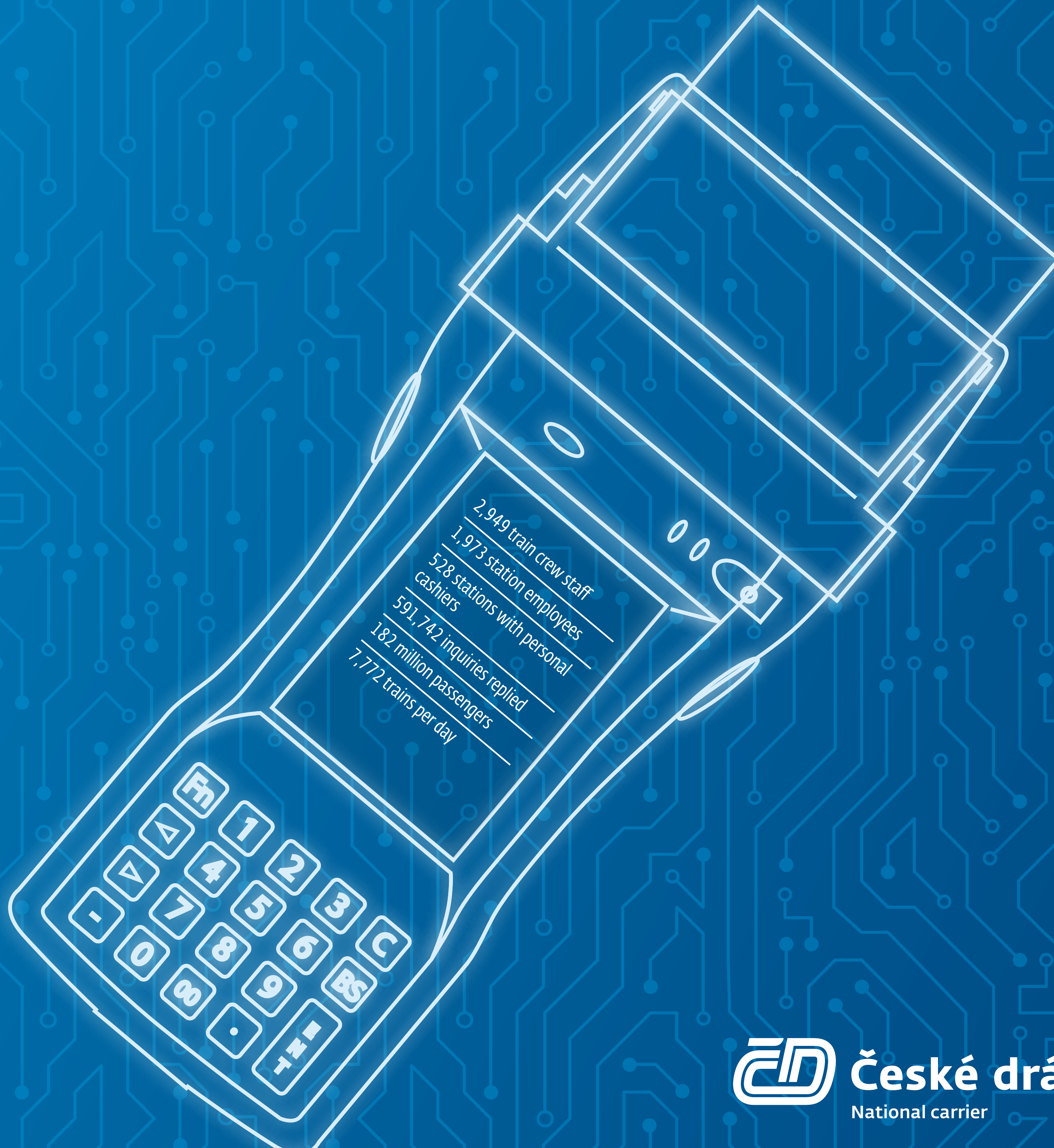
Patrik Horný

Patrik Horný is an experienced leader with long-term practice in international corporations in Central and Eastern Europe. As a member of the Board of Directors of České dráhy, a.s., as Deputy CEO for Economics, he is responsible in particular for the Company's and Group's annual and medium-term plans, as well as for financing, investments and controlling. Before joining the Board of Directors of České dráhy, he held position if Vice-Chairman of the Board of Directors and Director of Economics and Informational Management Division at Železničná spoločnosť Slovensko. In his career he held managerial functions in global consulting and IT companies, such as partner in PriceWaterhouseCoopers ČR, CEO at Capgemini Czech Republic and member of the Board of Directors at Capgemini Austria/CEE. He is an expert in the field of business transformation, introduction of new culture, organisational models, innovations and new technologies. He studied at Technical University in Dresden, worked and lived in Germany, Austria, Slovakia and the Czech Republic.

CUSTOMER CARE

In 2019, České dráhy transported over 182 million passengers, which were taken care of by 2,949 train crew staff and another 1,973 employees working directly at the stations took care of them. They were available not only in 528 ticket offices and ČD centres, but they also replied 591,742 phone and e-mail inquiries directed to ČD Central Customer Service.

Jana Laurincová
Conductor, Customer Service
Regional Workplace Prague



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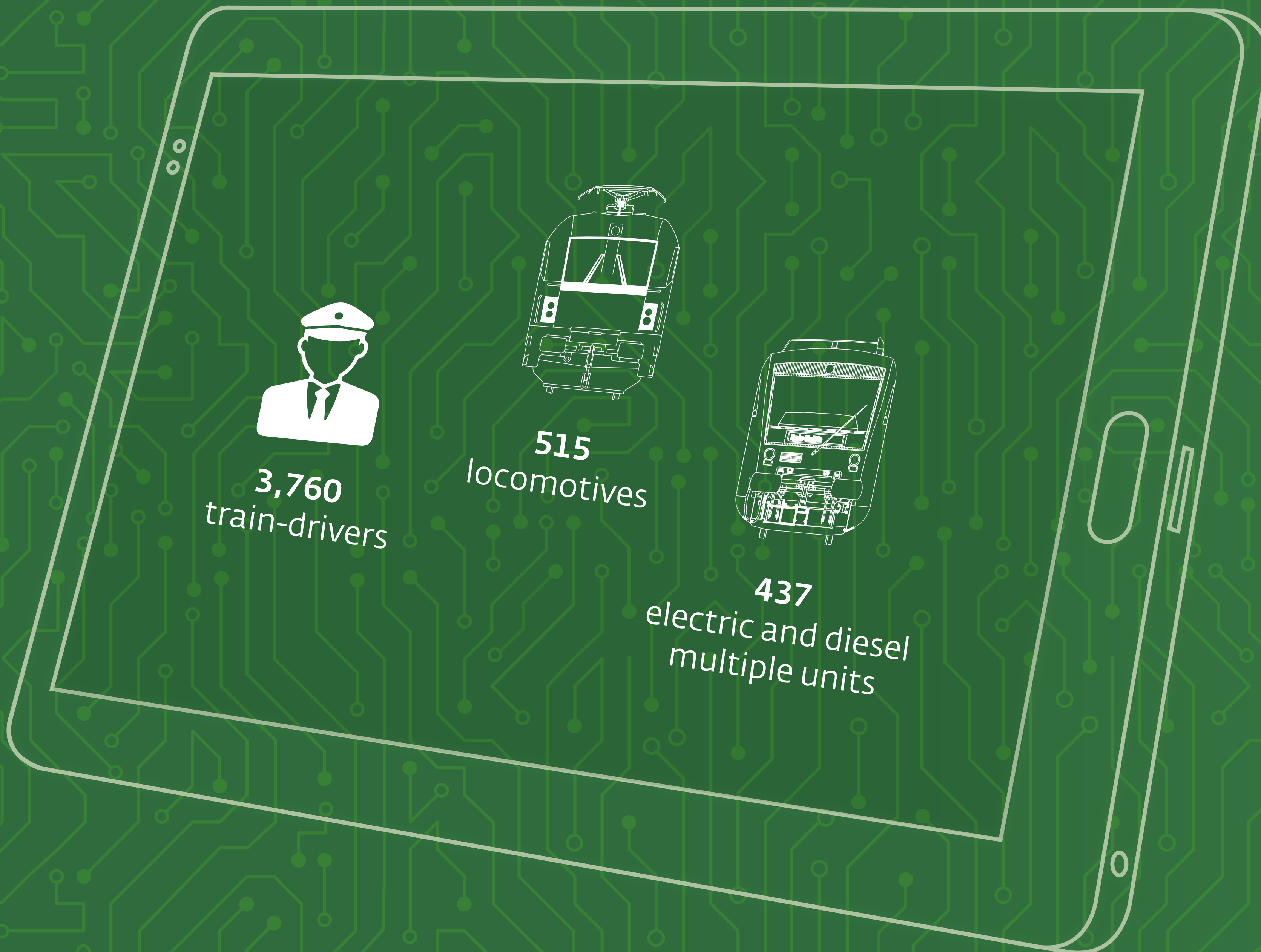

České dráhy
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SAFELY TO YOUR DESTINATION

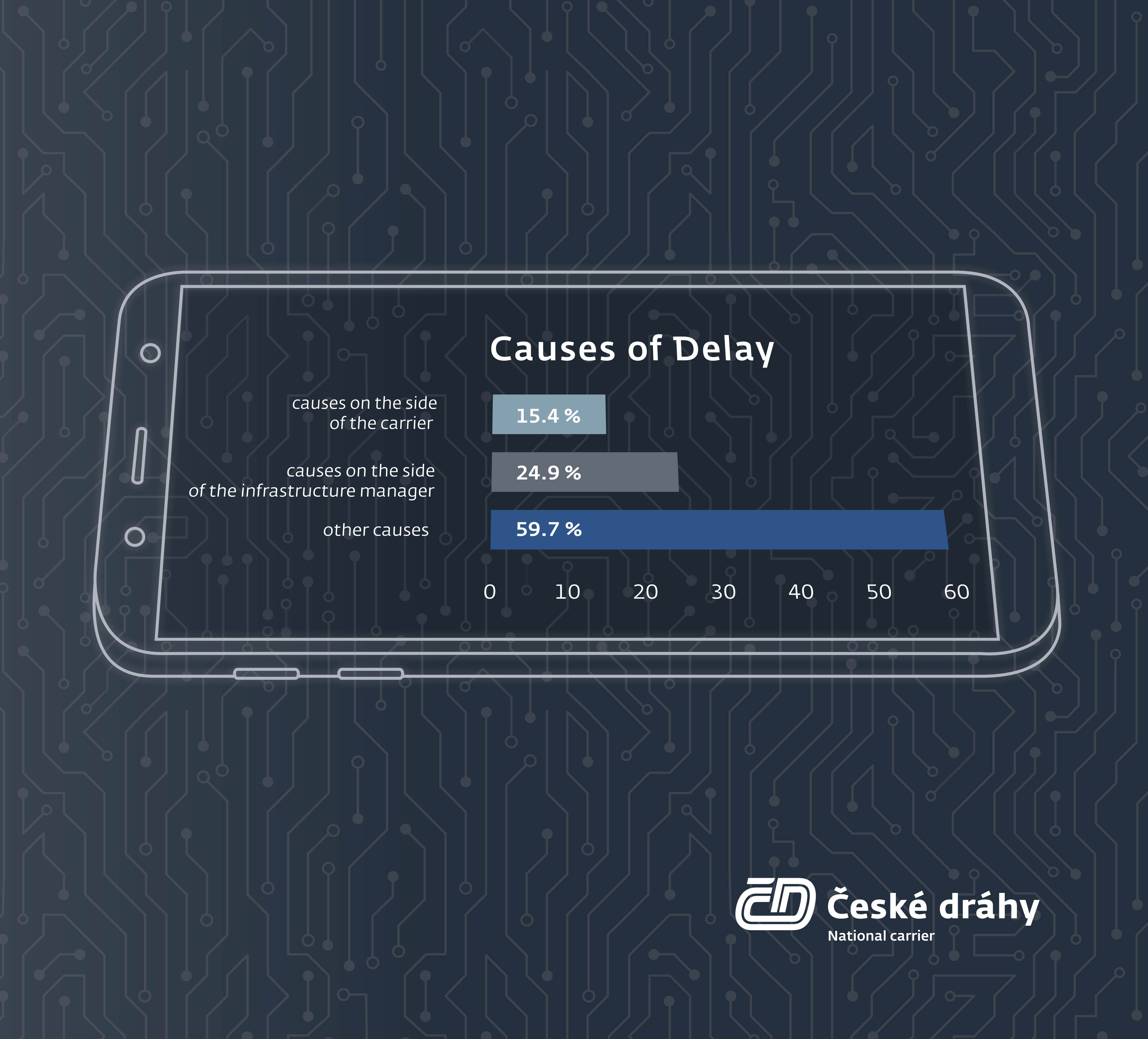
In 2019, all ČD trains were led by 3,760 experienced train drivers. České dráhy pay great attention to the education of new employees of this responsible profession. In 2019, 255 new applicants were trained. A novelty of 2019 was the equipment of all train-drivers with tablets including all necessary operation and information applications.

Zbigniew Adamus
Train-driver, OCP Centre
Operation Workplace Prague-Vršovice

SECURITY ON THE ROAD

Dispatchers coordinate a continuity of thousands of trains daily. In three regional dispatching and one network dispatching centre, at any time work 16 dispatchers. Their job is to ensure calm travel even on unexpected events. A range of communication tools help them to quickly and efficiently communicate information with operation personnel. The accuracy of České dráhy's trains in 2019 was 88.9 %.

Jan Filip Vávra
Operational Dispatcher
Passenger Transport Department


Causes of Delay
causes on the side of the carrier
15.4 %
causes on the side of the infrastructure manager
24.9 %
other causes
59.7 %
0
10
20
30
40
50
60
České dráhy
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National carrier

WE CARE FOR TECHNOLOGY

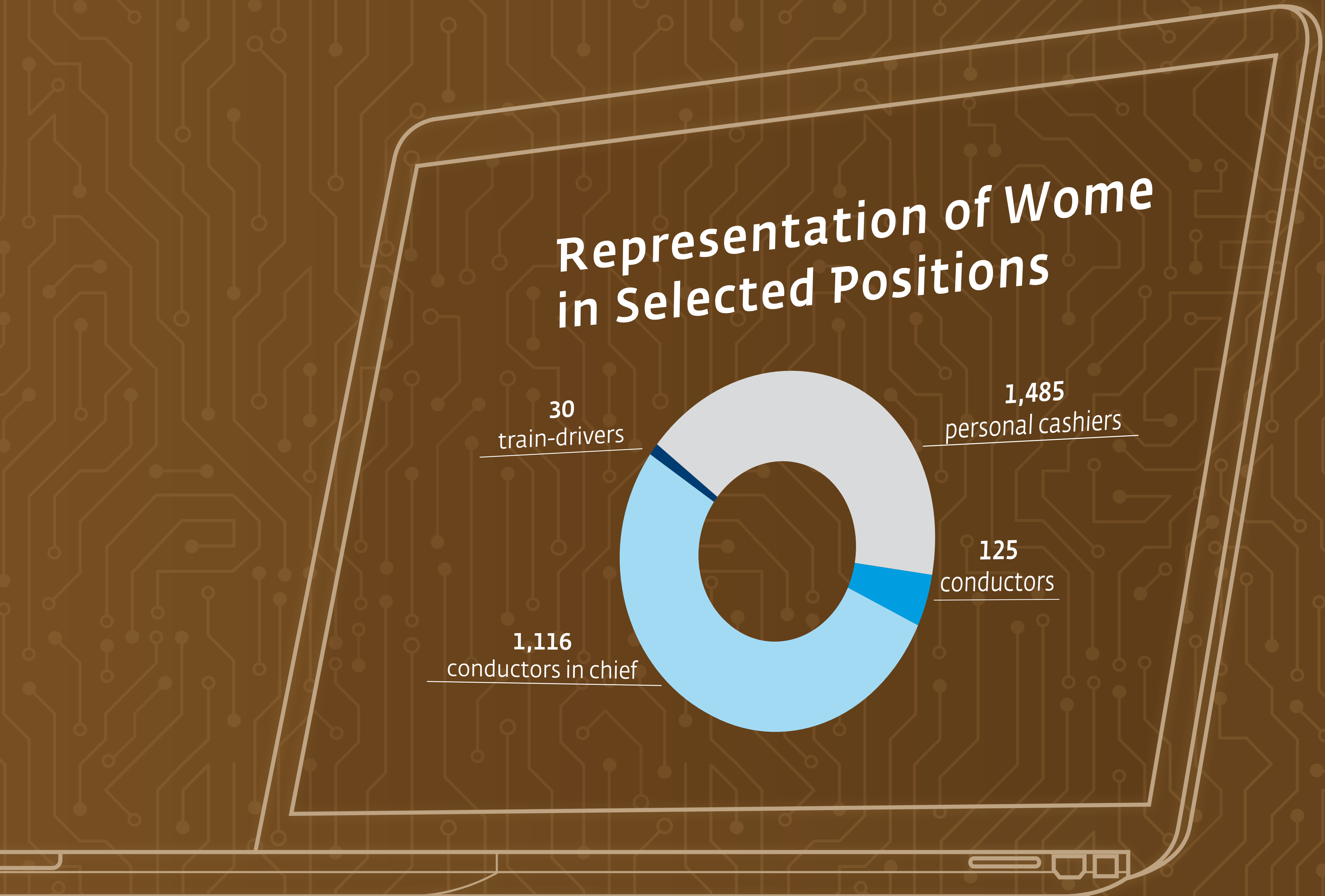
In three Regional Maintenance centres, České dráhy maintain 2,167 passenger cars, 167 electric multiple units and 671 railcars and diesel multiple units. Specialists of these centres pay attention not only to the technical condition, but also to clearing and to the functioning of wi-fi, on-board portals, wheelchairs platforms or telecommunication system GSM-R. They intensively prepare for the introduction of the European train protector ETCS.

Damir Šulek
Shunting Chief
OCP Centre

WOMEN IN ČESKÉ DRÁHY

České dráhy employ 4,460 women. In addition to traditional occupations, they are more frequently employed in technical positions. In 2019, České dráhy employed 30 women as train-drivers and further 240 women in other technical-operation positions.

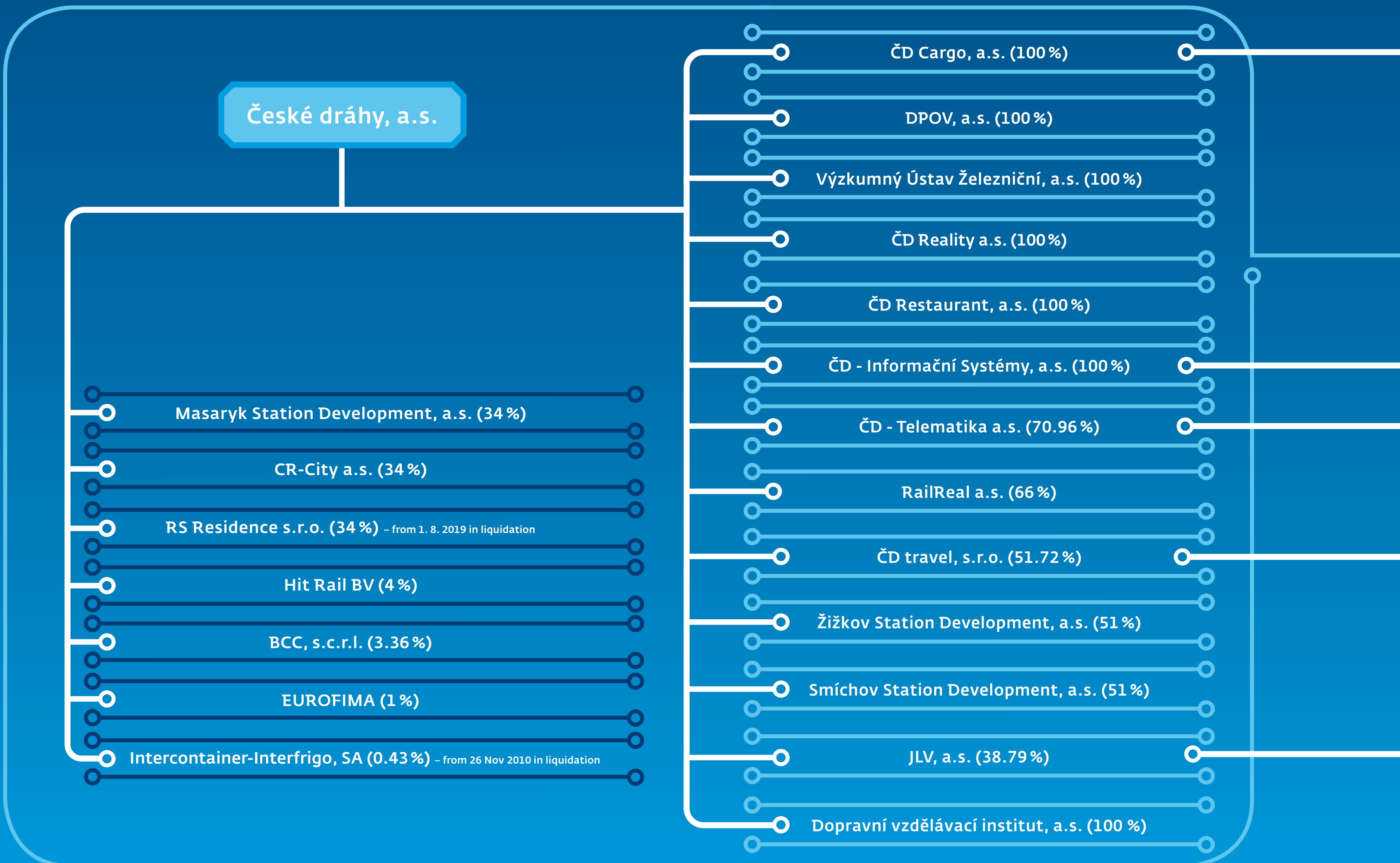
Barbora Hlinovská
IT Specialist
IT Deputy, ČD

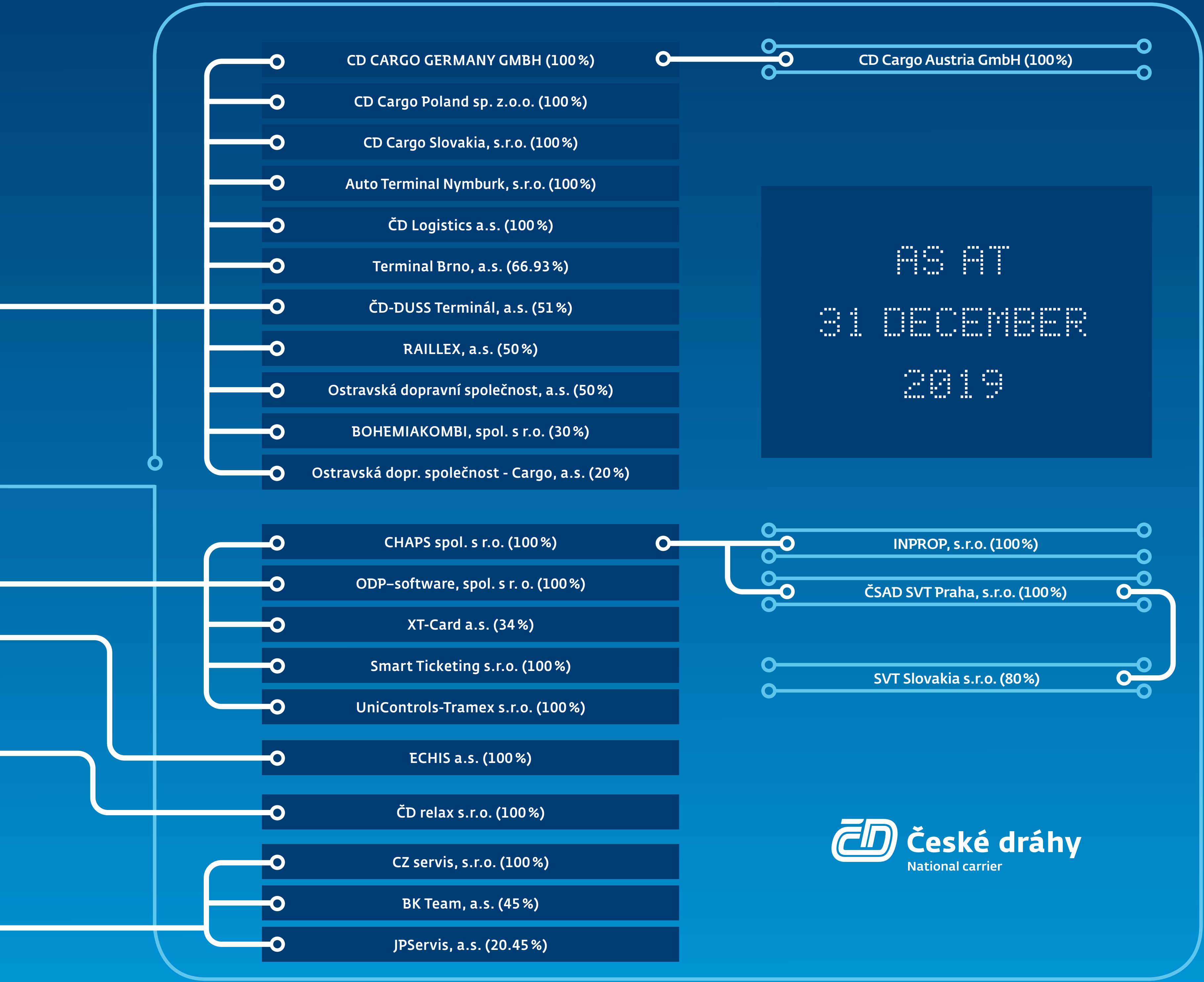


České dráhy
National carrier

04

OVERVIEW OF THE INVESTMENT SHARES HELD BY THE ČD GROUP




CD CARGO GERMANY GMBH (100 %)
CD Cargo Austria GmbH (100 %)
CD Cargo Poland sp. z.o.o. (100 %)
CD Cargo Slovakia, s.r.o. (100 %)
Auto Terminal Nymburk, s.r.o. (100 %)
ČD Logistics a.s. (100 %)
Terminal Brno, a.s. (66.93 %)
ČD-DUSS Terminál, a.s. (51 %)
RAILLEX, a.s. (50 %)
Ostravská dopravní společnost, a.s. (50 %)
BOHEMIAKOMBI, spol. s r.o. (30 %)
Ostravská dopr. společnost - Cargo, a.s. (20 %)
AS AT
31 DECEMBER
2019
CHAPS spol. s r.o. (100 %)
INPROP, s.r.o. (100 %)
ČSAD SVT Praha, s.r.o. (100 %)
SVT Slovakia s.r.o. (80 %)
ODP–software, spol. s r. o. (100 %)
XT-Card a.s. (34 %)
Smart Ticketing s.r.o. (100 %)
UniControls-Tramex s.r.o. (100 %)
ECHIS a.s. (100 %)
ČD relax s.r.o. (100 %)
CZ servis, s.r.o. (100 %)
BK Team, a.s. (45 %)
JPServis, a.s. (20.45 %)
České dráhy
National carrier

05

Corporate Governance

Legal Relationships of the Company

The legal relationships of the joint stock Company České dráhy, a.s. (hereinafter „ČD" or ,,the Company" or"České dráhy") are governed by:

- Act No. 77/2002 Coll., on the joint stock company České dráhy, the Railway Infrastructure Administration 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, as amended
- Act No. 90/2012 Coll., the Act on Business Corporations and Cooperatives, as amended.

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.

Shareholders Structure and Bodies of the Company

The Czech Republic is the sole shareholder of ČD. 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 the Company.

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 Transportation 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, a.s. and the Steering Committee's Rules of Procedure. The work addresses of the members of the Steering Committee are located at the headquarters of the Company.

The members of the Steering Committee as at 31 December 2019 were as follows:

Tomáš Čoček	Chairman, representative of Ministry of Transportation
Ladislav Němec	Vice-Chairman, representative of Ministry of Transportation
Petr Pavelek	Member, representative of Ministry of Finance
Filip Říha	Member, representative of Ministry of Defence
Eduard Muřický	Member, representative of Ministry of Industry and Trade
Lukasz Kryński	Member, representative of Ministry of Regional Development
Luděk Sosna	Member, representative of Ministry of Transportation

According to Government Resolution No. 759 from 30 October 2019, with effective date of 30 October 2019, the activity in the Steering Committee was terminated for Jakub Landovský. Roles in the ČD Steering Committee were passed to Filip Říha, Petr Pavelek and Lukasz Kryński with the effective date of 30 October 2019. This authorization was preceded by the resignation of Václav Nebeský as a member of the ČD Steering Committee.

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:

- reviewing the report on the Company's business activity and the Company's financial performance, including a report on the settlement of public budgets and submits its observations to the General Meeting
- approving the annual business plan and the budget for operating the Company's railway transport
- granting prior approval for asset management, if such a procedure is required by the Company's Articles of Association
- review final, extraordinary or consolidated financial statements and, in cases where other legal regulations stipulate it, interim financial statements
- examine the proposal for the allocation of profit earned or other own resources or the proposal for allocation of the loss incurred and presents its observations to the General Meeting.

The decision-making procedure of the Supervisory Board is governed by the legislation stipulating the legal relationships of the Company, the Articles of Association and the Rules of Procedure of the Supervisory Board. The work addresses of the members of the Supervisory Board are located at the headquarters of the Company.

The members of the Supervisory Board as at 31 December 2019 were as follows:

Pavel Kysilka	Chairman
Vojtěch Kocourek	Member
Josef Kolář	Member
Antonín Leitgeb	Member
Tatiana Molková	Member
Jaroslav Pejša	Member
Libor Švadlenka	Member
Jan Vrátník	Member
Vladislav Vokoun	Member

As of 1 January 2019, ČD employees Antonín Leitgeb and Vladislav Vokoun were elected as Members of the Supervisory Board in compliance with the Electoral Code. As of 16 January 2019, Lukáš Týfa ceased to be a Member by his resignation. By decision of the Steering Committee outside the meeting (per rollam), as of 13 February 2019, Libor Švadlenka was elected as a Member of Supervisory Board. As of 27 March 2019, the sole shareholder of the Company via Steering Committee re-elected Vojtěch Kocourek as a Member of the Supervisory Board. As of 15 April 2019, Jan Štrof was recalled from the position of Member of the Supervisory Board and Tatiana Molková was elected for that position. As of 30 April 2019, Petr Moos ceased to be a Member of ČD Supervisory Board by his resignation. As of 1 May 2019, the Supervisory Board of ČD elected Karel Pospíšil as Chairman of the Supervisory Board of ČD. As of 10 June 2019, the ČD Steering Committee elected Jan Vrátník as a Member of the Supervisory Board. As of 10 September 2019, Karel Pospíšil was recalled from the position of Member of the Supervisory Board and Pavel Kysilka was elected, adding that he was elected as a Chairman of the Supervisory Board by the Supervisory Board as of 19 September 2019.

The Supervisory Board within its competence set up the Committee for the management of real estate, Remuneration Committee and Rail vehicles Committee.

Committee for the real estate management discusses the proposals for the prior consent of the Supervisory Board to dispose of the property in cases where such consent is required under the Statutes or when the discussion of the proposal in the Committee before submission to the Supervisory Board is required by internal regulation for the sale and lease of ČD's real estate. Committee members are appointed and dismissed by the Supervisory Board. The decision-making process is particularly maintained by the code of rules and in the details by the rules of procedure of the Committee, approved by the Supervisory Board.

The Remuneration Committee monitors the compliance with the rules for remuneration of members of the Board of Directors. According to these rules, remuneration of the members of the Board of Directors depends particularly on the objectives achievement. The Committee also reviews proposals for the remuneration and other benefits to members of the Board of Directors and submits to Supervisory Board its observations and recommendations on these proposals. The decision-making process is particularly maintained by the code of rules and in the details by the rules of procedure of the Committee, approved by the Supervisory Board.

The Rail vehicles Committee is an advisory body to the Supervisory Board, which discusses the ČD Board's proposals regarding the strategy and concept for the renewal of railway vehicles. The decision-making process of the Committee is governed by the Articles of Association.

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:

- all of the Company's affairs unless they are reserved based on relevant regulations, the Company's Articles of Association, to the General Meeting, the Supervisory Board or the Audit Committee
- approving, after consultation with trade unions operating in the Company, the Electoral Code, which determine the manner and conditions of appointing and recalling of members of the Supervisory Board appointed and recalled by employees of the Company
- 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. The work addresses of the members of the Board of Directors are located at the headquarters of the Company.

The members of the Board of Directors as at 31 December 2019:

Václav Nebeský	Chairman
Radek Dvořák	Vice-Chairman
Patrik Horný	Member
Michal Kraus	Member

On 20 February 2019, Michal Štěpán ceased to be a Member of the ČD Board of Directors. As of 14 May 2019, Michal Heřman ceased to be a Member of the ČD Board of Directors by his resignation. As of 1 June 2019, the Supervisory Board elected Patrik Horný as a Member of the Board of Directors. The Supervisory Board recalled Miroslav Kupec from the position of a Chairman and Member of the Board of Directors with effective day of 10 June 2019 and elected Radek Dvořák to the position of Member and Vice-chairman of the Board of Directors. As of 30 September 2019, Michal Vereš ceased to be a Member of the Board of Directors of ČD by his resignation. As of 1 October 2019, the Supervisory Board elected Václav Nebeský as Member and Chairman of the Board of Directors and as of 14 October 2019 Michal Kraus as Member of the Board of Directors.

At the regular meeting of the ČD Supervisory Board held on 16 January 2020, Petr Pavelec was elected as Member of the Supervisory Board, with effective date as of 1 February 2020.

At the regular meeting of the ČD Supervisory Board held on 12 March 2020, Radek Dvořák ceased to be a Vice-Chairman of the Board of Directors by his resignation with effective date as of 31 March 2020.

At the same meeting of the ČD Supervisory Board, as the sole shareholder of ČD Cargo, a.s. by the sole shareholder decision decided on election of Radek Dvořák as a member of Board of Directors of ČD Cargo, a.s., with effective date as of 1 April 2020.

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 office 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 areas of authority 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 internal audit system and ensuring its functional independence,
- monitoring the process of the mandatory audit of the financial statements and the consolidated financial statements,
- recommends the auditor to the supervisory body, duly substantiating this recommendation,
- discusses with the auditor information, statements and communications under the law,
- assesses the independence of the statutory auditor and audit firm and the provision of non-audit services by the statutory auditor and audit firm.

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, a.s. The Company's Articles of Association stipulate the Audit Committee's decision-making procedure.

The members of the Audit Committee as at 31 December 2019 were as follows:

Tomáš Vyhnánek	Chairman
Otakar Hora	Vice-Chairman
Lenka Hlubučková	Member

There was no change in the composition of the Audit Committee in 2019.

Internal Audit

Internal audit activities are within the scope of authority of the Internal Audit and Control department, which reports to the Board of Directors of ČD. The Audit Committee oversees the independence and efficiency of Internal Audit.

The activity of Internal Audit 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 of ČD fulfils the role of an independent „third line of defence“ of the conceptual layout of internal control levels within the framework of the „three lines of defence“ principle of the organization.

Internal Audit also communicates and cooperates with external control bodies, the external auditor and criminal law authorities and secures the agenda related to the notification, registration and investigation of fraud and unfair conduct in ČD (whistleblowing).

Compliance

The goal of the Compliance function is to monitor the conduct of the Company and to ensure that the conduct of the Company, its employees and the management was in accordance with legal regulations and internal Company's guidelines, with an emphasis on compliance with corporate ethics, e.g. Code of Conduct.

The Company has implemented a decentralized compliance model.

The Legal, Security, Internal Audit and Control Department and Human Resources Department play a specific role in compliance. The Legal Department is the coordinator and overreaching department for compliance function. The Internal Audit and Control Department carries out activities in the area of fraud and unfair conduct investigation, proposes a risk management system strategy, monitors individual risks and maintains a system for monitoring and evaluating risks. The Human Resources Department is a unit creating and fulfilling the concept of employee education.

In the area of personal data protection, the compliance officer appointed for this purpose is responsible for the protection of personal data.

Risk Management and ISO Management Systems

The key objective of the implemented risk management system in the ČD Group is to continuously limit the adverse impact of risks on the financial results of the entire Group, i.e. at its maximum to eliminate the risks of revenue decrease and costs increase. The ČD risk management system is based on the framework set of Corporate Governance rules and is part of the „second line of defence“ of the conceptual framework of internal control levels within the principle of all „three lines of defence“ of the organization.

Risk Management Committee of ČD fulfils a significant management role in the risk management system. The Committee also provides the function of a permanent advisory body of the Board of Directors and meets at least four times a year.

A unified system for recording and evaluating risks is used within the entire ČD Group including the same way of quantification and risk categorization, which allows providing comparable data, especially when compiling the current overall risk position. Continuous monitoring of the significant risks development and their regular evaluation, which is linked to respective approved limits, ensure that the Group Management keeps to be regularly informed about current risk position.

Significant part of the „second line of defence“ are also management systems implemented in line with requirements of international ISO norms. Selected standards are binding for ČD due to the fulfilment of the requirement of legislation or based on the commitment of the ČD Board of Directors in the area of quality of offered services or emphasise the area of safety and health protection of employees.

Currently, the main activity of České dráhy, i.e. passenger transport, including the operation and maintenance of rolling stock, is certified according to ISO 9001 and OHSAS 18001. The Company is also certified in the field of energy management according to ISO 50001.

Information on Corporate Governance Codes

ČD has implemented and applies the Code of Ethics of České dráhy, a.s. and the Code of Ethics of the České dráhy, a.s. trading partner.

Human Rights

ČD strives for a safe and healthy working environment and its continuous improvement, providing equal opportunities to all, and does not allow discrimination, even in its hidden form. ČD provides equal opportunities to all people regardless of race, colour, gender, nationality, religion, ethnicity or any characteristics, does not permit or tolerate any form of harassment, intimidation, forced or illegal work, does not permit or tolerate discrimination or harassment.

ČD respects the privacy of its employees. The relationship between ČD and its employees is based on mutual trust, respect and dignity. ČD does not allow any form of discrimination against employees.

At the same time, ČD makes sure that employees pay maximum attention to and respect the personality and privacy of their colleagues.

Whistleblowing has long been set up as one of the tools to ensure the above, which serves, among other things, to report or warn of violations of standards, policies, rules, illegal, corrupt or unethical behaviour in the workplace or in the surrounding social environment.

06

Report on the Activities of the Supervisory Board of České dráhy, a.s., for the Year Ended 31 December 2019

In 2019 the Supervisory Board held ten ordinary, two extraordinary and one per rollam meeting in the registered office of České dráhy, a.s. and the Supervisory Board always had a quorum. The Chairman of the Board of Directors regularly participated in the meetings the Supervisory Board while other members of the Board of Directors attended the meetings as needed.

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, requested documentation and applications of the Company's Board of Directors were presented to the Supervisory Board to obtain its 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 2019 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.

Prague, 13 January 2020

Pavel Kysilka
Chairman of the Supervisory Board of České dráhy, a.s.

07

Social Responsibility (CSR)

České dráhy is involved in activities in all three areas of social responsibility - economic, environmental and, last but not least, social - in which, for example, they support education of children and students, disseminate information on railway safety or cooperate with non-profit organizations and foundations. Employees themselves are now also more involved in CSR, contributing to the support of the needy, but also to culture, education and sports, through their volunteering in the new project "Help with ČD".

ČD endeavours not only to improve the quality of passenger transport, but also, through cooperation with local communities and through various regional projects and nostalgic journeys, to convey awareness of the cultural and technical heritage of Czech railways to the general public.

In September 2019, within the social responsibility and support of organizations, the **Help with ČD** project was created, in which Company's employees voluntarily participate every month and support selected projects, such as Teribear moves Prague, We plant new generation forests, Movember or Giving Tuesday events in December. All projects are supported by non-profit organizations or foundations aimed at supporting disadvantaged citizens, children or the fight against cancer.

Barrier-free Traveling

České dráhy is the only carrier able to provide barrier-free transport and transport with assistance for the handicapped people in its connections. In 2019, thanks to a special ordering system, they made over 8,200 such trips. The number of customers using the system is growing year by year.

Nevertheless, ČD does not only deal with transport for handicapped people, but also supports them in the field of culture and sports. In 2019 ČD again cooperated on the Emil Open project - international games of handicapped youth.

Education, Awareness and Security

ČéDés Scholarship Program

The program is designed for pupils of partner secondary schools who are attending graduation courses with a transport and technical specialization. It aims, among other things, to attract new potential employees of the Company into operating professions, i.e. customer staff and drivers. České dráhy enables secondary school students to gain professional experience in the Company's premises. University students can then consult their bachelor or master theses focused on rail transport with competent experts from the Company employees.

Preventive Railroad Safety Train

The "Preventive Train" is already a traditional project within the education and awareness area, designed for secondary school pupils and students of secondary schools and vocational schools. This special train warns young people of reckless behaviour in the railway areas. České dráhy runs the train since 2007 and since then it has been visited by 28,500 participants. Since 2013 Správa železnic is a co-organiser of the project and during this cooperation two preventive films were made: "You won't make it" ("To nedáš!") and "You won't make it! 2" ("To nedáš! 2"). Both received a great response from visitors, as well as presentations by investigators who show pupils and students photographs of real accidents. It is the comparison of film and reality that leaves a strong impression in them. This is further enhanced by the presence of firefighters of the Správa železnic and demonstrations of their work and first aid. There is still great interest in the "Preventive Train" and in 2019, in addition to pre-planned trips, it also took part in extraordinary safety events organized in cooperation with the cities.

Cooperation with Foundations and Non-profit Organizations

České dráhy traditionally cooperates with non-profit organizations and foundations. In 2019, ČD handed over the 279th breath monitor under the project "Mummy, I'm Breathing" ("Maminko, dýchám") to the foundation Crossroads of Life (Nadace Křižovatka života). This project is dedicated to reducing infant mortality thanks to the special breath monitors that hospitals provide to their patients.

Another major category is the support of disadvantaged, vulnerable, but also gifted children and students. Within the projects of organizations such as the Tereza Maxová Foundation, the Fund for Children at Risk, the Golden Hazel or the Association of SOS Children's Villages, ČD provides free transportation for children and their escorts.

Community Support for Leisure, Culture and Sport

Junior Program

Junior program is intended to support and present all the activities aimed at children. These comprise the publication of the My Train magazine („Můj vláček"), Large Elf's Exercise Book Against Boredom („Velký Elfíkův sešit proti nudě") and small themed Elf's workbooks and colouring books received by children on the board of long-distance trains for fun and to make the trip passed faster, or they can buy them at selected ticket offices at railway stations. The Children's tickets on which children can write poems themselves as part of the annual competition are also popular. In 2019, the 50th Jubilee Children's Ticket was published, with many small enthusiasts having a whole series at home. The Elf Summer Competition, in which hundreds of small travellers joined in 2019, is popular. With the Elf, the elephant mascot of junior program, children have been meeting throughout the year at various events at the Regional Shopping Centers and, traditionally, at the Prague Zoo on the event With Elf to Zoo.

Other projects such as:

- Distribution of **Bethlehem Light** is an annual activity of ČD in cooperation with scout troops.
- **Kinematovlak**, which, in conjunction with the Zlín Film Festival, provides free screenings of fairy tales and films for children at selected railway stations, started in 2019 for the sixteenth time. In 13 days, it was visited by almost three thousand viewers, not only in the Czech Republic, but also in Retz, Lower Austria, where Czech bedtime stories were a great success. For many young viewers, the Kinematovlak is the first ever contact with rail transport. The emphasis is therefore on playful form. Kinematovlak thus offers not only screenings of fairy tales in Kinovoz, but also the so-called Toy Train ("Vláček Hráček"), a car remodelled into a children's playroom, or Exhibition Car, where children learn basic information about the history of the railway.
- **A train full of smiles** for change provides transport of disabled children and children from children's homes to the International Children's Film Festival in Zlín. ČD organizes it in cooperation with the Transport Educational Institute, the Union of Railway Employees and the festival management. In 2019, even a magician was on board.
- In support of sport activities, ČD is, for example, **an official carrier of Olympic multi-event competitors** organized by the Czech Olympic Committee.

Regional Events

Rail connects - this connecting of people and communities does not only occur on a daily commuting to work and schools, but also, for example, on Regional Rail Days, where the world of history meets modern times. Regional Rail Days could be visited by fans in Jihlava, Karlovy Vary, Prague, Česká Třebová, Trutnov and Ostrava. In 2019, The Railway Day took place in the ČD Museum in Lužná u Rakovníka.

Ride for the Weekly Social Welfare Česká Třebová

As part of regional events supporting social responsibility, České dráhy annually run a train for clients of the weekly social welfare in Česká Třebová - the handicapped, wheelchair users and retired people. The destination is always within the range of about 1.5 - 2 hours by train. The trip is usually attended by 70 - 80 clients. The destination of last year's ride was Slatiňany, where the visit of the castle and refreshments were arranged.

Cooperation with Secondary Technical School of Transport Ostrava-Vítkovice

In 2019, in cooperation with the Secondary Technical School of Transport Ostrava-Vítkovice, focusing on transport fields usable in rail transport, ČD was presented as a carrier, partner and employer, not only during the lessons, but also at the Open Days at Secondary Technical School of Transport Ostrava-Vítkovice to the applicants.

ČD Nostalgia - Preservation of Cultural and Technical Heritage

By operating, maintaining and repairing historic vehicles, České dráhy supports authorized state institutions in their efforts to preserve the cultural and technical heritage of our ancestors. At first glance, the results of this demanding work, to which ČD spends considerable financial resources, are visible not only in the form of static exhibits in the ČD Museum in Lužná u Rakovníka or in the Olomouc depository, but mainly during dozens of nostalgic rides of operating steam locomotives across the Czech Republic.

One of the important goals of ČD Nostalgia is to bring the colourful history of the railway world closer to the youngest generation and, through a diverse vehicle fleet, to introduce children to the technological skills of engineers and designers of several previous generations. Thanks to these goals, which ČD Nostalgia aims at, the cooperation with other organizations is necessary. One of the most important ones is the National Technical Museum. However, several hobby clubs operating historical locomotives or private railway museums also participate in ČD Nostalgia.

The scope of nostalgic actions is, in fact, much wider than it might seem. It not only contributes to the promotion of railways as an environmentally friendly way of traveling, but also helps to maintain traditions and significantly supports regional tourism. Last year, traditional rides took place in Lednice, Bechyně or along the lines in the Pardubice Region. Newer projects included the Mattoni Express, the Kozel Express, and new rail lines on the western outskirts of Prague. Of course, there were also traditional Santa Claus trains or trains on Children's Day.

08

Report of The Board of Directors

on the Company's Business Activities and Assets

Economic Results

[CZK mil.]		Passenger transport	Freight transport	Asset management	Other	Elimination	Total
Revenue	2019	25,095	13,037	351	5,637	(3,464)	**40,656**
	2018	23,509	13,076	384	5,329	(3,201)	**39,097**
Purchased consumables and services	2019	(9,979)	(5,711)	(303)	(3,445)	3,079	**(16,359)**
	2018	(9,580)	(6,334)	(318)	(3,225)	2,821	**(16,636)**
Staff costs	2019	(9,581)	(4,563)	(205)	(1,337)	398	**(15,288)**
	2018	(8,901)	(4,407)	(178)	(1,253)	359	**(14,380)**
EBITDA from continued operations	2019	5,669	2,843	338	1,066	(188)	**9,728**
	2018	5,397	2,254	330	1,258	(391)	**8,848**
Depreciation/amortisation	2019	(4,853)	(1,855)	(170)	(413)	100	**(7,191)**
	2018	(4,635)	(1,235)	(85)	(366)	98	**(6,223)**
EBIT from continued operations	2019	816	988	168	653	(88)	**2,537**
	2018	762	1,019	245	892	(293)	**2,625**
Profit/ (loss) from continued operations for the period	2019	58	608	188	527	(66)	**1,315**
	2018	(230)	663	262	798	(308)	**1,185**

The above table has been prepared based on the information in the Segment Data section of the consolidated financial statements.

The increase in sales in the **passenger transport** segment is due to the continuously increasing interest in rail transport among passengers. All monitored performance indicators increased in 2019. This was further supported by the introduction of state discounts for selected groups of the public (children, students and persons over 65 years) in the second half of 2018.

Naturally, the increase in operating performance also caused an increase in costs. However, this was largely due to an increase in selected items:

- traction costs, due to a significant increase in the market price of electricity in 2019;
- personnel costs, due to the boom in the labour market and labour shortages in certain professions.

The increase in depreciation in the passenger transport segment is solely due to the introduction of the new standard IFRS 16 Leasing and transfer of lease payments from service consumption to depreciation. In the last two years, the passenger transport segment has made investment expenditures approximately at the level of depreciation, so without this change the trend of depreciation is stable.

As a result of the above factors, compared to 2018, the passenger segment reported better operating profit at EBITDA and EBIT. The difference compared to 2018 has deepened further on the level of profit for the period due to the appreciation of the Czech currency at the end of 2019 and the realization of exchange rate gains.

A different development in 2019 occurred in the **freight transport** segment. Mentioned operating indicators, and in connection with this also sales, decreased slightly in 2019. However, the decline is not across the board, affecting only certain commodities (iron and machinery, wood and paper products), while others have increased (hard coal and coke, food and agricultural products).

The decline in sales, at stable costs, was reflected in slightly lower EBIT and profit for the period. Profitability growth at EBITDA level is only due to the introduction of IFRS 16 Leasing and the transfer of related costs from service consumption to depreciation.

The **asset management** segment shows stable profitability in the area of renting and continual sale of smaller residual assets. Profit fluctuations are solely caused by significant transactions in development projects. Thus, while in 2018 there were significant sales in the locations of Masaryk Station and Prague Main Station, in 2019 no comparable sales occurred.

The Other column must be understood with the Elimination column, in which the exclusion, resp. transfer of costs and revenues of companies providing services to the Group, particularly in the areas of repair and ICT is presented. After adjusting for these effects, the profit in the line "Other" consists mainly of a stable profitable area of testing (Railway Research Institute) and ICT services provided outside the group (ČD - Telematika, Chaps).

Passenger Transport

The main goal of the long-distance and regional passenger transport strategy was and still will be to maintain existing and acquire new passengers and to improve all performance indicators in view of the increasing pressure of competing carriers, whether in rail or bus transport.

In the coming period, from the point of view of market segments, the additional target will be to increase sales on key domestic regional and long-distance lines and to use the opportunity for growth in international transport on key backbone lines. České dráhy will also continue to fulfil long-term contracts with foreign partners DB, OBB, ZSSK and DLB.

In 2020, the passenger transport segment will mainly continue to increase the quality of travel and to customize the portfolio of services offered to customers' needs, thus continuing to maintain the trend of passenger growth as well as of revenue growth. Improvement of the railway vehicles quality and of the complementary passenger services variety, both on- and off-board, is one of the key preconditions for achieving ČD's targets in this segment which can also bring additional revenue from international transport operations.

ČD has concluded two new contracts with the Ministry of Transport to ensure the performance of the public service obligation for a total of 20 **long-distance transport** lines, with performance from December 2019 for up to 10 years. The contract period for individual lines depends on the previously published timetable for the liberalization of rail transport by the Ministry of Transport. Together with previously concluded contracts, ČD will operate a total of 24 long-distance transport lines in 2020. In December 2020, however, contracts for the R14A Pardubice - Liberec, R14B Liberec - Ústí nad Labem and R27 Ostrava - Opava - Olomouc routes will terminate. In the following year, contracts for R9 Prague - Havlíčkův Brod - Brno, R10 Prague - Hradec Králové - Trutnov / Letohrad and R23 Kolín - Ústí nad Labem will terminate. The Ministry of Transport notified these lines for direct assignment for a period of 2 to 8 years, assuming the conclusion of these contracts with ČD. ČD is ready to submit bids corresponding to the client's requirements and to continue to provide services on these lines based on new contracts.

For 2020, České dráhy defended approximately 98.4 % of **regional transport** performance from the scope operated in 2019. Further challenges, such as defending existing performance, await with the nearest end of the contracts in 2021. Negotiations with customers over possible further co-operation continue and České dráhy are actively involved in procurement procedures for the provision of regional rail transport.

In terms of ensuring the public service obligation, it can be stated that in 2019 České dráhy provided regional rail transport for 14 orders (all 13 regions and the capital city of Prague) on the basis of 16 public service contracts totalling over 84 mil. train-kilometres per year. As of February 2020, České dráhy has concluded 38 regional rail transport contracts with regions. For several contracts that are still valid (contracts have not expired in December 2019) the amendments are intensively negotiated for 2020.

Supplementary Services

In 2019, process of rebuilding WRmee cars to **bistro cars** of ARmpee type has continued. These will offer 40 seats in 1st class and fully equipped kitchen including combi steamer for hot dishes preparation, which allows a significant increase in the number of customers served. The all-new interior of these cars is based on the modernized interior design of the 680 Pendolino units.

In 2019, **ČD Minibar** service has been offered in long-distance trains in the same extension as at the end of 2018. With the change of the timetable, the lines offering the ČD Minibar service were extended and the service was provided on nine long-distance transport lines: Ex1, Ex6, Ex7, R8, R10, R11A, R11B, R15 and R18. To provide this service on lines Ex6 and R15, a new warehouse was set up at the Cheb railway station. In accordance with the planned development and improvement of this service and based on the development of demand from passengers, the sales portfolio was partially changed four times during the year. Regular renewal and introduction of new products will continue in 2020.

In the whole Czech Republic 85 new **ČD Bike** rentals were opened in 2019. All of them were equipped with quality bicycles, children's bicycles and children's bicycle seats could be rented in selected ones. It was possible to borrow electric bikes in 20 stations and scooters in 18 stations.

České dráhy also supports projects connected with the first and last mile linked to rail transport to promote ecological travelling. These include supporting the construction of parking **bike towers** near railway stations. Thanks to the cooperation with the operators of these bike towers, passengers with a valid In Karta application may park their bikes and e-bikes free of charge for the first 24 hours. In 2019, the new bike towers were opened in Kolín, Čelákovice and Trutnov.

Since November 2019, passengers in the **ČD Lounge** Prague waiting room are offered with coffee served in a porcelain service and disposable plastic water cups were replaced with glasses.

ČD Parking service that offers discounted or free parking was extended by 9 railway stations.

On long-distance trains, ČD offers a **children's cinema** for the smallest passengers. This service is being offered in SC Pendolino, ČD railjet and classic cars of Bmz229 type. Films and fairy tales change is performed 4 times a year.

The SC Pendolino trains have upgraded their **WiFi technology and the on-board portal**. At the same time, the possibility of online ordering of refreshments on the passenger's place was launched, and the option of ordering and selecting a bonus refreshment was managed already when purchasing a ticket at the ČD e-shop.

The number of cars equipped with WiFi technology has been expanded and WiFi is now also offered in WLABmz sleeping cars.

The appearance and program code of the on-board portal has been modified on all trains where the on-board portal is deployed. This made it possible to start using Google analytics statistics to evaluate the use of individual modules of the on-board portal, for example.

In the frame of the **ČD Ski** project, ČD supports connections to partner ski resorts in Bohemia and Moravia. The cooperation offers a 20 % discount on the daily ski pass in 6 domestic centres. Abroad, namely in 2 Slovakian ski resorts and one in Switzerland, partner ski resorts offer discounts on 2-day or 3-day ski passes as a support for travel by night with ČD trains and SuperCity Pendolino Košičan train.

ČD automobile-train provides connection between Prague and Slovakian cities Poprad, Košice and Humenné. There are up to 5 wagons daily to transport cars and motorcycles at night connections between the Czech Republic and Slovakia. In 2019, the conditions of carriage were modified in order to limit the damage to the transported vehicles.
As part of our corporate social responsibility and our participation in the

#dostbyloplastu project, we have reduced the use of plastics in hygiene packages in sleeping cars and in catering.

Trade

The sales activities were mainly focused on supporting business companies to travel both within the Czech Republic and abroad, especially to Germany.

In particular, the following products were offered through direct communication, participation in tourism fairs, participation in networking club meetings and personal meetings with companies, travel agencies, music festival organizers and potential partners:

- In Karta with In Business application- year-to-year increase in sales by 20 % to more than CZK 7.5 million.
- Corporate ČD e-shop - year-to-year increase by 33 % to CZK 45 million in companies purchases and travel agencies registered in the Firma program.
- Excursion train - year-to-year increase of revenues was of 28 %. We regularly transport the Prague and Janáček Philharmonic Orchestra and other musical ensembles. Important events included the transportation of Tesco employees to the nationwide meeting. Also other major companies and government authorities use the outbound train for corporate travel. Even for many sports clubs, train ride is the first choice.
- Special trains - a 12.5 % decrease in sales compared to 2018; the main reason was a loss of tender for measurement for TÚDC and absence of test runs for VÚŽ.
- API Sales - in October 2019, the sale of travel tickets was launched, so far in test mode, but expansion to other platforms is planned.

10x Germany and 10x Vienna tickets were included in the offer for travelling to Germany and Austria.

The trade also provided partners for the ČD Body loyalty program. The program offers its members 28 benefits from 15 partners. The number of members increased by 21 % year-to-year.

Marketing

The year 2019 was going in the light of meeting two marketing objectives:

1. Increasing the number of passengers through the acquisition of new customers

By means of appropriate communication with the general public, it is necessary to work systematically to eliminate barriers that exist among so-called non-travellers, i.e. people who refuse to use train transport, for various reasons. These barriers are mainly related to non-awareness of the modern ČD fleet and modern forms of purchasing suitable travel documents. However, we know from research conducted annually within the Czech population that if we succeed in convincing a potential customer to try the ČD train transport, the barriers are often dismantled, and this leads to new passengers and an increase in the absolute number of customers.

Mainly marketing campaigns aimed at introducing the **Můj vlak** application and simple on-line check-in by purchasing tickets via **e-shop** are focused on the removal of these barriers.

The newly created application called **Vlakem na výlet** also served as inspiration for traveling by ČD trains. It is a unique project of a leisure time database offering hundreds of tips for a train trip, which offers the possibility to search for activities by location, target group, type of trip or the date of the event.

In the application you can find playful trips for adults - trips with two or more stops with a navigation guide, playful tours for children - special trips with a story for young children, interactive trips - trips with two or more stops with a navigation guide, simple trips like 'where to eat', castles, museums, amusement parks, time-limited events such as nostalgic rides, concerts, exhibitions, etc.

2. Keeping and care of existing customers

We regularly inform our passengers about news concerning the transport of ČD trains through targeted communication to existing customers, both at the stations and on our own online channels.

At the beginning of the year 2019, we pointed out the new interior of the SC Pendolino adapted separately for communication for 1st and 2nd class.

Another important innovation that we communicated was a faster journey from Prague to Pilsen and back in just 1 hour and 6 minutes.

In addition, we informed our customers about new ticket names that simplify the selection of suitable **travel document**, with reference to their individual benefits.

Increase in revenues on selected long-distance connections is the goal of campaigns through the communication of the cheapest tickets to **foreign destination**s (Vienna, Bratislava, Budapest and Krakow).
We completed our communication in the autumn with the introduction of

traveling by **night trains**, which is more comfortable than by car. We have shown traveling by night trains as an alternative to car travel.

Whole marketing communication was also supported on **social networks**. On Facebook we have exceeded the limit of 70,000 fans and their number continues to grow. We have also intensively devoted ourselves to the growing Instagram network, where we have seen a steady growth of followers. In 2019 we exceeded the point of 10,000 followers.

Operating Indicators

Number of trains dispatched in 2019*:	
Long distance passenger transport	206,243
Regional passenger transport	2,409,358
Total	2,615,601

*These values refer to the numbers of trains in the destination stations.

Performance of the timetable (fully measured at the departure and destination stations)	
Long distance passenger transport	77.0 %
Regional passenger transport	89.9 %
Total	88.9 %

Performance of the timetable (fully measured at the destination stations)	
Long distance passenger transport	66.7 %
Regional passenger transport	87.7 %
Total	86.0 %

Performance of the timetable with deduction of causes of delay outside the carrier (performance measured at destination station)	
Long distance passenger transport	94.3 %
Regional passenger transport	98.4 %
Total	98.0 %

ČD responsibility for train delays (performance measured at destination station)	
Long distance passenger transport	17.0 %
Regional passenger transport	13.1 %
Total	14.2 %

Previous year's trend continues, where train delays are mainly due to causes on the part of the infrastructure manager. Exclusions, construction reasons, railway infrastructure faults, etc. account for 55 % of all primary timetable disturbances. 34 % of primary disturbances of timetable are attributed to the carrier (in particular increased passenger frequency, carrier layout and train composition) and 11 % are attributable to external influences (in particular train delays from foreign railways and incidents).

Extraordinary events were another reason of non-compliance with timetables. The number of emergencies and incidents on the Railway Administration infrastructure using the MIMO system, which resulted in a shutdown of operations in 6,615 cases in 2019.

Incidents and emergencies require the adoption of operational measures in passenger transport. Except for changes in staff turnover, locomotives and trains, it means the introduction of rail replacement transport and, if necessary, the cancellation of trains without compensation (no spare transport capacities are available, rail roads are not viable, track operation overlook is expected earlier than possible substitution vehicles, a train is replaced by other later one, with extended stopping, etc.).

In 2019, we report the following operational arrangements for emergencies:

Number of trains with operational replacement transport	
- of that long-distance transport	1,289
- of that regional transport	7,167
Total	8,456
- due to the carrier	1,429
of which due to defects in traction vehicle	1,269
- due to other than carrier	7,027
Total	8,456
The scope of operational replacement transport	
- of that long-distance transport [train kilometres]	24,846.6
- of that regional transport [train kilometres]	94,694.0
Total [train kilometres]	119,540.6

Number of trains partially or totally cancelled without compensation	
- of that long-distance transport	2,084
- of that regional transport	10,925
Total	13,009
- due to the carrier	3,509
of which due to defects in traction vehicle	3,194
- due to other than carrier	9,500
Total	13,009
Share of trains that have been operationally cancelled on the total planned number of trains	0.49 %

Quality Standard Assessment for Year 2019

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 orders of the regional and long-distance transport. ČD's quality standards determine a single quality level of provided services to passengers and orders and are based on the Company's current financial abilities.

The quality management system is applied in the company České dráhy in the scope of all requirements of the standards ČSN EN ISO 9001, ČSN OHSAS 18001 and ČSN EN ISO 50001.

Measurement of compliance with quality standards is utilising inputs from the internal control, deliverables from the orders' 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.

Where the level of compliance of individual standards for a defined period has been lower than the set minimum value, individual business units are required to review the reasons, take remedial action and implement them immediately.

The conclusions of the audit activities for 2019 are in line with the requirements of the quality standards. In the year 2019, a total of 114,496 inspections were carried out, of which 11,722 at stations and 102,774 on trains. The control activity in 2020 will be aimed at verification of the effectiveness of the measures taken to meet requirements of the quality standards.

Sheet of standards		Level of requirements	2019	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%	99.29%	met
	Quality of work of train personnel when selling tickets	99%	99.96%	met
1.2.	**Providing information on trains**			
	Providing information on trains (except for rail replacement bus service)	99%	99.85%	met
	Quality of work of train personnel	99%	99.99%	met
1.3.	**Sale of tickets at railway stations**			
	Sale of tickets in every staffed railway station or stop	99%	98.73%	not met
	Alternative ticket sale	99%	99.99%	met
1.4.	**Providing information to passengers at railway stations**			
	Providing information to passengers in a staffed railway station/stop	90%	96.81%	met
	Quality of work of railway station personnel	99%	99.95%	met
1.5.	**Behaviour of the train and railway station personnel**	99%	99.86%	met
1.6.	**Information systems in trains**			
	Functionality of providing information	99%	98.60%	not met
	Quality of work of train and car personnel	99%	99.94%	met
1.7.	**Information systems at railway stations**			
	Functionality of providing information	99%	96.61%	not met
	Quality of work of railway station personnel	99%	99.93 %	met

Sheet of standards		Level of requirements	2019	Meeting standards
2.	**Accuracy of train connections and the general principle for the procedures in operational extraordinary events**			
2.1.	**Operational extraordinary events in railway transport**			
	Reliability of the timetable	98%	98.00%	met
	Quality of solutions for extraordinary events	75%	86.24%	met
2.2.	**Compliance with planned requirements and planned train capacity**	95%	95.25%	met
2.3.	**Accuracy of compliance with timetable of long-distance and regional transport**			
	Long-distance transport			
	Trains arriving within the tolerance limit 0 - 5 minutes for accurate transportation	78%	66.70%	not met
	Trains arriving within the tolerance limit 6 - 60 minutes for accurate transportation	20%	32.30%	not met
	Trains arriving within the tolerance limit over 60 minutes for accurate transportation	2%	1.00%	met
	Long-distance transport – responsibility of the carrier			
	Trains arriving within the tolerance limit 0 - 5 minutes for accurate transportation	94%	94.30%	met
	Trains arriving within the tolerance limit 6 - 60 minutes for accurate transportation	5.5%	5.50%	met
	Trains arriving within the tolerance limit over 60 minutes for accurate transportation	0.5%	0.18%	met
	Regional transport			
	Trains arriving within the tolerance limit 0 - 5 minutes for accurate transportation	91%	87.70%	not met
	Trains arriving within the tolerance limit 6 - 60 minutes for accurate transportation	8%	12.25%	not met
	Trains arriving within the tolerance limit over 60 minutes for accurate transportation	1%	0.05%	met
	Regional transport – responsibility of the carrier			
	Trains arriving within the tolerance limit 0 - 5 minutes for accurate transportation	97%	98.40%	met
	Trains arriving within the tolerance limit 6 - 60 minutes for accurate transportation	2.5%	1.55%	met
	Trains arriving within the tolerance limit over 60 minutes for accurate transportation	0.5%	0.05%	met
2.4.	**Connection trains**			
	Compliance with border of connections planning	95%	97.00%	met
	Compliance with procedure to ensure connecting links	99%	99.96%	met

Sheet of standards		Level of requirements	2019	Meeting standards
3.	**Compliance with the contracted scope of transport and cancellation of transport connections**			
	Compliance with the contractual scope of transport	99%	99.51%	met
	Cancellation of transport connections	1%	0.49%	met
4.	**Cleanliness of trains and railway station facilities**			
4.1.	**Cleanliness of train stations and operational facilities/ availability of restrooms**	99%	100%	met
4.2.	**Cleanliness of trains**	95%	95.07%	met
5.	**Customers satisfaction survey**	100%	100%	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
	Filling coefficient per 100 thousand transported passengers	7	6.34	met
	Justified filling coefficient per 100 thousand transported passengers	4	1.45	met
	Average time for handling a complaint	30 days	14.5 days	met
6.2.	**Exercising of the right arising from the transportation contracts and refunds to passengers**	100%	100%	met
	Unjustified requests 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	10-28 days	met
7.	**Assistance provided to disabled people with reduced mobility and orientation**			
	Satisfying a customer's order or requirement	99%	99.80%	met
	Sorting requirements by orders	99%	99.25%	met
	Functionality and technical capacity of mobile platforms	99%	99.15%	met

Commentary on non-compliance with some standards in section
1. Information and tickets:

Due to the high staff turnover and the training of new employees, the operation of the points of sale was often restricted. Also, in connection with the frequent reconstruction of the station premises it was not always possible to technically ensure the operation of the sales points in full time.

Providing information on the train, as well as the providing other services, is directly impacted by the throughput of the train. During peak periods, especially in relation to daily commuting in combination with observance of the planned train composition and the possibility of shifting the power cars, the trains were overfilled to an extent that train crew was not able to move along the train. Within the safety improvement measures, priority was also given to the area of operations related to train departure - this is particularly related to connections with a higher frequency of stops.

The electronic reservation system is also included in the evaluation of the functionality of in-vehicle information systems. Due to the exchanges of long-distance passenger vehicle, this reservation system had to be replaced by a ticket. Fulfilment of the indicator was considerably influenced by the ranking of spare sets for units 660 (spare sets without electronic system of marking places with reservation).

Information systems at the stations are operated by SŽ, the fulfilment is assessed as a subcontract of the system. The resulting evaluation is not only linked to the control findings, but also to the number of legitimate complaints directed to this area. There is a slight increase in the number of cases where a published platform is changed; there is still the problem of inconsistent publication of train delays at stations on the line (cumulative expected delay versus gradual increase of delays in the interval of 10 min). Identified defects are discussed with the infrastructure manager. Vandalism also plays an important role in the non-full disclosure of information to the traveling public, especially in the area of publishing printed information on extraordinary activities and closures. During 2019, passenger compartments were reconstructed at many stations, resulting in discrepancies in the designation of retail space and disclosure of information that did not correspond to the current state of the space.

Commentary on non-compliance with some standards in section
2.3 Accuracy of compliance with timetable of long-distance and regional transport:

The total delay of ČD passenger trains decreased by 4 % year-to-year (overview of the total number of minutes of delay). A significant share of train delays was due to outages and other construction reasons on the SŽ side and related reasons (in particular train sequence and crossings, turnovers of trains, locomotives and ČD personnel), but this is a slight decrease in year-on-year comparison. On the contrary, the number of cases falling under the so-called other influences (accidents, crossing collisions, interventions of emergency service units, etc.) increased year-on-year - the share of these causes of delay represents more than half of the causes of delay (52.6 %).

The share of ČD's own fault in the above-mentioned facts is in long-distance transportation within the tolerance limit 0 - 5 minutes for accurate transportation of 5.7 %; in regional transportation is the share within the tolerance limit 0 - 5 minutes for accurate transportation of 2 %. In this respect, the non-fulfilment of these sub-indicators is not essential.

Repairs and Maintenance of Rail Vehicles in Passenger Transport

Maintenance and repair of rail cars for passenger transport are provided by the own capacities of ČD Group Regional Maintenance Centres, which are all over the Czech Republic and by the subsidiary DPOV, a.s. Our own capacities are mainly used for operational maintenance and routine repairs, the task of DPOV, a.s., is to provide periodic repairs, modernization and reconstruction. Part of the periodic repairs of rail cars is provided on the basis of contractual relations with external repairers.

The renewal of rail cars for passenger transport that took place in 2019 was in accordance with the management plan and the investment plan.

The year 2019 was marked by the realisation of modernization of vehicles for regional transport based on the requirements of individual regions. In the course of the year, an extensive modernization of the first two railcar of the 810 series for the Moravian-Silesian Region began consisting of the overall modernization of the interior with air conditioning in the passenger compartment and driver's cab. The revitalization of the vehicles also included replacement of the internal combustion engine for more efficient and more environmentally friendly emissions. Railcars of the 810 and 814 series are also fitted with WLAN devices for the possibility of internet connection for passengers, sockets for powering small electronics and vehicles are equipped with passenger information systems.

The delivery of the remaining 2 pieces of new 794 series locomotives designed for station shunting was completed. There are 12 locomotives in the state of ČD, which are used to operate Regional Maintenance Center and large node stations.

In addition to the purchase of new locomotives, 12 diesel multiple units, originally from Deutsche Bahn, were purchased during the year and will be deployed in the Olomouc Region. The first 4 units of the 646 series underwent the necessary repairs in ČD's own capacities so that the trial operation could be started at the beginning of 2020. The remaining units will also be repaired, but already considering the use of external capacities.

The ČD fleet was expanded by the purchase of 2 pcs of multi-system electric locomotives of the 1216 series from Rail Transport Service GmbH, which, once approved for operation, will be visible at the head of EC trains on the Warsaw - Vienna route in the Bohumín - Vienna section.

In the course of 2019, the installation of equipment for measuring electricity consumption on electric locomotives and electric multiple units continued. In total over 100 vehicles were equipped. In the subsequent years, the project is expected to continue also with the use of subsidies.

To increase safety, almost all locomotives of the 362 series OCÚ Plzeň have been fitted with a UIC cable for door control assembly and the possibility of emergency brake override. Completion of the remaining 362 series locomotives is expected by 2021. At the same time, the reconstruction of the last 4 remaining 363 series locomotives to 362 series was commenced, and at the same time also the speed increase of the first two 163 series electric locomotives with WTB modification to 162 series.

Among the major passenger cars projects, we can mention the continuation of modernization of vehicles purchased from ÖBB in recent years, which is done by the subsidiary DPOV, a.s. The WRmee restaurant cars were converted into bistros with the 1st class section of the ARmpee series and the equipping of other passenger cars with WLAN equipment for the possibility of internet connection for passengers. The technical assignment for the planned purchase of pressure-tight cars for long-distance international traffic with a maximum speed of 230 km/h was finalized.

Freight Transport

Mission, Vision and Goals

The company ČD Cargo, a.s. (hereinafter referred to as "ČD Cargo"), is the largest domestic railway carrier with a significant position also on the European transport market. The strategic goal of the company is to maintain this leading position, resp. gradual increase of share on foreign markets, especially in Germany, Austria and Poland. ČD Cargo will continue expanding the services provided and adapting them to be attractive not only to existing customers but also to attract the new ones.

We see the future in interoperability, intramodality and in a socially responsible and environmentally friendly approach to goods transportation. These will be the basic three pillars on which the company will rely in the near future.

Freight Transport

In 2019, ČD Cargo trains transported 65.0 million tonnes of goods, which is a decrease in transport volume compared to the previous, which was a very successful year. However, the achieved result on the domestic transport market is in line with the overall decrease in rail performance in the Czech Republic by approximately 3.6%. Foreign performance is negatively affected by the consolidated view on the transport volume, when one ton realized by the group companies on interstate relations is counted only once.

Revenues from freight transportation reached CZK 11.787 billion in 2019, which is CZK 82 million less than in 2018. Positive effect is coming from higher volume of the foreign transport. From the point of view of transported commodities, the largest exceed of revenues were achieved in the commodities such as hard coal and coke and food and agricultural products, while on the other hand, the largest decrease was recorded in such commodities as iron and engineering products and wood and paper products.

The incoming recession of the European metallurgy had a major influence on the results in the **iron and engineering products**, when transports not only of iron ore but mainly of metallurgical products decreased. In addition to the decline in production, the results were also negatively affected by competition from road transport, also indirectly by road trailers transported by rail.

The results in the **building commodity** were significantly affected by the loss of the transportation of desulphurisation limestone to some power plants. In 2019, ČD Cargo also actively participated in the delivery of construction materials, especially gravel for lock-out operations.

The results in the **brown coal** commodity globally reflected both the situation in the energy and heating sectors (the price of electricity, rising price of emission allowances, warm autumn, etc.).

The **black coal and coke** are one of those commodities where the transported volume increased year-on-year. This was mainly caused by cooperation with the subsidiary CD Cargo Poland and the ČD Cargo-Niederlassung Wien branch.

In the commodity **chemical products and liquid fuels** transportation were realized with large fluctuations. The key for ČD Cargo was the deployment of new tank wagons for diesel transportation from Germany for ČEPRO. They maintained a stable level throughout the year, resp. grew.

Development in the **wood and paper products** commodity was quite dramatic in 2019. There was a significant year-on-year drop in output by almost 1 million tonnes. During the year, the bark beetle calamity was moved from the Jeseníky Mountains to other areas, especially to the Bohemian-Moravian Highlands. As a result of the relocation of mining sites closer to processing plants, part of the transport was switched to cheaper lorry transport. More than 10 new competing carriers were involved in timber transport.

In the commodity **food and agricultural products**, the transit transport of grain in cooperation with the subsidiary ČD Cargo Logistics to German ports was significantly increased during the year. Other significant volumes were realized by the Vienna branch.

A number of military transports were realized in the **other** commodity. In the course of the year, several transformers and so-called castors, nuclear waste storage vessels were hastily transported.

The year-on-year decrease in **combined transport** volumes was mainly due to the end of the transport of road trailers for RailRunner from Bratislava to Braunschweig due to the insolvency of the customer. Expectations of an increase in shipments from China to Lovosice remained unfulfilled.

The **automotive** commodity gradually started to show a decline in car production during the year, which naturally had an impact on the volumes of transport with ČD Cargo. Contrary to the assumptions, car body transports to Osnabrück were completed significantly earlier. The year-on-year decline in revenues was also due to the fight with competing carriers on some relations.

Railway Vehicles, Management of Vehicles

To ensure the operation of freight trains, ČD Cargo had 772 traction vehicles in evidence as of 31 December 2019, of which 59 locomotives acquired under financial leases. 663 locomotives were used for transport operations. As of 31 December 2019, the freight vehicles fleet consists of almost 20.9 thousand freight wagons of various types. Depending on the needs, the fleet of railway was expanded by leased vehicles in average number of 3,200. Out of the total of railway vehicles, approximately 18.5 thousand vehicles are operable.

During 2019, 810 vehicles were scrapped due to physical wear and tear, moral obsolescence and poor technical condition. 200 Eas vehicles, 100 Falls vehicles and 29 Faccs vehicles were sold for rebuilding and upgrading. These upgraded wagons are re-leased by the company to provide customer service. A further 147 Faccs and 150 Eas vehicles will be processed in the same form to further increase of the operability of the vehicle fleet.

For 2020, another 650 obsolete and technically worn freight wagons are planned to be scrapped. During 2019, 30 locomotives were physically scrapped and about 14 locomotives were sold to those interested in further use, especially for Nostalgia. Suitable parts from disposed vehicles have been recovered for repair purposes of other vehicles.

Maintenance and repairs of railway rolling stock were carried out mainly in the own rolling stock repair shops, in the České dráhy, a.s., DPOV, a.s. Přerov and in external contractual capacities. During 2019 more than 4,128 freight wagons underwent periodical maintenance.

ČD Cargo's freight vehicle repair centres participated in the installation of fuel measurement equipment for diesel locomotives, radio-station installations (GSM-R) and occupational health and safety operations on traction locomotives. For Eas freight wagons used to transport timber, scrap, or coal, this was a continuation of the reconstruction of the combined wooden floor with a full metal one.

At the beginning of 2019, 3 pieces of Siemens Vectron interoperable locomotives were delivered (383 010 to 383 012). This increased the overall status of this series to 12 pieces. In 2019, 1 modernized locomotive 742.711 was delivered (modernization of locomotive class 742), 4 pcs of locomotives for light route service and shunting of series 744 and 1 locomotive class 753.6 for route service were purchased.

Furthermore, the adaptation of the railway freight vehicle fleet continued to meet the needs of the transport market with the aim of increasing the operability of vehicles in international traffic. A further 175 eight-axle 80-ft Sggrrs wagons were added to the ČD Cargo freight vehicle fleet, which are primarily intended for the transport of containers and superstructures from Innofreight company. The vehicles are used in combination with SteelPallets for the transport of cast-iron and slabs, in combination with WoodTainers and MonTainers, for the transport of brown coal and wood chips for various customers who adapt the unloading to the new technology. In 2019 it was decided to deploy a group of 20 INNO Sggrrs wagons to container transports. At the same time, 20 eight-axle 90-ft Sggmrrs wagons were purchased, fitted with Gigawood pallets for timber transport. In total, ČD Cargo operates 381 of its own and 40 leased vehicles in INNO technology.

Further 145 new Eanos high-sided wagons and 80 new Zacns tank wagons were purchased (50 Zacns were transferred to ČD Cargo's assets as of December 2019 due to the repayment of lease payments). In 2020, the purchase of 295 new Eanos wagons and, under the exercised option, another 20 Zacns wagons are contracted. The planned and competed delivery of 100 pcs of container wagons of the Sgnss series was not realized in 2019 due to the poor quality of the delivered vehicles.

In order to comply with European legislation in the area of the use of so-called "silent vehicles", ČD Cargo commenced the remodelling of vehicles in its assets into LL brake blocks. The obligation to use silent vehicles for transport comes into force for Germany on 13 December 2020, and the ban on the use of noisy vehicles in Switzerland has been in force since 1 January 2020. By the end of 2019, the company had already 1,679 equipped vehicles and by the end of 2020 total of equipped vehicles of different series will be approx. 6 thousand.

In the area of freight wagons management in 2019, great attention was paid to the planning and use of vehicle capacity in the coming years with the aim of this effort to minimize inefficiencies in transport and vehicle management.

Regular evaluation of the utilization of vehicle capacity is put in place within the company's reporting, including the identification of key problems according to the individual freight wagons groups. Possible excess fleet capacity is used in other business for rent so that the management of the available freight wagons is maximally effective and provides additional resources to ensure its operability.

Lease of Railway Vehicles

One of the major business activities in other business is the lease of railway vehicles in the form of long-term and short-term lease. In the form of a long-term lease, our partners rent vehicles designed for operation in a specific territory, outside the Czech Republic. In case of short-term rental of traction vehicles, it is their deployment to specific partial performances outside our infrastructure according to the business case and therefore they are mainly interoperable locomotives.

In the area of freight vehicles, we offer our customers both long-term rental and short-term or repeated rental of vehicles for spot and one-off operations. For these needs, ČD Cargo releases vehicles from its total unbound capacity. Most of the ranges of vehicles, including tank wagons, are in the offer, and there is an effort to also put into operation non-operating vehicles. These are various forms of securing the commissioning of shutdown wagons and their subsequent operation.

Free capacities of rail fleet are being used more and more frequently in the execution of business cases in cooperation with subsidiaries in the framework of expansion on foreign markets.

Expected Development, Goals and Intentions

In the near future, ČD Cargo expects to stabilize its transport performance, despite continued competition from other rail carriers and the expected cooling of the global economy. Decreases due to possible losses of domestic transport, for example due to the decarbonisation of electricity and heating, will be compensated by international transport performance in connection with the expansion of the fleet to include other intermodal locomotives and obtaining the necessary certificates for rail transport in Germany.

The company will continue to implement measures to increase the efficiency of internal processes and use its capacities and assets. In the area of investments, ČD Cargo will proceed in the modernization and renewal of the locomotive and vehicle fleet. In the latter case, the company will focus mainly on commodity vehicles where recession is not expected (intermodal transport, fuel). Replacement of brake blocks and implementation of mobile ETCS parts will continue as well. In the project field the company will focus on reducing operating costs and improving the working environment of employees.

The company's economic goals include, in particular, maintaining a stable level of cash-flow, based, on ensuring the planned level of revenues from its own transport on the one hand, and on the other hand on the effective use of cost items and ensuring sufficient liquidity in the medium and long term. The long-term goal is to stabilize the profitability of the core and other businesses.

Asset Management

Number of all buildings owned by ČD as at 1 Jan 2019	**3,928**
of which entered into the Land Registry	**3,262**
Number of all buildings owned by ČD as at 31 Dec 2019	**3,778**
of which entered into the Land Registry	**3,110**
The number of land plots owned by ČD as at 1 Jan 2019	**14,784**
The number of land plots owned by ČD as at 31 Dec 2019	***15,745**
The area of land owned by ČD (m2) as at 1 Jan 2019	**62,146,802**
The area of land owned by ČD (m2) as at 31 Dec 2019	**61,700,076**
Difference in the number of buildings in the Land Registry, which ceased to be at Title deed ČD	**(152)**

*Increase of number of land registered in the Land Registry is due to running ÚMVŽST project with SŽ, when the existing plots of ČD are divided into smaller plots. Otherwise average acreage of plots owned by ČD is decreasing.

During 2019, there were no major transfers of real estate from ČD, a.s. compared to 2016, when expedition buildings were sold to SŽ. The total number of ČD buildings registered in Land Registry decreased from 3,262 to 3,110, that is decrease by 152 buildings. Number of buildings in Land Registry decreased by approximately 4.7%.

Number of apartments in buildings owned by ČD as at 1 Jan 2019	659
of those rented	401
Number of apartments in buildings owned by ČD as at 31 Dec 2019	617
of those rented	370
Number of external rental contracts for premises and land owned by ČD	7, 897
of those number of rentals in ČD records	18, 945
Number of internal rental contracts for premises and land owned by ČD	327
of those number of rentals in ČD records	3 081
Income from external lease contracts for buildings, land and apartments (CZK mil.)	258
Income from internal lease contracts for buildings, land and apartments (CZK mil.)	17.5
Total external income from rental and operation of buildings (CZK mil.)	314
Income from the sale of property (CZK mil.)	570

In 2019 the most significant **sales of assets** took place in the Prague districts of Uhříněves (lands), Smíchov (land plots), Záběhlice, Běchovice, Michle (land plots), in the cities of Pilsen, Jičín, Kolín and Olomouc (real estate plots).

In 2019, **repairs and investments** continued to improve the working environment both in the premises of ČD's employees and in the premises that are leased to external entities. Investment costs were spent on reconstructions and modifications of administrative buildings in Pilsen, Karlovy Vary, Břeclav, Havlíčkův Brod, Prague, Choceň, Turnov and Lovosice. In 2020 extensive repair/reconstruction of administrative building in Prague Masarykově nádraží - building B and administrative building in Liberec will start and extensive repair/reconstruction of administrative building in Ústí nad Labem will be completed. After completion of reconstruction of buildings in Prague, Ústí nad Labem and Liberec ČD's organizational units will be deployed there.

Preparation of list of **assets under the railway tracks** to be transferred to SŽ continues, as well as negotiating the form and financial parameters of the transaction. During 2019, fieldworks in relation to land distribution and the creation of geometric plans were completed and asset specification for the transaction was carried out.

Within the real estate management segment, ČD is involved in several **development projects**, most often through specially founded subsidiaries and affiliates. In 2019, existing contractual relations in the main railway station Smíchov were updated and the first part of the Na Knížecí terminal area was sold at the end of the year.

For the main railway station, the Churchill Square project, a framework implementing agreement was concluded allowing the future staged land plot sales. ČD signed a Memorandum between the developer, SŽ and ČD, which will contribute to the coordination of the rising SŽ buildings with the activities of other signatories.

In 2019, intensive communication with the Prague City Hall and the Ministry of Culture about the form of sale of a listed building and related lands at the Žižkov Freight Station (NNŽ) took place. It resulted in the creation of a Commission of the Prague City Hall Council for the utilization of the NNŽ. Commission work will be continued in 2020.

Within the RaiReal project, in the northern part of the NNŽ, the contract with the developer was concluded, on the development of lands in this area, accelerating the activities of the joint undertakings.

At the main railway station in Brno, the reconstruction phases, including the 1st platform and the main hall of the building with new ČD sales points, were completed.

Other Activities

Information and Communication Technology Services

The ČD Group operates in the area of ICT through its subsidiaries **ČD - Informační systémy, a.s.** (hereinafter ČD-IS) and **ČD - Telematika a.s.** (hereinafter ČD-T).

The basic vision of ČD-IS is to provide complex IT/ICT services for ČD Group, expanding professional competencies and minimization of dependence of the ČD Group on external service providers.

ČD-IS was commissioned by the parent company to implement the strategic ČD Group project within the ICT area – **modernization of information systems for passenger transport (so called MISOP)**. In 2019 realisation of the second phase of the project continued and preparation of the third phase started.

At the same time, 2019 also brought other key projects that were successfully implemented through ČD-IS in the areas of information and cyber security and data protection, the **SAP S4/Hana** implementation project continued as well as implementation of new reporting tools in IFRS. The company also had to apply changes to almost all systems related to the new technical and commercial parameters of contracts between ČD and transport customers in the public service obligation (states and MD).

ČD-IS consistently expands its portfolio of offered products and competencies, used mainly by ČD Group. In 2019, ČD-IS acquired a 100% of shares in **Unicontrols-Tramex s.r.o.**, in order to strengthen its position in **transport telemetry** products.

ČD-IS also offers and provides IT services outside the ČD Group: to the transport service organizers, cities and other transport partners. The changes expected in the public transport sector that will be gradually implemented are a great challenge for ČD-IS. Long-term ambition is to satisfy all the needs and wishes of customers from the delivery and implementation of new systems and applications, including their integration into an existing environment, to ensure their smooth and secure operation - with the aim to **achieve and maintain the position of the main supplier and guarantor of ICT solutions throughout the transport sector.**

In 2019, ČD-IS won a tender for the delivery of a **reservation system for Austrian Railways (ÖBB)**, and during the year successfully handed over the first two phases of this project.

Core assignments for ČD-IS in 2020 include especially completing the modernization of the rail passenger check-in system (project phases from 3rd to 5th), further development and optimization of the search engine, the development of systems for commercial and operational activities in the rail freight sector, other development projects in the field of railroad management and bus passengers, including cooperation with IDS and transport companies.

ČD-T is an important provider of wholesale internet, data and voice services and a supplier of services in the field of management, maintenance and construction of optical infrastructures. It owns and operates the second largest optical network in the Czech Republic, which is part of the key infrastructure of the state. The portfolio of its activities is complemented by value-added services including system integration, diagnostics and data analysis or cyber security. Another dynamically developing segment of provided services is road telematics or the Internet of Things, where it has been realising solutions such as smart parking. ČD-T provides its services to demanding clients from state administration, the railway transportation segment, large companies and local internet connectivity providers.

In 2019, ČD-T continued its GSM-R construction projects, successfully completing the construction of the system on the České Budějovice – Plzeň railway line. In addition, ČD-T continued to fulfil the contract for system integration of the new technological infrastructure passport (TPI) and the supply of new telephone exchanges to the SŽ customer and continued to work on the Integration Bus for MPSV project. In the first half of the year, ČD-T signed contracts for the delivery of the mobile part of the ETCS European Train Security System for České dráhy and ČD Cargo. Both contracts are to be completed by the end of 2022.

In the area of roads, ČD-T succeeded in the implementation of the project Renovation of technological equipment in the Husovice tunnel on the I/42 road in Brno with SPEL company for the contracting entities of Road and Motorway Directorate. In 2019, ČD-T continued its long-term service contract for the tunnel complex in Brno for SPEL company (a service contract until 2022). Another installation of smart parking automats in České Budějovice city took place, which will include approximately 2,600 of them.

During last year, ČD-T together with ČEZ Group and Severočeská vodárenská společnost, became a founding member of the Association of Critical Infrastructure of the Czech Republic. One of the main goal of the new association is to create optimal conditions for the operation and protection of critical infrastructure in the Czech Republic.

The company’s strategy for the next period is the development of business opportunities in the ČD Group, the strengthening of the strategic partnership with SŽ, the strengthening of telematics projects and the growth in revenues outside the railway infrastructure and transport sector. In 2020, major growth opportunities will be driven by growing demand for telematics services. ČD-T invests in this area for strengthening its competencies. The company remains ready to support growth in the area of investments in the development of its optical network and related telecommunications services by strengthening capacities using the most innovative technologies available in this market, such as the terabit connection between cities in the Czech Republic.

ČD-T will continue in strengthening partnerships with companies that provide ICT services to end-customers in business and government segments and in offering joint solutions using their own unique infrastructure and know-how.

Research and Development

The subsidiary Výzkumný Ústav Železniční, a.s. (VUZ) provides specialized professional services of railway research and development.

In 2019, VUZ participated in the INNOWAG research project from Shift2Rail program and "Verification of pressed wheel-axle joint" project from of the Technology Agency of the Czech Republic (TAČR) program. Within the INNOWAG project, the testing laboratory carried out tests of the high strength steel railway chassis frame. The prototype (produced specially for the purpose of the tests) was subject of the static and fatigue tests to see if it was possible to use it with the thinner high-strength steel constructions than standard Y25 chassis in order to reduce the weight.

In the "Verification of pressed wheel-axle joint" project, the testing laboratory carried out high-cycle tests of the pressed wheel-axle joint. The growth of the initialized crack in the axle seat of the pressed joint and the possibility of its earlier detection was tested during rotation.

Through announced Open Calls for 2019 VUZ submitted 4 offers of research solutions within Shift2Rail program. The CARBODIN project was successful and was selected for implementation and launched on 1 December 2019 when the Grant Agreement was signed. The project completion is scheduled for 30 November 2021. The project is focused on implementation of composite materials in railway vehicles. Its outputs will combine different production technologies, automation concepts, introducing co-cured and co-bonded composite parts.

In 2019, VUZ actively participated (within the membership in National Technology Platform of the IŽP) in the activities of European Railway Research Advisory Committee. VUZ participates in ERRAC plenary sessions on behalf of TP.

In 2019, VUZ launched an innovative project developing GNNS technology: TIRSMD707 – "Suggestion and verification of conditions for deploying train locators based on GNSS systems on the Czech railway network". This project is supported by the Technology Agency of the Czech Republic - BETA2 program.

At the end of the year VUZ submitted a research proposal for the TAČR THETA program. "Study of hydrogen utilization in railway transport in the Czech Republic". VUZ participated in the project within the consortium of Faculty of Transport, VUZ, ÚJV Řež and LELIO KP.

VUZ actively participated in Testing Development Program (PRZ within Czech Office for Standards, Metrology and Testing) and submitted 3 offers for 2020.

Currently VUZ seeks to be involved in projects under Open Calls for 2020 Shift2Rail edition while preparing a research project for the KAPPA program of the Technology Agency of the Czech Republic.

In 2019 the testing laboratory successfully passed the overall reaccreditation; all tests and related procedures were assessed by the Czech Accreditation Institute (ČIA) supervisory body. Test scope of the fastening systems was extended by rotation angle measuring of the railway and the influence of unfavourable external conditions on the fastening systems. The laboratory is also working on expanding the range of offered tests by test of magnetic fields inside a vehicle according to the ČSN EN 50500 standard.

Employment Policy

People have always been our highest priority. Both external candidates for which we want to build position of a prestigious and desired employer and internal employees, clients and trade unions with whom we intend to continue to establish and maintain good relations, optimize the working environment and bring HR services to the top. Our complex goal is to set up functional processes through strategic steps and changes which support operations of the organization and ensure stable environment for our staff. An example of the steps already taken are incentive programs that motivate employees at the key and often deficient positions.

With help of trade union organizations we managed to fulfil and continuously evaluate the Collective Agreement for 2019. Our priority for 2020 year is partnership based on constructive discussions and outcomes that will reflect both the needs of our employees and the goals of whole ČD Company.

As for education, we plan to focus on continuous improvement of our staff qualification. Dopravní vzdělávací institut, a.s. (hereinafter DVI - "Transport Education Institute") provides the railway experts training are for ČD Group. DVI holds accreditation for training of key occupations in the field of rail transport and for the implementation of psychological examinations. DVI has a wide network of classrooms, an electronic sign-in system, an iTutor e-learning education system and a team of specialists in the subject areas of education. Other areas of activity of DVI include operation of welding school, language training, soft skills training, production of electronic lessons for presentation and e-learning.

Another educational activity of the ČD Group is the ČéDés scholarship program, which is intended for students of partner secondary schools with specialization in transport and technical skills.

The aim of this collaboration is to create the potential for future employer and obtaining candidates for operational professions, in particular, for customer service, engine drivers and employees for vehicle maintenance. Students also have the opportunity to participate internships programs at ČD. For university students our company offers expert consultations for bachelor and diploma theses led by experts from ČD.

Recreation is also an integral part of the employment policy. This area is provided for the Group by the subsidiary ČD travel, s.r.o and ČD relax s.r.o., which offer domestic and international tours, wellness and recreational stays. Employees may draw a contribution from the Social Fund in the cases defined in the collective agreement.

International Relations

ČD has continued its activities within the Community of European Railways (CER) and beyond, in order to intensively communicate our position towards the EU institutions (European Commission, European Parliament, Council of the EU). ČD closely monitors and tries to influence the process of drafting and approving EU legislation in the area of railway transport.

ČD welcomed the new European Commission initiative in relation to environmental protection and sustainable development (Green Deal). We strive to ensure that railway transport, as the most environmentally friendly mode of transport, is given the highest priority and that all modes of transport are fully harmonized over time in order to meet the objectives of the EU Transport White Paper.

An important standard discussed in 2019 was the amendment to Regulation 1371/2007 on the rights and obligations of railway passengers. ČD presented its achievements in this area to the European institutions (we are among the best European carriers in the transportation of persons with reduced mobility). At the same time, we lobbied for a harmonious and sustainable approach in this area across all transport sectors.

Within the International Union of Railways (UIC), ČD's representatives were involved primarily in activities that have a direct impact on our core business. These are mainly Passenger Services Group, Rail System Forum and other special projects in the passenger transport and rail vehicles area.

In 2019, we pursued a similar strategy within the Organisation for Railway Cooperation (OSŽD). Our specialists are mainly involved in the area relating to reservation systems and passenger transport operations.

ČD also developed bilateral relations with partners in neighbouring countries. The concept of multilateral working meetings with infrastructure managers and other carriers, which has been functioning for a long time in Slovakia and Poland was, in agreement with SŽ, transformed into a system of parallel bilateral negotiations. This step let us focus only on actions leading to higher efficiency of our core business.

International activities of the subsidiary ČD Cargo are coordinated in cooperation with the parent company ČD (ČD represents the whole ČD Group in the Community of European Railways (CER), International Union of Railways (UIC) and Organization for Railway Cooperation (OSŽD). ČDC is an independent member only of the Central Clearing Center (BCC) and the Coordinating Committee for Trans-Siberian Transport (KSTP). Within UIC, ČDC is active within the Freight Transport Forum and its study groups. Currently, a representative of the ČDC presides over the ISR Assembly in the RAILDATA organization, which operates central European systems for data exchange. In 2019, Rail Freight Forward (RFF), of which ČD Cargo is a member, presented large information campaigns for travelling on the Noah' train. The OPTIYARD project, which was managed with the EU financial support under the Shift2Rail program was successfully completed at the end of September.

Environmental Protection

ČD in connection with the environment protection monitors the impacts of its operations on individual components of the environment. ČD continually modernizes its vehicles fleet, which not only improves reliability, competitiveness, travel culture, but also enables the use of more environmentally friendly technologies. On the basis of a joint initiative"enough plastic", ČD and the Ministry of the Environment concluded on 19 June 2018 a voluntary agreement to gradually reduce the impact of disposable tableware on the environment. This agreement was implemented during 2019.

ČD ensures the fulfilment of legislative obligations in all areas of the environment protection.

Main areas of environmental protection:

- **Water management** - in accordance with the concluded contract, monitoring of drinking and wastewater is carried out by a competent person. The quality of drinking and waste water is monitored, including compliance with the limits set by the state administration authorities. Furthermore, the water consumption and the amount of wastewater discharged are monitored so that the water permit limits are met. Emergency plans are continually updated in locations where harmful substances are handled.
- **Waste management** - on the basis of a contract for the receipt of hazardous waste and a contract for the receipt of other waste, the fulfilment of legislative obligations, including the handover

of waste to the authorized person for its acceptance. The production of individual waste is continuously monitored. Take-back products are returned to the supplier.

- **Chemicals and chemical products** – ČD ensures compliance with legislative obligations. The Rolling Stock Department ensures regular training to ensure proper handling of chemical substances and chemical products (storage, handling - safety data sheet obligations).
- **Protection of nature and landscapes** - in order to ensure the safety and smoothness of the railway operation, the main attention is paid to the maintenance of the accompanying greenery on ČD plots. The ČD organizational units carry out the inventory of wooden plants and their operational safety monitoring.
- **Soil and groundwater remediation** – ČD ensures compliance with decisions of state administration bodies (water control authorities, Czech Environmental Inspectorate). Based on their decision to impose remedial measures, ČD carries out remediation work. The scope of remediation works is continuously discussed with state administration bodies on half-year inspection days.
- **Air protection** – in accordance with the valid legislation and concluded contract, measurement of emissions, efficiency of boilers and control and cleaning of flue gas paths are realized. In order to ensure that the set limits are met, stationary sources are continuously upgraded.
- **Release of harmful substances into the environment** – the organizational units, in cooperation with the accident breaker of the Rail Vehicles Department, coordinate the removal of the primary consequences of harmful substance leaks and negotiate with the state administration authorities on further steps.

Independent Auditor's report

to the Shareholder of České dráhy, a.s.

Report on the audit of the consolidated and separate financial statements

Our Opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of 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 2019, of their consolidated financial performance and their consolidated cash flows for the year ended 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the European Union ("EU").

- the accompanying separate financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2019, of its financial performance and its cash flows for the year ended 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss for the year ended 31 December 2019;
- the consolidated statement of comprehensive income for the year ended 31 December 2019;
- the consolidated statement of financial position (balance sheet) as at 31 December 2019;
- the consolidated statement of changes in equity for the year ended 31 December 2019;
- the consolidated cash flow statement for the year ended 31 December 2019; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

The Company's separate financial statements comprise:

- the statement of profit or loss for the year ended 31 December 2019;
- the statement of comprehensive income for the year ended 31 December 2019;
- the statement of financial position (balance sheet) as at 31 December 2019;
- the statement of changes in equity for the year ended 31 December 2019;
- the cash flow statement for the year ended 31 December 2019; and
- the notes to the separate financial statements, which include significant accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council ("the EU Regulation") and Standards on Auditing of the Chamber of Auditors of the Czech Republic (together "Audit regulations"). These standards consist of International Standards on Auditing (ISAs) as supplemented and modified by related application guidance (together "Audit regulations"). 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.

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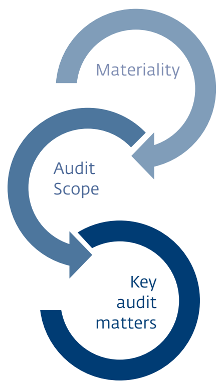
Independence
We are independent of the Group and the Company in accordance with the Act on Auditors, EU Regulation and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic (together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

Our audit approach

Overview



Overall materiality for the Group: CZK 337 million
Overall materiality for the Company: CZK 266 million

We have identified seven 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 Slovakia, Poland and Germany. All component auditors belong to PwC network.

The entities, for which we performed the above procedures, represent 99% 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.

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

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

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

Materiality

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

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

Overall Group materiality	CZK 337 million (CZK 320 million for the previous period)
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. In order to take into account all these performance indicators, we set the base for determining materiality at 0.8% of total revenues.
Overall materiality for the Company standing alone	CZK 266 million (CZK 250 million for the previous period)
How we determined it	1% 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.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Correct reporting of lease contracts in the first application of IFRS 16, Leases (Group and Company). In 2019, the Company and the Group implemented IFRS 16 - Leases. For the purpose of its first application, the Company and the Group chose a modified retrospective method that does not require the adjustment of comparable data. As of 31 December 2019, the right of use amounted to CZK 3,964 million for the Group and CZK 917 million for the Company. The adoption of the new standard has a significant impact on the financial statements. The related accounting policies are disclosed in Note 2.6 of the consolidated financial statements Note 2.4 of the separate financial statements. And in Notes 3 the impact of the implementation of IFRS 16 on the separate and consolidated financial statements is presented. For further information on the implementation of IFRS 16, see Notes 18, 23.1 and 33.2 of the consolidated financial statements and Notes 17 and 30.2 of the separate financial statements.	In connection with the application of IFRS 16, we performed the following procedures: ▪ We reviewed the appropriateness of the opening balances as of 1 January 2019 to ensure that the proposed accounting treatment was in accordance with the requirements of IFRS 16. ▪ We reviewed the initial recognition of right-of-use assets and lease liabilities and management's calculations to determine the impact when adopting the standard. ▪ We considered the completeness of the lease contracts included in the assets representing rights of use. ▪ We tested the accuracy of the input data on a sample basis, including discount rates and the assessment of the extension option of the contracts used to calculate the value of the lease liabilities. Our procedures also included consideration of the exemptions and practical expedients applied under IFRS 16. ▪ We tested, on a sample basis, the mathematical accuracy of the calculation of leased liabilities we obtained. ▪ We reviewed the disclosures in the financial statements relating to leases to determine whether they comply with the disclosure requirements under IFRS 16.

How we tailored our audit scope

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

The Group operates mainly in 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, ČD Cargo and ČD - Informační Systémy subgroups, encompassing further nine and eight entities respectively, of which the Company alone together with ČD Cargo a.s. are the largest entities.

In our audit we determined the scope of work, which was considered necessary for individual components and the 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 with 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 scope of work described above covers 99% of the Group's revenues, 99% of the Group's profit before tax and 99% of the Group's assets. 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 Annual Report, but it doesn´t include both of the financial statements and our auditor's report thereon. The other information consists of other financial information and other non-financial information. The Board of Directors of the Company is responsible for the other information.

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

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

- the other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information is prepared in compliance with the Act on Accounting.

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

Responsibilities of the Board of Directors, Supervisory Board and Audit Committee of the Company for the financial statements

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

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

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

The Audit Committee of the Company is responsible for monitoring of the financial statements preparation process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

Report on other legal and regulatory requirements

In compliance with Article 10(2) of the EU Regulation, we provide the following information, which is required in addition to the requirements of International Standards on Auditing:

Consistency of the audit opinion with the additional report to the Audit Committee

We confirm that the audit opinion expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued today in accordance with Article 11 of the EU Regulation.

Appointment of auditor and period of engagement

We were appointed as the auditors of the Group and the Company for years 2019 - 2022 by the Steering Committee of the Company on 27 March 2019. Our uninterrupted engagement as auditors of the Group and the Company has lasted for 4 years.

Provided non-audit Services

The non-audit services are disclosed in Note 8 of the notes to the consolidated financial statements.

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

14 April 2020

PricewaterhouseCoopers Audit, s.r.o.

represented by

Václav Prýmek

Milan Zelený
Statutory Auditor, Licence No. 2319

Consolidated Financial Statements for the Year 2019

Prepared under IFRS as Adopted by the EU

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

Components of Consolidated Financial Statements prepared for the year 2019 under IFRS as adopted by the EU:
Statement of Profit or Loss
Statement of Other Comprehensive Income
Statement of Financial position (Balance sheet)
Statement of Changes in Equity
Cash Flow Statement
Notes to the Financial Statements

Consolidated Financial Statements were prepared on 14 April 2020.
Statutory Body of the Entity

Václav Nebeský
Chairman of the Board of Directors
České dráhy, a.s.

Patrik Horný
Member of the Board of Directors
České dráhy, a.s.

Statement of Profit or Loss for the Year Ended 31 December 2019

(CZK million)

		Year ended 31 Dec 2019	Year ended 31 Dec 2018
CONTINUING OPERATIONS			
Revenue	6	40,656	39,097
Other operating income	7	1,480	1,423
Purchased consumables and services	8	(16,359)	(16,636)
Employee benefit costs	9	(15,288)	(14,380)
Depreciation and amortisation	10	(7,191)	(6,223)
Other operating expenses	11	(761)	(656)
Profit on operating activities		**2,537**	**2,625**
Financial expense	12	(1,588)	(1,488)
Financial income	13	599	318
Share in the profit of associates and joint ventures	20	36	17
Profit before tax		**1,584**	**1,472**
Income tax expense	14	(269)	(287)
Profit for the period from continuing operations		**1,315**	**1,185**
Profit for the period		**1, 315**	**1, 185**
Attributable to equity holders of the Parent Company		1,295	1,166
Attributable to non-controlling interests		20	19

Statement of Comprehensive Income for the Year Ended 31 December 2019

(CZK million)

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Profit for the Period	**1, 315**	**1, 185**
Actuarial gains on liabilities related to employee benefits	6	5
Revaluation reserve at fair value through other comprehensive income	12	17
Other comprehensive income for the period (items that are not subsequently reclassified to profit or loss)	**18**	**22**
Exchange differences from foreign units translation	(1)	(3)
Cash flow hedges	543	(170)
Hedge accounting expenses	49	36
Related income tax	(10)	23
Other comprehensive income / (loss) for the period	**581**	**(114)**
Other comprehensive income / (loss) for the period after tax	**599**	**(92)**
Total of comprehensive income for the period	**1,914**	**1,093**
Attributable to equity holders of the parent company	1,894	1,074
Attributable to non-controlling interests	20	19

Statement of Financial Position (Balance Sheet) as at 31 December 2019

(CZK million)

		31 Dec 2019	31 Dec 2018
Property, plant and equipment	15	72,941	70,509
Investment property	16	606	611
Goodwill	17	141	141
Intangible assets	17	1,094	989
Right-of-use assets	18	3,964	-
Investments in joint ventures and associates	20	199	200
Deferred tax asset	14	18	29
Trade receivables	22	-	1
Other financial assets	23	846	633
Other assets	24	5	5
Total non-current assets		**79,814**	**73,118**
Inventories	21	1,923	1,657
Trade receivables	22	3,340	3,611
Prepaid income tax		13	2
Other financial assets	23	437	800
Other assets	24	2,028	2,206
Cash and cash equivalents	32	8,436	3,438
Total current assets		**16,177**	**11,714**
TOTAL ASSETS		**95, 991**	**84, 832**
Share capital	25	20,000	20,000
Reserve and other funds	25	17,889	17,241
Retained earnings		3,429	2,183
Equity attributable to the equity holders		**41,318**	**39,424**
Non-controlling interests	19	621	613
Total equity		**41,939**	**40,037**
Loans and borrowings	26	38,990	22,418
Deferred tax liability	14	1,748	1,683
Provisions	27	274	607
Other financial liabilities	28	184	519
Other liabilities	29	203	116
Total non-current liabilities		**41,399**	**25,343**
Trade payables		5,647	5,886
Loans and borrowings	26	2,847	9,051
Income tax liabilities		94	34
Provisions	27	372	851
Other financial liabilities	28	449	278
Other liabilities and contract liabilities	29	3,244	3,352
Total current liabilities		**12,653**	**19,452**
TOTAL LIABILITIES		**95, 991**	**84, 832**

Statement of Changes in Equity for the Year Ended 31 December 2019

(CZK million)

	Share capital	Reserve and other funds*	Cash flow hedge reserve	Hedge accounting expenses	Revaluation reserve at fair value through other comprehensive income	Retained earnings	Equity attributable to equity holders of the Parent Group	Non-controlling interests	Total equity
Balance as at 1 January 2018	**20,000**	**16,862**	**640**	**(300)**	**93**	**1,069**	**38,364**	**659**	**39,023**
Comprehensive income									
Profit for the period	0	0	0	0	0	1,166	1,166	19	1,185
Other comprehensive income for the year	0	(3)	(147)	36	17	5	(92)	0	(92)
Total of comprehensive income for the period	**0**	**(3)**	**(147)**	**36**	**17**	**1,171**	**1,074**	**19**	**1,093**
Transactions with owners									
Allocation to the reserve fund	0	62	0	0	0	(62)	0	0	0
Dividends paid	0	0	0	0	0	0	0	(12)	(12)
Impact of change in the consolidation group	0	(19)	0	0	0	5	(14)	(53)	(67)
Total transactions with owners for the period	**0**	**43**	**0**	**0**	**0**	**(57)**	**(14)**	**(65)**	**(79)**
Balance as at 31 December 2018	**20,000**	**16,902**	**493**	**(264)**	**110**	**2,183**	**39,424**	**613**	**40,037**
Impact of IFRS 16 implementation	0	0	0	0	0	(79)	(79)	0	(79)
Impact of method change **)	0	0	0	0	0	79	79	0	79
Balance as at 1 January 2019	**20,000**	**16,902**	**493**	**(264)**	**110**	**2,183**	**39,424**	**613**	**40,037**
Comprehensive income									
Profit for the period	0	0	0	0	0	1,295	1,295	20	1,315
Other comprehensive income for the year	0	(1)	533	49	12	6	599	0	599
Total of comprehensive income for the period	**0**	**(1)**	**533**	**49**	**12**	**1,301**	**1,894**	**20**	**1,914**
Transactions with owners									
Allocation to the reserve fund	0	55	0	0	0	(55)	0	0	0
Dividends paid	0	0	0	0	0	0	0	(12)	(12)
Total transactions with owners for the period	**0**	**55**	**0**	**0**	**0**	**(55)**	**0**	**(12)**	**(12)**
Balance as at 31 December 2019	**20,000**	**16,956**	**1,026**	**(215)**	**122**	**3,429**	**41,318**	**621**	**41,939**

*) Reserve and other funds include Share premium of CZK 16,440 million (as at 1 January 2018, 31 December 2018 and 31 December 2019)

**) The impact of the method change is described in Note 4.3

Cash Flow Statement for the Year Ended 31 December 2019

(CZK million)

		Year ended 31 Dec 2019	Year ended 31 Dec 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax		**1,584**	**1,472**
Dividend income	7	(2)	-
Financial expenses - interest	12	1,186	1,048
Profit from sale and disposal of non-current assets	7	(584)	(503)
Depreciation and amortisation of non-current assets	10	7,191	6,223
(Reversal of impairment) / Impairment of property, plant and equipment, investment property and assets held for sale	11	30	(131)
Increase in allowance for trade receivables	11	7	14
Change in provisions	27	(403)	(284)
Foreign exchange rate gains / (losses)		(76)	91
Other		(202)	(27)
Cash flows from operating activities before changes in working capital		**8,731**	**7,903**
Decrease (increase) in trade receivables	22	195	(485)
Decrease (increase) in inventories	21	(270)	(145)
Decrease (increase) in other assets	23,24	393	(1,450)
Increase (decrease) in trade payables		(272)	1,248
Increase (decrease) in other liabilities and contractual liabilities	28,29	(9)	173
Total changes in working capital		**37**	**(659)**
Cash flows from operating activities		**8,768**	**7,244**
Interest paid	12	(1,053)	(1,085)
Income tax paid	14	(142)	(140)
Dividends received	7	25	-
Net cash flows from operating activities		**7,598**	**6,019**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment	15	(8,413)	(7,053)
Proceeds from disposal of property, plant and equipment	7	673	800
Payments for investment property	16	(11)	(1)
Payments for intangible assets	17	(332)	(338)
Acquisition of subsidiaries and joint ventures, net of purchased cash		(5)	-
Received interest	13	84	30
Net cash flows used in investment activities		**(8,004)**	**(6,562)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings	30	15,085	1,239
Repayments of loans and borrowings	30	(7,672)	(4,052)
Payment of leasing instalments *)	30	(1,997)	-
Payment of financial leasing instalments **)	30	-	(933)
Impacts of changes in equity		-	(62)
Dividends paid		(12)	(12)
Net cash flows from financing activities		**5,404**	**(3,820)**
Net increase (decrease) in cash and cash equivalents		**4,998**	**(4,363)**
Cash and cash equivalents at the beginning of the reporting period		3,438	7,801
Cash and cash equivalents at the end of the reporting period	32	**8,436**	**3,438**

*) Marked rows relate to implementation of IFRS 16 only in current period **) Marked rows relate only to comparative period in relation to IAS 17

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2019

1. General Information

1.1. General Information

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

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

The Company is the Parent Company of the České dráhy Group ("the Group"). The consolidated financial statements have been prepared as of and for the year ended 31 December 2019. The reporting period is the calendar year, i.e. from 1 January 2019 to 31 December 2019.

1.2. Principal Operations

The Group's main business activity is operating railway transportation. Other Group activities includes mainly 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 infrastructure are in the ownership of the State, not in the ownership of the Group. The right of management of state assets is exercised by SŽ. SŽ secures the operability and servicing of the railway infrastructure.

1.3. Definition of the Consolidation Group

1.3.1. Entities Included in the Consolidation

Name of the entity	Registered office	Corporate ID	Ownership percentage *)	Degree of influence
České dráhy, a.s.	Prague 1, Nábřeží L. Svobody 12/1222	70994226		
ČD - Telematika a.s.	Prague 3, Pernerova 2819/2a	61459445	70.96	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 8, Prvního pluku 621/8a	27378225	100	Control
ČD travel, s.r.o.	Prague 1, 28. října 372/5	27364976	51.72	Control
CD Cargo Germany GmbH	Germany – Frankfurt am Main, Niddastrasse 98-102	HRB 73576	100	Control
CD Cargo Austria GmbH	Austria – Wien, Rotenturmstraße 22/24	FN 291407s	100	Control
CD Cargo Poland Sp. z o.o.	Poland – Warsaw, Grzybowska 4/3	140769114	100	Control
ČD Cargo Slovakia, s.r.o.	Slovakia – Bratislava, Seberíniho 1	44349793	100	Control
Auto Terminal Nymburk, s.r.o.	Prague 7, Jankovcova 1569/2c	24234656	100	Control
ČD Cargo Logistics, a.s.	Prague 1, Opletalova 1284/37	27906931	100	Control
Terminal Brno, a.s.	Brno, K terminálu 614/11	28295374	66.93	Control
ČD-DUSS Terminál, a.s.	Lovosice, Lukavecká 1189	27316106	51	Control
ODP-software, spol.s r.o.	Prague 3, Pernerova 2819/2a	61683809	100	Control
ČD relax s.r.o.	Prague 1, 28. října 372/5	05783623	51.72	Control
CHAPS spol. s r.o.	Brno, Bráfova 1617/21	47547022	100	Control
ČSAD SVT Praha, s.r.o.	Prague 8, Křižíkova 4-6	45805202	100	Control
SVT Slovakia s.r.o.	Banská Bystrica, Partizánska cesta 97	36620602	80	Control
INPROP, s.r.o.	Žilina, Rosinská cesta 12	31609066	100	Control
Smart Ticketing s.r.o.	Prague 3, Pernerova 2819/2a	02033011	100	Control
UniControls-Tramex s.r.o.	Blansko, Brněnská 1748/21b	26246422	100	Control

*) Ownership percentage is the same as the voting rights percentage

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

Name of the entity	Registered office	Corporate ID	Ownership percentage *)	Degree of influence
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
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 2, Americká 525/23	27560589	50	Joint control
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 921/6	45270589	30	Significant
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9	60793171	50	Joint control
Ostravská dopravní společnost - Cargo, a.s.	Ostrava, U Tiskárny 616/9	05663041	20	Significant

*) 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 the unanimous consent of the parties that share the control.

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

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

1.3.2. Changes in the Composition of the Group

On 22 January 2019, the company ČD - Informační systémy, a.s. established its subsidiary company Smart Ticketing s.r.o.

On 18 December 2019, ČD - Informační systémy, a.s. acquired 100% share in UniControls-Tramex s.r.o. The acquisition price was CZK 15 million.

In 2018, the Parent Company increased its share in ČD - Telematika a.s., of 1.78 %, to the total of 70.96%. The acquisition price was CZK 30 milion.

On 28 February 2018, the Parent Company increased its share in DPOV, a.s., by CZK 28 milion. The ownership percentage did not change.

2. Significant Accounting Policies

2.1. Statement of Compliance

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

2.2. Basis of Preparation of the Consolidated Financial Statements

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

Accounting policies are consistent in the reporting period with the accounting policies used in previous periods, if not stated otherwise.

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

2.3. Basis of Consolidation

The consolidated Financial Statements incorporate the financial statements of the Parent Company and entities it controls (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 stated above.

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

- The size of the Group's holding of voting rights relative to the size and dispersal of holdings of the other vote holders;
- Potential voting rights held by the Group, by other voting rights holders or by other parties;
- Rights arising from other contractual arrangements;
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ends when the Group loses control of the subsidiary. Specifically, the income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and 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 Parent Company and to the non-controlling interests. The total comprehensive income of subsidiaries is attributed to the owners of the Parent Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial 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 the owners of the company.

2.4. Business Combinations

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

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

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

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

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

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

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

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

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

2.5. Revenue Recognition

2.5.1. Revenue from Contracts with Customers

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

Revenue from personal transportation is recognised as at the first day of the ticked validity.

Revenue from the sale of services is recognised at the time when the service was provided, or on linear basis throughout the period of time, if the services are provided by an undetermined number of actions during the determined period. The received payment is initially recognised as a contractual liability that is subsequently released to revenue as the service is provided to a customer.

Revenue related to transportation services is recognised in the period in which the services are provided in reference to the stage of completion of the service contract (e.g. period of validity of long-term travel documents).

In contrast with domestic transportation, international transportation also includes the settlement process of receivables and liabilities to foreign carriers and sellers of international tickets. In some cases, such settlements may be delayed by a few months. For this reason, the revenue is accrued for as at the time the service is provided based on the information available to the Group.

In addition to selling tickets and similar documents, a significant part of revenue from transportation includes revenue from the usage of passenger cars in the RIC mode („Regolamento Internazionale delle Carrozze", based on the Convention for the Reciprocal Use of Wagons in International Traffic), where there is a settlement once a year. Therefore, in this case revenue is also recognised based on the estimate.

Payments from ordering parties such as the Ministry of Transport and regions are key revenues and are included in passenger transportation. These revenues are accounted monthly in accordance with annually approved orders and the volume of services provided.

Revenue from domestic and international freight transport is recognised when the service is rendered based on the stage of completion of an individual transaction determined by the actual number of days/kilometres of transportation spent/covered in the reporting period relative to the total number days/kilometres of transportation.

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

2.5.2. Other Income

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

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

2.6. Lease

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

2.6.1. The Group as a Lessee

Effective from 1 January 2019

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

At the commencement date, the lease liability is initially recognised at the present value of the lease payments that are not yet paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease or, if this rate is not available, incremental borrowing rate should be is used.Lease payments included in the measurement of a lease liability includes the following:

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

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

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

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

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

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

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

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

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

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

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

Effective before 1 January 2019

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

Assets held under finance leases were initially recognized 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 were included in the statement of financial position as a finance lease liability.

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

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

2.6.2. The Group as a Lessor

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

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

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

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

2.6.3. Sale and Leaseback

A sale and leaseback transaction include the sale of an asset and subsequent lease-back of the same asset. Lease payments and the sale prices are usually interdependent because they are negotiated in the same transaction. The accounting treatment of a sale and leaseback transaction depends on the type of leasing, which is part of this transaction.

If the leaseback is a finance lease, the lessor provides the lessee with cash and the leased asset as a security of the loan. For this reason, the proceeds from a sale exceeding the asset's carrying amount is not considered as income. Company recognises recoveries as a financial liability (debt), which, together with interest, is amortised by lease payments.

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

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

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

2.7. Foreign Currencies

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

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

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

For the purposes of presentation of the consolidated financial statements, the assets and liabilities of the Group's foreign subsidiaries and associates are denominated in CZK using exchange rates prevailing at the balance sheet date. 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 the Group will comply with the conditions attached to them and that the grants will be received.

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

Other government grants are recognised as income 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 to the statutory health insurance, social security and pension insurance schemes and other employee benefits costs resulting from the collective agreement.

Employee benefit obligations and provisions reported in the statements of the financial position represent their present value. Additions to these obligations and provisions are expensed after the services, which entitle the employee to such benefits, have been provided.

Provision for long-term employee benefits is recognised in the present value of the future cash outflows used to settle those obligations. 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. The currency and terms of these bonds are consistent with the currency and terms of the corresponding other long--term benefits. The value of this provision is determined annually based on reports prepared by independent qualified actuaries. Gains or losses arising from changes in actuarial assumptions for post employment benefits at retirement are included in other comprehensive income: changes in the provision for other benefits are recognised in profit or loss.

2.11. Taxation

The income tax includes current tax payable and deferred tax.

2.11.1. Current Tax Payable

Current tax calculation 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 as it does not include 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 by law or announced by the end of the reporting period.

2.11.2. Deferred Tax

Deferred tax is recognised based on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used to calculate taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

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

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

2.11.3. Current Tax Payables and Deferred Tax for the Period

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

2.12. Property, Plant and Equipment

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

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

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 passenger 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 the type of components (periodical repairs – major, significant and overhaul). The average period of depreciation is six years.

2.13. Investment Property

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

2.14. Intangible Assets

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

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

2.15. Goodwill

Goodwill is initially measured at the amount corresponding to the difference between the consideration increased by value of any non-controlling interest and fair value of any previously held interest and net amount of identifiable assets acquired and the liabilities assumed.

Goodwill arising from the acquisition of subsidiaries is included in intangible assets. Goodwill arising on the acquisition of subsidiaries is included in intangible assets. After initial recognition, goodwill is stated at cost less accumulated impairment losses. Recognised goodwill is tested for impairment. This test is performed at least once a year or more if there are indicators of a possible impairment of goodwill. At the acquisition date, goodwill is allocated to those cash-generating units that are expected to benefit from the synergies resulting from the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are substantially independent of cash inflows from other assets. The impairment of goodwill is set by determining the recoverable amount of those cash-generating units to which goodwill has been allocated. If the recoverable amount of such cash-generating unit is lower than its carrying amount, an impairment is recognised. Recognised goodwill impairment losses cannot be reversed later. In the case of a partial sale of a cash-generating unit to which goodwill has been allocated, the carrying amount of goodwill related to the sold part of the cash-generating unit is included in profit or loss on disposal. The amount of derecognised goodwill is determined on the basis of the relative values of the sold part of the cash-generating in comparison with the part that remains in the Group's ownership.

2.16. Impairment of Tangible and Intangible Assets

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

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

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

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

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

2.17. Investments in Joint Ventures and Associates

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

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the decisions relating to relevant activities of the entity into which the investment was made, but it is not control or joint control over such entity. In this case, the Group ordinarily controls 20-50% of voting rights.

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

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

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

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

2.18. Inventories

Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined using the weighted 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. Inventory is mainly held for own use rather than for re-sale.

2.19. Provisions

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

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

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

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

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

2.20. Financial Instruments

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

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

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

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

2.20.1 Effective Interest Rate Method

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

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

2.20.2. Financial Assets at Fair Value Through Profit or Loss

Financial asset is classified at fair value through profit or loss when it does not qualify for classification as at amortised cost or at fair value through other comprehensive income. This category also includes financial assets whose contractual cash flows are not solely payments of principal and interest on the outstanding principal amount.

In this category, the Group recognises financial derivatives held for trading within other financial assets.

2.20.3. Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets measured at fair value through other comprehensive income include equity investments not held for trading. The Group holds equity investments that are not traded on an active market in these assets. Dividend income from equity investments is recognised in profit or loss when the Group's right to receive the dividends is established.

Equity instrument is any contract that evidences a residual interest in the Group's assets after deducting all its liabilities. Equity instruments issued by the Group are stated at the value of payments received net of direct issue costs.

Dividends on equity instruments are recognised in profit or loss when the Group has the right to receive dividends.

2.20.4. Financial Assets at Amortised Cost

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

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

2.20.5. Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for expected credit losses as at the asset recognition.

Full model (3 stage impairment model): the financial asset is initially categorised within Stage 1, where credit loss allowance is recognised at an amount equal to 12-month expected credit losses. During the useful life of an asset, the Group considers whether there is no significant increase in credit risk. If the increased risk is identified, the financial asset is reclassified to Stage 2, where the credit loss allowance is recognised at a lifetime expected credit loss. In the case of a counterparty default, such asset is reclassified to Stage 3, where interest income on financial assets is recognised at amortised cost less impairment, applying the initial effective interest rate.

For the measurement of expected credit losses of current trade receivables and financial lease receivables, the Group applies the IFRS 9 simplified approach, whereby credit losses are always determined for the whole lifetime of the financial asset.

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

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

- Future prospects
- Knowledge of a customer (e.g. advance payments)
- Payment habits.

The Group considers estimated impairment of cash and cash equivalents to be immaterial due to high-quality credit-ratings of cooperating banks confirmed by the external investment rating.

Based on historic experience, the Group uses the following criteria for determining the credit default of the counterparty:

- If information gathered from external sources indicates that the debtor will not be able to pay its creditors in full (bankruptcy, insolvency proceedings)
- If the financial asset is more than 180 days past due and the Group has no evidence that the delay in payments is not sufficient criteria for default determination

2.20.6. Derecognition of Financial Assets

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

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

Upon derecognition of a financial asset as a whole, 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.

2.20.7. Financial Liabilities at Fair Value Through Profit or Loss

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

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

2.20.8. Financial Assets Measured at Amortised Cost

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

2.20.9. Derecognition of Financial Liabilities

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

2.20.10. Derivative Financial Instruments

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

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

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

2.20.11. Hedge Accounting

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

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

2.20.12. Cash Flow Hedges

The effective port 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 in the cash flow hedging reserve. Under IFRS 9, the Group does not separate hedge accounting expenses, where the criteria of expenses recognition through other comprehensive income are met. The gain or loss relating to the ineffective portion is recognised directly 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.

The Group prospectively discontinues hedge accounting only when the hedging relationship (or its part) ceases to meet the risk management objectives (after taking into account any rebalancing of the hedge relationship). This includes cases where the hedging instrument expires, is sold, terminated or settled. Any gain or loss that was recognized in other comprehensive income and accumulated in the cash flow hedge reserve remains in equity, and is reclassified to profit or loss only when the expected transaction occurs. If the expected transaction is no longer expected to materialize, the gains or losses accumulated in the cash flow hedge reserve are reclassified immediately to profit or loss.

2.20.13. Financial Derivatives Held for Trading

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

Derivatives that do not meet the conditions for hedging derivatives are 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 the Annual Period Ended 31 December 2019

During the year ended 31 December 2019, the following standards, amendments and interpretations became effective:

Modifications, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 16 – Leases	1 January 2019
IFRS 9 – Modification of IFRS 9 – Prepayment Features with Negative Compensation	1 January 2019
IAS 19 – Modification of IAS 19 – Plan Amendment, Curtailment or Settlement	1 January 2019
IAS 28 – Modification of IAS 28 – Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual improvement of IFRS – cycle 2015 – 2017	1 January 2019
IFRIC 23 – Uncertainty over Income Tax Treatment	1 January 2019

Except the impact of IFRS 16 implementation described below, the adoption of the other abovementioned standards, modifications and interpretations did not have a material impact on the Group in the reporting period.

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

When initially applying IFRS 16, the Company decided to use following simplifications:

- application of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- reliance on a prior assessment of whether leases are onerous as an alternative to the impairment test - as at 1 January 2019 there were no onerous contracts,
- accounting for operating leases, if the lease term ends within 12 months from the date of initial application, i.e. on 1 January 2019, as a short-term lease.

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

The incremental borrowing rate applied by the Group to lease liabilities as at 1 January 2019 is of 2.9% - 3%.

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

(CZK million)

	31 Dec 2018 /1 Jan 2019
Total future minimum lease payments for non-cancellable operating leases as at 31 December 2018	4,933
Discounted using the incremental interest rate as at 1 January 2019	4,374
- Financial lease liabilities as at 31 December 2018	105
- Less short-term leases not recorded as liabilities	(67)
- Less low-value assets leases not recorded as liabilities	(6)
Total lease liabilities as at 1 January 2019	**4,406**
Of which:	
- Short - term lease liabilities	853
- Long - term lease liabilities	3,553

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

(CZK million)

	Note	Impact of IFRS 16 implementation
Impairment of property, plant and equipment	15	(162)
Increase of right-of-use assets	18	3,975
Increase / (decrease) in deferred tax assets	14	-
Decrease in trade receivables	22	-
Decrease of credit and loans	26	-
Increase in lease liabilities	26.2	4,302
Decrease in provisions	27	(409)
Increase / (decrease) in equity - retained earnings net of deferred tax	25	(80)

3.2. Standards and Interpretations Used Prior to the Effective Date

The Group did not apply any standard or interpretations before their effective dates.

3.3. Standards and Interpretations Issued but Not Yet Used

As at the date of the financial statements, the following standards and interpretations were published that were not yet effective and which the Group did not use before its effective date

Modifications, new and revised standards and interpretations	Effective for accounting periods beginning on or after
IFRS 3 – Modification of IFRS 3 - Definition of a Business	1 January 2020*)
IFRS 17 – Insurance Contracts	1 January 2021*)
IFRS 10, IAS 28 – Modification of IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date will be determined *)
IAS 1, IAS 8 – Modification of IAS 1 and IAS 8 – Definition of Material	1 January 2020*)
IFRS 9, IFRS 7, IAS 39 – Modification of IFRS 9, IFRS 7 and IAS 39 Interest Rate Benchmark Reform	1 January 2020*)

*) Standards, modifications and interpretations not yet approved for use in the EU

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

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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. Key Sources of Estimation Uncertainty

4.1.1. Impairment of Assets

The Group assesses the recoverable value of all asset components when there are indicators of their impairment (except for 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 develop and availability of information. Impairment of property, plant and equipment is disclosed in Note 15.1.

4.1.2. 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 regarding legal disputes is disclosed in Note 35.

4.2. Judgements

4.2.1. Payments from the Orderers

The Group receives compensation from regional budgets and the Ministry of Transport's budget for provision of public service in the field of passenger rail transport. The Group also receives compensation from the budget of Ministry of Transport for the provision of transport services at discounted prices for selected groups (students, pensioners). The Group recognises the compensation as revenue from contracts with customers. In case of payments from the ordering party, the essence of the relation is the order of transport services in the given location. This service is provided by the Group regardless number of persons using the passenger transport service. The compensation is not considered as a subsidy, because the contract for the provision of transport services is competed among a number of entities interested in providing that service. Only the company which wins the tender obtains the compensation for the provision of the service. Another type of transaction occurs in case of preferential prices for different categories of customers (students, pensioners), when the customer uses the service (passenger transport) and pays only part of its price and the remaining part is paid by the third party (the state). It is not a subsidy, but rather a discount provided to the population groups, not an economic incentive to influence the behaviour of companies in a particular way.

4.2.2. Lease – discount rate and lease term

The Group measures the initial lease liability at the present value of the lease payments to be discounted using the implicit interest rate. Since the Group is unable to determine this rate reliably, it uses its incremental borrowing rate as the discount rate. While determining it, the coverage of lease collateral and the length of the lease contracts were considered.

In addition, the Group uses an estimate to determine the lease term of contracts concluded for indefinite period. This estimate was made with respect of the period and circumstances of the termination of individual contracts. The Group has determined the estimated lease term of indefinite duration contracts at 5 years, due to following reasons:

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

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

Contracts with SŽ for the lease of premises at railway stations are concluded for individual areas (7 contracts). When measuring individual leased premises under the same contract, the Company used aggregation into larger valuation units under the framework contracts because of the insignificance of these individual rental premises.

4.2.3. The Useful Life of Fixed Assets

In 2019, the company ČD Cargo, a.s. assessed the useful life of assets and based on analysis performed by internal experts, the useful life of selected assets was extended. In the case of traction vehicles, the lifetime of selected series was extended in average by 5 to 7 years; in case of freight wagons the lifetime of selected series was extended by 2 to 7 years and for other assets between 2 and 5 years. The change in the estimated useful life of assets result in decrease of the depreciation charge in 2019 by CZK 104 million. In the coming years this effect will gradually decrease.

4.3. Change of the Method

4.3.1. Change of the Method in Accounting for Components

ČD Cargo, a.s. reviewed the component depreciation method for freight wagons, within its regular review of the depreciation plan for tangible fixed assets. As part of this review and in accordance with IAS 16, the company implemented the new component - the technical inspection for freight wagons. This technical inspection was previously partially charged to current costs of repair and maintenance of assets. However, a significant part was already charged in previous accounting periods to the value of fixed assets under other component of freight wagons, namely the revision repairs.

As at 1 January 2019, as a result of this change, the value of assets (vehicles) increased by CZK 79 million and retained earnings increased by the same amount.

The impact on profit before tax for the year 2019 was estimated at CZK 10 million. The economic result was negatively influenced by increased depreciation of vehicles of CZK 45 million and, on the contrary, positively influenced by the decrease in repair costs of CZK 55 million, which represents the volume of individual technical inspections carried out in 2019. The value of assets (vehicles) decreased or increased, respectively, by same amounts.

5. Segment Information

5.1. Activities that Generate Revenue for Reportable Segments

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

- Passenger transport – other information on rail passenger transport is disclosed in Note 6;
- Freight transport – other information on rail freight transportation is disclosed in Note 6;
- Property management – 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

An analysis of the Group's results from continuing operations by reportable segments, in the format in which the report is presented to management of the Group, is presented below.

(CZK million)

2019	Passenger transportation	Freight transportation	Property management	Total of reportable segments	Others	Elimination *)	Total
Revenue							
Revenue from passenger transportation	10,398	-	-	10,398	-	(5)	10,393
Revenue from freight transport	-	11,787	-	11,787	-	-	11,787
Revenue from the orderers	14,230	-	-	14,230	-	-	14,230
Revenue from the sale of products and other services	467	1,250	351	2,068	5,637	(3,459)	4,246
	25,095	**13,037**	**351**	**38,483**	**5,637**	**(3,464)**	**40,656**
out of which revenues from external customers outside the Group:							
Revenue from passenger transportation	10,393	-	-	10,393	-	-	10,393
Revenue from freight transport	-	11,787	-	11,787	-	-	11,787
Revenue from the orderers	14,230	-	-	14,230	-	-	14,230
Revenue from the sale of products and other services	199	1,180	314	1,693	2,553	-	4,246
	24,822	**12,967**	**314**	**38,103**	**2,553**	**-**	**40,656**
Purchased consumables and services							
Traction costs	(2,886)	(1,276)	-	(4,162)	-	9	(4,153)
Payment for the use of the railway infrastructure	(1,820)	(1,006)	-	(2,826)	-	2	(2,824)
Consumption of material, energy and services	(5,273)	(3,429)	(303)	(9,005)	(3,445)	3,068	(9,382)
	(9,979)	**(5,711)**	**(303)**	**(15,993)**	**(3,445)**	**3,079**	**(16,359)**
Employee benefit costs							
Payroll costs	(6,977)	(3,277)	(149)	(10,403)	(966)	265	(11,104)
Social security and health insurance	(2,295)	(1,068)	(48)	(3, 411)	(316)	90	(3,637)
Other social costs and employee benefit costs	(309)	(218)	(8)	(535)	(55)	43	(547)
	(9,581)	**(4,563)**	**(205)**	**(14,349)**	**(1,337)**	**398**	**(15,288)**
Depreciation and amortisation	(4,853)	(1,855)	(170)	(6,878)	(413)	100	(7,191)
Impairment **)	(18)	77	(24)	35	1	1	37
Other operating income	490	339	538	1,367	299	(253)	1,413
Other operating expenses	(338)	(336)	(19)	(693)	(89)	51	(731)
Profit on operating activities	**816**	**988**	**168**	**1,972**	**653**	**(88)**	**2,537**
Financial expense	(1,255)	(315)	(8)	(1,578)	(59)	49	(1,588)
Financial income	497	118	28	643	14	(22)	635
Profit before tax	**58**	**791**	**188**	**1,037**	**608**	**(61)**	**1,584**
Income tax expense	-	(183)	-	(183)	(81)	(5)	(269)
Profit (loss) for the period from continuing operations	**58**	**608**	**188**	**854**	**527**	**(66)**	**1,315**
Profit (loss) for the period	**58**	**608**	**188**	**854**	**527**	**(66)**	**1,315**

*) The 'Elimination' column includes eliminations of intragroup relations.

**) Impairment includes losses from impairment of property, plant and equipment, investment property, assets held for sale and receivables, write-off of inventories to the net realizable value.

(CZK million)

2018	Passenger transportation	Freight transportation	Property management	Total of reportable segments	Others	Elimination *)	Total
Revenue							
Revenue from passenger transportation	8,851	-	-	8,851	-	(13)	8,838
Revenue from freight transport	-	11,869	-	11,869	-	-	11,869
Revenue from the orderers	14,299	-	-	14,299	-	-	14,299
Revenue from the sale of products and other services	359	1,207	384	1,950	5,329	(3,188)	4,091
	23,509	**13,076**	**384**	**36,969**	**5,329**	**(3,201)**	**39,097**
out of which revenues from external customers outside the Group:							
Revenue from passenger transportation	8,838	-	-	8,838	-	-	8,838
Revenue from freight transport	-	11,869	-	11,869	-	-	11,869
Revenue from the orderers	14,299	-	-	14,299	-	-	14,299
Revenue from the sale of products and other services	125	1,145	346	1,616	2,475	-	4,091
	23,262	**13,014**	**346**	**36,622**	**2,475**	**-**	**39,097**
Purchased consumables and services							
Traction costs	(2,451)	(1,367)	-	(3,818)	-	11	(3,807)
Payment for the use of the railway infrastructure	(1,798)	(1,126)	-	(2,924)	-	1	(2,923)
Consumption of material, energy and services	(5,331)	(3,841)	(318)	(9,490)	(3,225)	2,809	(9,906)
	(9,580)	**(6,334)**	**(318)**	**(16,232)**	**(3,225)**	**2,821**	**(16,636)**
Employee benefit costs							
Payroll costs	(6,357)	(3,150)	(129)	(9,636)	(905)	243	(10,298)
Social security and health insurance	(2,135)	(1,046)	(43)	(3,224)	(296)	78	(3,442)
Other social costs and employee benefit costs	(409)	(211)	(6)	(626)	(52)	38	(640)
	(8,901)	**(4,407)**	**(178)**	**(13,486)**	**(1,253)**	**359**	**(14,380)**
Depreciation and amortisation	(4,635)	(1,235)	(85)	(5,955)	(366)	98	(6,223)
Impairment **)	349	(82)	3	270	(112)	(2)	156
Other operating income	250	286	685	1,221	451	(409)	1,263
Other operating expenses	(230)	(285)	(246)	(761)	68	41	(652)
Profit on operating activities	**762**	**1,019**	**245**	**2,026**	**892**	**(293)**	**2,625**
Financial expense	(1,244)	(243)	-	(1,487)	(32)	31	(1,488)
Financial income	252	102	17	371	5	(41)	335
Profit before tax	**(230)**	**878**	**262**	**910**	**865**	**(303)**	**1,472**
Income tax expense	-	(215)	-	(215)	(67)	(5)	(287)
Profit (loss) for the period from continuing operations	**(230)**	**663**	**262**	**695**	**798**	**(308)**	**1,185**
Profit (loss) for the period	**(230)**	**663**	**262**	**695**	**798**	**(308)**	**1,185**

*) The 'Elimination' column includes eliminations of intragroup relations.

**) Impairment includes losses from impairment of property, plant and equipment, investment property, assets held for sale and receivables, write-off of inventories to the net realizable value.

6. Revenue

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

6.1. Breakdown of Revenue

(CZK million)

REVENUE FROM CONTRACTS WITH CUSTOMERS	2019	2018
Revenue from passenger transportation - fare	10,393	8,838
Domestic passenger transportation	7,509	6,223
International passenger transportation	2,884	2,615
Revenue from passenger transportation - payments from public service orderers	14,230	14,299
Payment from the state budget	4,266	4,723
Payment from the regional budget	9,964	9,576
Revenue from freight transportation	11,787	11,869
Revenue from domestic freight transportation	4,217	4,134
Revenue from foreign freight transportation	7,570	7,735
Revenue from freight transportation - Germany	2,385	2,478
Revenue from freight transportation - Slovakia	1,048	1,383
Revenue from freight transportation - Poland	1,095	1,493
Revenue from freight transportation - Austria	886	778
Revenue from freight transportation – other countries	2,156	1,603
Other revenue from freight transportation *)	527	520
Other revenue from domestic freight transportation	352	339
Other revenue from foreign freight transportation	175	181
Other transportation related services	181	175
Sale of other services	2,755	2,660
- Sale of other services recognised over time	2,755	2,660
Sales of telematics services	1,539	1,525
Sales of railway testing services	569	511
Sales of other own services	647	624
Commission for mediation of the purchase of diesel and spare parts	8	5
Commission from ticket sales and other transactions at cash desks	6	5
Total revenue from contacts with customers	**39,887**	**38,371**
RENTAL INCOME		
Rental income	769	726
Total revenue	**40,656**	**39,097**

*) Other revenue from freight transportation include mainly revenues from services performed in railway stations, additional services and siding services.

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

The Group provides transport services in public railway transport for a stated (rectified) price and assures transport services in the specified categories of passenger trains on the railway network of the Czech Republic. The scope of these services and the compensation (revenue of the Group) are specified in contacts between the State and regional authorities. The payment from the ordering party - the state is limited by the volume of financial resources that were determined by the state budget to cover the provable loss in railway passenger transport.

The Czech Republic has aligned its legislation in the area of public transport with the EU requirements by adopting Act no. 194/2010 Coll. Concerning public transport services and amendments of other laws. České dráhy, a.s. arranged public service obligation agreement for the period of ten years and more, and these agreements are governed by the legislation prior to the adoption of the above-mentioned law.

In 2016, the method of state participation in the financing of regional rail transport was clarified. The Government of the Czech Republic adopted a resolution on organisation and financing of regional rail transport after 2019. Under this resolution, the rules for financing regional transport for the period following after expiration of most of the public service obligation contracts were set. This document is essential for the decision of individual orderers regarding regional transport after 2019.

Until 2019, ČD had concluded 16 contracts with the regions for the operation of public rail transport under the public service obligation. Since 2020, there are 38 such contracts concluded with the regions (because contracts with regions are splitted into operation sets or separate operating lines). Most of the original contracts with the regions were concluded for 10 years what gave the ČD certainty of operation. However, since only a general inflation indexation was included in contracts what did not sufficiently cover a significant increase in staff costs, thus most contracts with regions became economically disadvantageous over the time. This issue has been solved in most of the newly concluded contracts with regions, what should lead to a positive impact of new contracts on the ČD performance in 2020.

Although ČD has lost some operational units in regions since 2020, this year's transport performance for regions will be lower by only 1.6% compared to 2019. While in the past, most contracts with regions were concluded for ten years, now the situation in regions is different. In 2020, no contract concluded with regions terminate, but in 2021 two contracts will terminate. Furthermore, the situation is complicated due to so-called options, where it is not clear in advance whether the region will exercise the option to extend the contract or not. However, we can say that by 2029, ČD has contracts with regions for at least 50% of its current transport performance.

Significant transactions with the main customers with state participation are stated in Note 31.7.

6.2. Contract Liabilities and Refund Liabilities

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

(CZK million)

Contract liabilities related to revenue from contracts with customers	31 Dec 2019	31 Dec 2018
Prepaid products – i.e. Kilometric Bank, annual ticket	203	188
Prepayments received	61	71
Revenues from domestic passenger transportation over time	-	1
Contract liabilities from telecommunication services	183	208
Other contract liabilities	44	15
Total contractual liabilities	**491**	**483**

Other contract liabilities include mainly accrued revenue related to ongoing telecommunication projects performed by ČD - Telematika a.s.

(CZK million)

Refund liabilities	31 Dec 2019	31 Dec 2018
Liabilities from rebates and claims	27	44
Other refund liabilities	10	20
Total refund liabilities	**37**	**64**

6.2.1. Revenues Related to Contract Liabilitiesm

(CZK million)

Revenues included in the opening balance of the contract liabilities	2019	2018
Revenue from passenger transportation - fare	174	146
Sale of other services	238	245
Commission from ticket sales and other transactions at cash desks	1	5
Total	**413**	**396**

6.2.2. Remaining Contract Obligations

As of December 31, 2019, the Parent Company has concluded more than 40 contracts with public rail transport orderers (Ministry of Transport and Regions). The validity of these contracts varies from 1 to 15 years individually. According to these contracts, the Company is obliged to provide transport performance to the specified extent. For this service, the Company is entitled to a fixed remuneration which will be recognised by the Company as income. The Group does not disclose the allocated transaction price under the exemption from IFRS 15. Transport revenue is disclosed in Note 6.1.

7. Other Operating Income

(CZK million)

	2019	2018
Gain from disposal of property, plant and equipment and investment property	584	503
Profit from disposal of redundant assets	131	162
Compensations for deficits and damage	138	91
Contractual penalties and default interest	34	52
Dividends received	2	-
Foreign exchange gains - operational	196	150
Release of provisions	100	118
Release of allowance for accounts receivable	67	29
Release of allowance on property, plant and equipment	-	131
Other	228	187
Total other operating income	**1,480**	**1,423**

8. Purchased Consumables and Services

(CZK million)

	2019	2018
Traction costs	(4,153)	(3,807)
Traction fuel (diesel)	(1,622)	(1,652)
Traction electricity	(2,531)	(2,155)
Payment for the use of railway route	(2,824)	(2,923)
Other services, raw materials and consumables used	(9,382)	(9,906)
Consumed material	(1,522)	(1,457)
Consumed other energy	(418)	(395)
Consumed fuel	(73)	(77)
Repairs and maintenance	(812)	(932)
Travel costs	(207)	(206)
Telecommunication, data and postal services	(287)	(279)
Other rental costs	(97)	(414)
Lease of rail vehicle	(578)	(1,236)
Transportation charges	(1,835)	(1,503)
Rail replacement bus service	(165)	(144)
Services of dining and sleeping carriages	(183)	(160)
Services associated with the use of buildings	(277)	(273)
Operational cleaning of rail venicles	(374)	(347)
Border area services	(685)	(664)
Advertising and promotion costs	(189)	(253)
Commission for the sale fares paid to other carriers, resellers	(151)	(146)
Infrastructure capacity allocation	(82)	(83)
Operation, maintenance and other IT-related services	(110)	(140)
Performances of fire brigade service	(4)	(36)
Services in the field of ecology	(43)	(40)
Other services	(1,290)	(1,121)
Total services, raw materials and consumables used	**(16,359)**	**(16,636)**

Other services include mainly training costs, commission costs for representation abroad, preventive health care, consulting, expert opinions and other services.

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

(CZK million)

	2019	2018
Compulsory audit of annual financial statements	(4)	(5)
Economic and organisational advisory	-	(8)
Tax advisory	-	(1)
Other non-audit services	(11)	(4)
Total	**(15)**	**(18)**

9. Employee Benefit Costs

(CZK million)

	2019	2018
Payroll costs	(10,929)	(10,164)
Severance pay	(94)	(53)
Statutory social security and health insurance	(1,078)	(1,022)
Contributions to pension schemes	(2,559)	(2,420)
Other social costs	(487)	(584)
Other employee benefit costs	(141)	(137)
Total employee benefit costs	**(15,288)**	**(14,380)**

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

10. Depreciation and Amortisation

(CZK million)

	2019	2018
Depreciation of property, plant and equipment	(6,090)	(5,946)
Depreciation of investment property	(24)	(23)
Depreciation of right-of-use assets	(855)	-
Amortisation of intangible assets	(222)	(254)
Total depreciation and amortisation	**(7,191)**	**(6,223)**

11. Other Operating Expenses

(CZK million)

	2019	2018
Impairment losses on property, plant and equipment, investment property and assets held for sale	(30)	-
Write-off of inventories to net realizable value	-	(4)
Costs of contractual fines and default interest	(43)	(44)
Taxes and fees	(23)	(23)
Insurance	(177)	(170)
Foreign exchange losses - operational	(182)	(138)
Shortages and damages	(40)	(42)
Expenses for uniforms and personal protective equipment	(42)	(42)
Lump sum payments to employees	(17)	(18)
Other operating expenses	(207)	(175)
Total other operating expenses	**(761)**	**(656)**

Other operating expenses include mainly fines and penalties and expenses related to tax returns from last year. It also includes membership fees, damages, operating exchange differences and insurance costs.

12. Financial Expenses

(CZK million)

	2019	2018
Interest on bank overdrafts and loans	(14)	(3)
Interest on issued bonds	(804)	(851)
Interest on lease liabilities *)	(228)	-
Interest on financial lease liabilities **)	-	(133)
Other interest	(150)	(64)
Less: amounts included in the cost of a qualifying asset	16	8
Unwinding of the discount reserve	(6)	(8)
Foreign exchange losses - financial	(350)	(378)
Bank charges	(11)	(11)
Other financial expenses	(41)	(48)
Total financial expenses	**(1 588)**	**(1 488)**

*) Applies to IFRS 16 application only in the current period

**) Applies only to comparable information under IAS 17

The capitalisation rate of interest costs in 2019 is 2.00% p. a. (2018: 2.80 % p. a.).

13. Financial Income

(CZK million)

	2019	2018
Foreign exchange income – financial	482	284
Received interest	110	30
Other financial income	7	4
Total other financial income	**599**	**318**

14. Income Tax

14.1. Income Tax Recognised in Profit or Loss

(CZK million)

	2019	2018
Tax for the current year recognised in the profit and loss statements	(212)	(162)
Deferred tax recognised in the profit and loss statements	(56)	(123)
Other	(1)	(2)
Total income tax expense related to continuing operations	**(269)**	**(287)**

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

(CZK million)

	2019	2018
Profit (loss) for the period before tax	**1,584**	**1,472**
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected income tax expense	**(301)**	**(280)**
Adjustments:		
Effect of the unrecognised deferred tax asset	34	163
Effect of unused tax losses release	-	(134)
Tax allowance for research and development not included in the accounting for deferred taxes	10	4
Non-deductible expenses – cancellation of provision for the fine from the Office for Protection of Competition	23	38
Tax non-deductible expenses - deficits and damage	(3)	(2)
Tax non-deductible payroll expenses	(34)	(31)
Other tax non-deductible items, net	2	(45)
Income tax recognised in profit or loss	**(269)**	**(287)**

14.2. Income Tax Recognised in Other Comprehensive Income

(CZK million)

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

14.3. Deferred Tax

(CZK million)

	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Derivatives	Other	Total
Balance as at 1 Jan 2018 – recognised	**-**	**(1,320)**	**159**	**(510)**	**22**	**(17)**	**111**	**(1,555)**
- of which liability	-	(1,335)	146	(516)	21	(17)	120	(1,581)
- of which receivable	-	15	13	6	1	-	(9)	26
Deferred tax recognised in profit or loss:	-	(36)	(10)	(72)	-	-	(5)	(123)
- of which current changes	(196)	42	(31)	(102)	5	-	(4)	(286)
*- of which impairment *)*	196	(78)	21	30	(5)	-	(1)	163
Deferred tax recognised in other comprehensive income	-	-	-	-	-	23	-	23
- of which current changes	-	(21)	(3)	-	-	23	2	1
*- of which impairment *)*	-	21	3	-	-	-	(2)	22
Revaluatoin	-	-	-	-	-	-	1	1
Balance as at 31 Dec 2018 – recognised	**-**	**(1,356)**	**149**	**(582)**	**22**	**6**	**107**	**(1,654)**
- of which liability	-	(1,375)	135	(585)	21	6	115	(1,683)
- of which receivable	-	19	14	3	1	-	(8)	29
Impact of IFRS 16	-	-	-	10	-	-	-	10
Balance as at 1 Jan 2019 – recognised	**-**	**(1,356)**	**149**	**(572)**	**22**	**6**	**107**	**(1,644)**
Deferred tax recognised in profit or loss:	-	11	3	(46)	(11)	-	(13)	(56)
- of which current changes	-	(29)	(1)	(65)	(13)	-	18	(90)
*- of which impairment *)*	-	40	4	19	2	-	(31)	34
Deferred tax recognised in other comprehensive income	-	-	-	-	-	(10)	-	(10)
- of which current changes	-	(2)	-	-	-	(10)	(102)	(114)
*- of which impairment *)*	-	2	-	-	-	-	102	104
Revaluation	-	-	-	-	-	-	(20)	(20)
Balance at 31 Dec 2019 – recognised	**-**	**(1,345)**	**152**	**(618)**	**11**	**(4)**	**74**	**(1,730)**
- of which liability	-	(1,352)	142	(618)	11	(4)	73	(1,748)
- of which receivable	-	7	10	-	-	-	1	18

*) Decrease of deferred tax asset recognized in the balance sheet (directly or indirectly as items decreasing deferred tax liabilities) to its recoverable value

Unrecognised deferred tax assets as at 31 December 2019 amounted to CZK 583 million, as at 31 December 2018 amounted to CZK 723 million and as at 1 January 2018 amounted to CZK 908 million.

With regards to the low expected future taxable profit the utilisation of deferred tax assets is uncertain. Therefore, when the calculated net position of the deferred tax as at the balance sheet date results in a deferred tax asset, the Parent Company recognizes this receivable at nil value.

15. Property, Plant and Equipment

(CZK million)

Cost	Balance at 1 Jan 2018	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2018	Impact of IFRS 16	Balance at 1 Jan 2019	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2019
Land	5,761	77	139	(2)	5,697	-	5,697	34	39	(1)	5,691
Constructions	14,531	258	150	47	14,686	-	14,686	219	84	97	14,918
Individual movable assets	128,380	5,893	7,153	173	127,293	(638)	126,655	7,065	6,274	325	127,771
- Machinery, equipment, and furniture and fixtures	4,136	317	83	37	4,407	-	4,407	202	128	63	4,544
*- Vehicles *)*	95,822	2,218	668	(202)	97,170	0	97,170	2,850	1,883	135	98,272
- Vehicles acquired under finance leases	635	20	12	(5)	638	(638)	-	-	-	-	-
- Components	27,666	3,329	6,382	344	24,957	0	24,957	4,002	4,253	127	24,833
- Other	121	9	8	(1)	121	-	121	11	10	-	122
Other assets	148	36	16	-	168	-	168	20	14	11	185
Assets under construction	1,819	1,090	171	(683)	2,055	-	2,055	877	76	(548)	2,308
Prepayments	125	344	247	-	222	-	222	1,024	98	-	1,148
Total	**150,764**	**7,698**	**7,876**	**(465)**	**150,121**	**(638)**	**149,483**	**9,239**	**6,585**	**(116)**	**152,021**

(CZK million)

Accumulated depreciation	Balance at 1 Jan 2018	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2018	Impact of IFRS 16	Balance at 1 Jan 2019	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2019
Constructions	7,718	383	128	(69)	7,904	-	7,904	333	64	(36)	8,137
Individual movable assets	71,074	5,533	6,999	(29)	69,579	(476)	69,103	5,719	6,041	(22)	68,759
- Machinery, equipment, and furniture and fixtures	3,098	202	89	2	3,213	-	3,213	213	127	4	3,303
*- Vehicles *)*	48,601	3,205	793	(52)	50,961	-	50,961	3,126	1,787	(23)	52,277
*- Vehicles acquired under finance leases **)*	458	33	12	(3)	476	(476)	-	-	-	-	-
- Components	18,817	2,082	6,097	24	14,826	-	14,826	2,369	4,118	(3)	13 074
- Other	100	11	8	-	103	-	103	11	9	-	105
Other assets	59	30	20	-	69	-	69	38	13	-	94
Total	**78,851**	**5,946**	**7,147**	**(98)**	**77,552**	**(476)**	**77,076**	**6,090**	**6,118**	**(58)**	**76,990**

(CZK million)

Impairment	Balance at 1 Jan 2018	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2018	Impact of IFRS 16	Balance at 1 Jan 2019	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2019
Land	68	-	1	-	67	-	67	26	-	-	93
Constructions	67	119	8	-	178	-	179	15	-	-	193
Individual movable assets	1,574	312	523	-	1,363	-	1,363	348	367	-	1,344
- Machinery, equipment, and furniture and fixtures	-	-	-	-	-	-	-	-	-	-	-
*- Vehicles *)*	1,574	312	523	-	1,363	-	1,363	348	367	-	1,344
*- Vehicles acquired under finance leases **)*	-	-	-	-	-	-	-	-	-	-	-
Other assets	5	8	5	-	8	-	8	7	8	-	7
Assets under construction	479	6	5	(36)	444	-	443	9	-	-	453
Total	**2,193**	**445**	**542**	**(36)**	**2,060**	**-**	**2,061**	**405**	**375**	**-**	**2,090**

*) Vehicles purchased under leaseback agreements are disclosed within Vehicles. Their net book value is CZK 136,262 million as at 31 December 2019, CZK 198,650 million as at 31 December 2018. Outstanding liability related to these leaseback agreements is disclosed in the Note 26.2. Group's liabilities related to leaseback agreements are pledged by ownership rights for the leased assets. Under IFRS these assets are not classified as financial lease, nevertheless, according to the legal substance of the agreements these assets are leased.
**) Until 31 December 2018, according to IAS 17 the item Vehicles acquired under finance leases was presented in line Vehicles. From 1 January 2019 it has been reclassified according to IFRS 16 to Right-of use assets (see Note 18).

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

(CZK million)

Net book value	Balance at 1 January 2018	Balance at 31 December 2018	Impact of IFRS 16	Balance at 1 January 2019	Balance at 31 December 2019
Land	5,693	5,630	-	5,630	5,598
Constructions	6,746	6,604	-	6,604	6,588
Individual movable assets	55,732	56,351	(162)	56,189	57,668
- Machinery, equipment, and furniture and fixtures	1,038	1,194	-	1,194	1,241
- Vehicles	45,647	44,846	-	44,846	44,651
- Vehicles acquired under finance leases	177	162	(162)	-	-
- Components	8,849	10,131	-	10,131	11,759
- Other	21	18	-	18	17
Other assets	84	91	-	91	84
Assets under construction	1,340	1,611	-	1,611	1,855
Prepayments	125	222	-	222	1,148
Total	**69,720**	**70,509**	**(162)**	**70,347**	**72,941**

For calculation of depreciation following lifetimes were used:

	Number of years
Constructions	20 – 50
Vehicles	
Locomotive	20 – 30
Passenger cars	20 – 30
Freight wagons (without components)	30
Machinery and equipment	8 – 20
Components	2 – 15
Optical fibres	25

Among the most significant additions from 1 January 2018 to 31 December 2019 are the acquisition of railway vehicles for the renewal of the fleet of the Parent Company. Due to the long-term nature of putting these types of asset into operation, significant balances are included in assets under construction. In 2019, the Parent Company provided an advance payment of CZK 1,114 million for the purchasing of new railway rolling stocks and an advance payment of CZK 447 million for the equipment of electric locomotives of ETCS mobile part. In 2018 the, Parent Company did not provide any significant advance payment.

In 2019, the increase in movable tangible assets at ČD Cargo, a.s. was caused mainly by revision repairs (components) of freight vehicles in the amount of CZK 938 million; R and D type of repairs (components) of the traction vehicles in the amount of CZK 619 million. In addition, during the accounting period, the following items were acquired by the ČD Cargo Group: 195 new freight wagons of Sgg(m)rrs series - innowagon (Innofreight technology) in the amount of CZK 555 million, 145 new freight wagons of Eanos series in the amount of CZK 256 million, 79 new tank wagons of Zacns series in the amount of CZK 152 million, 3 traction vehicles of 383 Vectron series in the amount of CZK 277 million, 4 traction vehicles of 744 series and one upgraded traction vehicle of 753 series in the amount of CZK 271 million, wheelset (components) for freight wagons in the amount of CZK 174 million.

In 2018, the Parent Company received a "Promise to provide a subsidy " in the amount of CZK 857 million for the renewal of the fleet for the Pilsen Region. The balance of assets under construction was decreased by this amount as at 31 December 2018.

During 2018, ČD Cargo, a.s., received another part of the subsidy in the amount of CZK 68 million and, in 2019 and 2018, paid a partial advance for the acquisition of the first drive railway vehicles prototypes. The remaining funds should be used to supply prototypes for selected series of locomotives in 2020 and 2021, respectively. For this reason, the remaining part of the received subsidy in the amount of CZK 157 million was recognised as short-term and amount of CZK 47 million as long-term.

15.1. Impairment Loses Recognised in the Reporting Period

Vehicles are predominantly defined by 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 higher of fair value less cost to sall and value in use.

The asset items with the most significant impairment loss are the 680 series tilting trains (Pendolino). Amount of the impairment is CZK 443 million as at 31 December 2019, CZK 471 million as at 31 December 2018 and CZK 573 million as at 31 December 2017. In 2013, the impairment was determined on the basis of an independent expert's assessment reflecting the market value net of the costs to sell. In 2017, the independent expert's assessment did not indicate any decline in the value and since the circumstances have not changed since 2018, there was no change in impairment for 2019 either. Other items with significant impairment are type 380 locomotives. As at 31 December 2019 the impairment loss was CZK 544 million, as at 31 December 2017 CZK 567 million.

Since 2010, in the field of acquisition and modernization in accordance with Regional Operational Programs (ROP) ČD completed in particular regions 19 grant project plans in amount of more than CZK 7.6 billion. As of 31 December 2019, based on finding of audit unit of Ministry of Finance and its quantified correction, the Group increases cost of equipment (vehicles) of CZK 379 million and in the same time the impairment loss is accounted in the amount of CZK 379 million.

Impairment losses are included in Other operating expenses and its reversal in Other operating income in the statement of profit or loss.

15.2. Pledged Assets

As at 31 December 2019, the Group does not have any pledged assets.

As at 31 December 2018, the pledge of the property was granted in the case of CD Cargo Poland for 3 traction vehicles in the amount of CZK 31 million, which were repaid and released from pledge in 2019.

15.3. Unused Immovable Assets

In the Property, plant and equipment class, the Group reports assets of CZK 311 million which are currently not used. These are primarily vacant buildings. The Group anticipates selling these assets in the future, but it has not classified these assets as held for sale, as they have not yet complied with the criteria set out in IFRS 5.

16. Investment Property

The value of investments in real estate:

(CZK million)

	2019	2018
Balance at the beginning of the year	611	666
Additions from subsequent capitalised expenses	11	1
Disposals	(6)	(34)
Disposal annual depreciation	(24)	(23)
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	15	48
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	-	(45)
Impairment	(1)	(2)
Balance at the end of the year	**606**	**611**

(CZK million)

	Balance at 31 December 2019	Balance at 31 December 2018	Balance at 1 January 2018
Cost	1,362	1,313	1,287
Accumulated depreciation and impairment	(756)	(702)	(621)
Net book value	**606**	**611**	**666**

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

The properties are located around the railway route, in train stations and depots of rail vehicles. The Group applies market approach to determine the fair value of its land and income approach to determine the fair value of its buildings.

The first step for the fair value calculation of the buildings is to determining the annual rental income from building by multiplying the area of given property, occupancy of the buildings according to specific types of premises and external annual rent for specific types of premises of the building. In the second step, the fair value of the building is calculated as annual rental income from the building decreased by the costs incurred on the buildings during the year and divided by the capitalisation rate for a given location (yield). Yield is updated annually based on the expert's opinion and is calculated as the sum of net earned revenues (net rent) divided by the sum of sales prices for comparable property. To determine the fair value of real estates as at 31 December 2019, taking into account the type of real estate and its location, yield used was in the range of 6-10%.

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

The fair value estimate as at 31 December 2019, 2018 and 1 January 2018 amounted to CZK 4,795 million, CZK 4,052 million, CZK 4,353 million, respectively. In terms of the method used to determine 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 buildings (see Note 15).

17. Intangible Assets

(CZK million)

Cost	Balance at 1 January 2018	Additions	Disposals	Reclassification	Balance at 31 December 2018	Additions	Disposals	Reclassification	Balance at 31 December 2019
Development costs	2	-	2	-	-	-	-	-	-
Software	2,281	188	85	136	2,520	182	21	56	2,737
Software licences	731	6	-	37	774	12	-	13	799
Other property	3	-	-	-	3	5	-	-	8
Assets under construction	180	168	-	(194)	154	282	-	(222)	214
Advances	3	-	3	-	-	-	-	-	-
Customer contracts	146	-	18	-	128	-	-	-	128
Customer relationship	40	21	-	-	61	-	-	-	61
Know-how	7	-	1	-	6	-	-	-	6
Trademarks	10	-	5	-	5	-	-	-	5
Total	**3,403**	**383**	**114**	**(21)**	**3,651**	**481**	**21**	**(153)**	**3,958**

(CZK million)

Accumulated amortisation	Balance at 1 January 2018	Additions	Disposals	Reclassification	Balance at 31 December 2018	Additions	Disposals	Reclassification	Balance at 31 December 2019
Development costs	2	-	2	-	-	-	-	-	-
Software	1,802	185	76	-	1,911	163	20	-	2,054
Software licences	681	28	-	-	709	18	-	-	727
Other property	1	-	-	-	1	-	-	-	1
Customer contracts	-	26	-	-	26	26	-	-	52
Customer relationship	-	13	-	-	13	13	-	-	26
Know-how	-	1	-	-	1	1	-	-	2
Trademarks	-	1	-	-	1	1	-	-	2
Total	**2,486**	**254**	**78**	**-**	**2,662**	**222**	**20**	**-**	**2,864**

(CZK million)

Net book value	Balance at 1 January 2018	Balance at 31 December 2018	Balance at 31 December 2019
Software	479	609	683
Software licences	50	65	72
Other property	2	2	7
Assets under construction	180	154	214
Advances	3	-	-
Customer contracts	146	102	76
Customer relationship	40	48	35
Know-how	7	5	4
Trademarks	10	4	3
Total	**917**	**989**	**1,094**

(CZK million)

	Balance as at 1 January 2018	Additions	Disposals	Reclassification	Balance as at 31 December 2018	Additions	Disposals	Reclassification	Balance as at 31 December 2019
Goodwill	141	-	-	-	141	-	-	-	141
Total	**141**	**-**	**-**	**-**	**141**	**-**	**-**	**-**	**141**

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

	Number of years
Software	3-10
Software licences	6-10
Customer contracts	5
Customer relationship	5
Know-how	10
Trademarks	10

In 2019, the Parent Company extended the amortisation period of the software from 3 years to 4 years with an impact of CZK 13 million in 2019.

Intangible fixed assets mainly include software used in business activities entitled DISOD, PARIS, APS, In-karta, POP, UNIPOK, IS OPT and KASO.

Intangible assets of ČD Cargo, a.s. include mainly the SAP system and operational business tasks in the framework of the PROBIS project. Furthermore, software is made of the information system supporting the activities of freight carrier, the development of SAP system, Microsoft Enterprise Agreement license, information system OPT, systems to support the agendas of office and other systems used in the Group ČD Cargo, a.s.

Intangible assets of ČD Cargo, a.s. include licences in a total net book value of CZK 29 million as at 31 December 2019. The most significant items are SAP licences in the amount of CZK 10 million, Altworx licence of CZK 7 million and Microsoft EA, Exchange, Sharepoint and Virusfree licence.

In 2019, IS SAP adjustments continued in the amount of 29 million, development of operating information systems in the amount of CZK 42 million, implementation of IFRS standards in the amount of CZK 21 million, development of business systems in the amount of CZK 20 million. The remaining part is other economic or operational tasks.

Software additions in the year 2019 consist mostly of alterations and upgrades of the Company's current systems: SAP projects in the amount of CZK 45 million, dispatching information system under the computerised train calculation project in the amount of CZK 13 million, software Altworx made for tracking and using of the Company's basic capacity (operating staff, traction units and freight wagons) in the amount of CZK 13 million, Transport management system in the amount of CZK 11 million.

18. Right-of-use Assets and Lease Liabilities

The Group leases land, administrative premises, railway station buildings, locomotives, wagons, cars and equipment. Lease contracts are usually concluded for a defined period (3 to 15 years). Part of the contracts is concluded for an indefinite period, see note 4.2.2.

Until 31 December 2018 leases of property, plant and equipment were classified as finance leases or operating leases. As of 1 January 2019, leases are recognised as a right-of use asset and a corresponding liability from the date the Group has the leased asset available for use.

(CZK million)

Gross amount	Balance at 1 Jan 2019	Additions	Disposals	Change in estimates *)	Reclassificatio	Balance at 31 Dec 2019
Land	4	-	-	-	-	4
Constructions	1,393	78	111	49	(12)	1,397
of which buildings at railway stations	286	-	-	38	-	324
of which administrative buildings	1,107	78	111	11	(12)	1,073
Machinery	4	-	-	-	-	4
Equipment	477	128	-	1	-	606
Vehicles	2,587	1,715	1,135	-	(241)	2,926
of which locomotives	805	-	-	-	-	805
of which freight wagons	1,497	1,677	1,099	-	(100)	1,975
Total	**4,465**	**1,921**	**1,246**	**50**	**(253)**	**4,937**

(CZK million)

Accumulated depreciation and impairment	Balance at 1 Jan 2019	Additions	Disposals	Change in estimates *)	Reclassificatio	Balance at 31 Dec 2019
Land	2	1	-	-	-	3
Constructions	211	192	2	-	(12)	389
of which buildings at railway stations	91	39	-	-	-	130
of which administrative buildings	120	153	2	-	(12)	259
Machinery	-	1	-	-	-	1
Equipment	2	77	-	-	-	79
Vehicles	274	584	213	-	(144)	501
of which locomotives	91	81	-	-	-	172
of which freight wagons	100	466	196	-	(100)	270
Total	**489**	**855**	**215**	**-**	**(156)**	**973**

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

(CZK million)

Net book value	Balance at 1 Jan 2019	Balance at 31 Dec 2019
Land	2	1
Constructions	1,182	1,008
of which buildings at railway stations	195	194
of which administrative buildings	987	814
Machinery	4	3
Equipment	475	527
Vehicles	2,313	2,425
of which locomotives	714	633
of which freight wagons	1,397	1,705
Total	**3,976**	**3,964**

The item right-of-use according to IFRS 16 also includes a lease agreement for the lease of storage space in the Lovosice logistics centre. Since this contract generates a loss of approximately CZK 59 million per year for ČD Cargo, a.s., a provision for onerous contracts was created for this lease contract (see Note 27) in the past. As a result of the implementation of IFRS 16, this lease was reclassified as a right-of-use asset. As at 1 January 2019, the value of this right-of-use was calculated at CZK 558 million and impaired by an allowance of CZK 409 million. Calculated value as at 1 January 2019 of CZK 149 million was disclosed in the table above in "Gross amount". As at 31 December 2019 right-of-use asset is disclosed in gross book value amount of CZK 67 million.

In 2019, a contract for the re-lease of part of the logistics centre in Lovosice was concluded. As at 31 December 2019, in accordance with IFRS 16 ČD Cargo, a.s. has reported receivables from this contract in the amount of CZK 63 million as receivables from finance leases. See note 23.1. At the same time, part of the asset was derecognised from the right-of-use assets with the corresponding portion of the leased warehouse space in the amount of CZK 58 million. The difference between the value of the finance lease receivable and the right-of-use asset in total amount of CZK 5 million was recognised as revenue in the current period.

The impairment amount of the above right-of-use asset is determined by a reasonable estimate of the estimated net future contractual obligation. Value is the difference between discounted net expected revenue and discounted expected expenditure.

The Group recognised the lease liability as follows:

(CZK million)

	Balance as at 1 Jan 2019	Balance as at 31 Dec 2019
Short-term lease liabilities	853	836
Long-term lease liabilities	3,553	3,593
Total lease liabilities	**4,406**	**4,429**

The amounts recognised in the income statement:

(CZK million)

	Balance as at 31 Dec 2019
Depreciation of right-of-use assets	(855)
Interest expense on lease liabilities	(228)
Expense related to short-term leases	(138)
Expense related to the leasing of low value assets	(8)
Expense related to variable lease payments not included in the measurement of the lease obligation	(20)
Return from the sublease of right-of-use assets	3

Costs relating to short-term leases and low-value assets' leases, that are not included in the above short-term lease liabilities, are included in the profit and loss statement in line Services, raw materials and consumables used.

Total cash expenses related to leasing amounted to CZK 2,392 million in 2019.

The Group is not exposed to any significant liquidity risk with respect to lease obligations. Liabilities are monitored within the Treasury section. All lease payables are denominated in CZK.

19. Subsidiaries

19.1. Details on Co-owned Subsidiaries with 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 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
ČD – Telematika a.s.	29.04 %	29.04 %	16	17	577	573

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

(CZK million)

ČD – Telematika a.s.	31 December 2019	31 December 2018
Fixed assets	1,801	1,467
Current assets	1,953	1,277
Long-term payables	499	105
Short-term payables	1,267	665
Total of equity	1,988	1,974
Equity attributable to owners of the Group	1,411	1,401
Non-controlling interests	577	573

(CZK million)

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Income	1,705	1,678
Expenses	(1,651)	(1,620)
Profit for the period	**54**	**58**
Profit attributable to owners of the Group	38	41
Profit attributable to non-controlling interests	-	17
Total profit	**38**	**58**
Total comprehensive income attributable to owners of the Group	16	41
Total comprehensive income attributable to non-controlling interests	-	17
Total comprehensive income	**16**	**58**
Net cash flows from operating activities	572	192
Net cash flows from investments activities	(63)	(99)
Net cash flows from financing	(74)	(53)
Total cash flow	**435**	**40**

20. Investments in Joint Ventures and Associates

(CZK million)

Entity		Value of investment at 31 Dec 2019	Ownership percentage at 31 Dec 2019	Value of investment at 31 Dec 2018	Ownership percentage at 31 Dec 2018
RAILLEX, a.s.	Associate	11	50%	9	50%
BOHEMIAKOMBI, spol. s r.o.	Associate	-	30%	-	30%
Ostravská dopravní společnost, a.s.	Associate	11	50%	23	50%
Ostravská dopravní společnost - Cargo, a.s.	Associate	32	20%	28	20%
JLV, a.s.	Associate	142	38.79%	138	38.79%
Masaryk Station Development, a.s.	Associate	3	34%	2	34%
Total – associates		**199**		**200**	
Smíchov Station Development, a.s.	Joint venture	-	51%	-	51%
Žižkov Station Development, a.s.	Joint venture	-	51%	-	51%
Total – joint ventures		**-**		**-**	
Total – investments in joint ventures and associates		**199**		**200**	

Summary of Financial Information on Associates:

(CZK million)

	31 Dec 2019	31 Dec 2018
Total assets	902	968
Of which: long-term assets	379	370
short-term assets	523	598
Total liabilities	316	399
Of which: long-term liabilities	64	77
short-term liabilities	252	322
Net assets	586	569
Share of the Group in associates' net assets	**199**	**200**

(CZK million)

	2019	2018
Total income	1,670	1,893
Profit for the period	64	60
Share of the Group in associates' profit for the period	**22**	**19**

Summary of Financial Information on Joint Ventures:

(CZK million)

	31 Dec 2019	31 Dec 2018
Total assets	14	125
Of which: long-term assets	8	121
short-term assets	6	4
Total liabilities	16	155
Of which: long-term liabilities	-	141
short-term liabilities	16	14
Net assets	(2)	(30)
The Group's share of net assets	**(1)**	**(15)**

(CZK million)

	2019	2018
Total income	163	7
Profit (loss) for the period	28	(4)
The Group's share of profit (loss)	**14**	**(2)**

21. Inventories

(CZK million)

	31 Dec 2019	31 Dec 2018
Spare parts for machinery and equipment	204	245
Spare parts for rail vehicles and locomotives	1,524	1,197
Fuels, lubricants and other oil products	36	40
Work clothes, work shoes, protective devices	113	112
Other	139	156
Total cost	**2,016**	**1,750**
Write-down of inventories to their net realisable value *)	(93)	(93)
Total net book value	**1,923**	**1,657**

*) Amount of the inventories for which the allowance was accounted for is CZK 188 million as at 31 December 2019 and CZK 362 million as at 31 December 2018.

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

22. Trade Receivables

Trade receivables consist of following items:

(CZK million)

	31 Dec 2019	31 Dec 2018
Trade receivables – long-term	-	1
Trade receivables – short-term	3,340	3,611
Total	**3,340**	**3,612**

22.1. Aging of Trade Receivables

(CZK million)

			Past due date (days)						
	Category	Not due	1 - 30 days	31 – 90	91- 180	181 -365	365 and more	Total due date	Total
31 Dec 2019	Gross	3,182	187	38	8	37	169	439	3,621
	Allowances	(65)	(2)	(9)	(5)	(31)	(169)	(216)	(281)
	Net	**3,117**	**185**	**29**	**3**	**6**	**-**	**223**	**3,340**
31 Dec 2018	Gross	3,422	231	64	9	10	201	515	3,937
	Allowances	(87)	(13)	(15)	(4)	(6)	(200)	(238)	(325)
	Net	**3,335**	**218**	**49**	**5**	**4**	**1**	**277**	**3,612**

Information on receivables are disclosed in Note 36.8. Credit Risk Management.

23. Other Financial Assets

(CZK million)

	31 Dec 2019	31 Dec 2018
Financial assets in fair value through other comprehensive income	458	446
Receivables from finance leases	131	79
Hedging derivatives *)	97	14
Restricted cash	160	94
Total non-current financial assets	**846**	**633**
Receivables from finance leases	11	-
Hedging derivatives *)	18	149
Claims for damages and losses	57	33
Restricted cash	317	445
Other	34	173
Total current financial assets	**437**	**800**
Total	**1,283**	**1,433**

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

In the item Other financial assets, the prepaid purchase price of leased assets was accounted for in CD Cargo Poland, Sp. z o.o. (deposit was paid in installments). Balance of the deposit as at 31 December 2018 in the current Other financial assets was in the amount of CZK 153 million. In 2019 the leaseback of 46 locomotives was terminated.

Movement in allowances for other financial assets:

(CZK million)

	2019	2018
Allowances as at 1 January	**41**	**59**
Creation of allowances – other financial assets	4	-
Use of allowances – other financial assets	(21)	(18)
Allowances as at 31 December	**24**	**41**

23.1. Receivables from Finance Leases

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

In 2019 the company ČD Cargo, a.s. leased storage space as a finance lease, recognized as a right-of-use asset.

Disclosure Required by IFRS 16:

Analysis of receivables' maturity from leasing payments:

(CZK million)

	31 Dec 2019
1st year	30
2nd year	30
3rd year	30
4th year	30
5th year	30
Over 5 years	415
Undiscounted leasing payments	**565**
Less unrealised financial income	(423)
Present value of lease payments receivable	**142**
Impairment allowance	-
Net investment in leasing	**142**
In the statement of financial position as:	
Other financial assets short-term	11
Other financial assets long-term	131
Total	**142**

The amounts recognised in the profit or loss:

(CZK million)

	31 Dec 2019
Net income from financial investments	19

The Group uses a simplified approach to measure expected credit losses in accordance with IFRS 9. This approach uses an allowance for expected losses over the useful life on all finance lease receivables.

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

None of the receivables from finance lease at the end of the reporting period is past due and, considering past experience of the past periods and the future prospects of the lessee's operations, management of the Parent Company considers that no finance lease receivables are impaired.

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

Disclosure Required by IAS 17:

(CZK million)

	Minimum lease payments 31 Dec 2018	Current value of min. lease payments 31 Dec 2018
Less than 1 year	18	-
From 1 to 5 years	77	-
5 years and more	475	79
Total	**570**	**79**
Less unrealised financial income	(491)	-
Current value of minimum lease payments receivables	**79**	**79**
In the statement of financial position as: *Other financial assets long-term*		79
Total		**79**

Present value of minimum lease payments is zero because payments covered just the interests.

24. Other Assets

(CZK million)

	31 Dec 2019	31 Dec 2018
Prepayments	4	4
Other	1	1
Total non-current assets	**5**	**5**
Prepayments	355	164
Tax receivables - VAT	600	830
Tax receivable – other (except for taxes on corporate income)	8	6
Prepaid expenses	181	179
Subsidies	864	1,003
Other	20	24
Total current assets	**2,028**	**2,206**
Total	**2,033**	**2,211**

25. Equity

25.1. Share Capital

The Parent Company's share capital is composed of the investment made by the Czech Republic as the sole shareholder, represented by the Ministry of Transportation of Czech Republic. 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 Ministry of Transportation, and are transferable only subject to the prior consent of the Czech Government. All the shares are fully paid.

25.2. Reserves and Other Funds

(CZK million)

	31 Dec 2019	31 Dec 2018	1 Jan 2018
Share premium	16,440	16,440	16,440
Statutory reserve fund	498	443	380
Cash flow hedging reserve	1,026	493	338
Hedging costs	(215)	(264)	-
Fund from valuation of financial assets at fair value through other comprehensive income	122	110	-
Foreign currency translation reserve	(2)	(1)	2
Other	20	20	40
Total	**17,889**	**17,241**	**17,200**

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

25.2.1. Cash Flow Hedge Reserve

(CZK million)

	2019	2018
Balance at the beginning of the year	**493**	**640**
Revaluation gain / (loss)	571	(119)
Reclassification to profit or loss	(28)	(51)
Total change in the cash flow hedging reserve	**543**	**(170)**
Relating income tax	(10)	23
Balance at the year-end	**1,026**	**493**

The cash-flow hedge 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 operations', 'Services, raw materials and consumables used' and 'Financial expenses'.

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

(CZK million)

Cross-currency interest rate swaps – hedging of bond funding in EUR with fix-rate	**2019**	**2018**
Balance at the beginning of the year	529	549
Change in fair value of hedging derivatives	522	(55)
Reclassification to profit or loss	(49)	35
Balance at the year-end	**1,002**	**529**
Currency forwards and swaps – hedging of future earnings in foreign currencies	**2019**	**2018**
Balance at the beginning of the year	(18)	66
Change in fair value of hedging derivatives	45	(38)
Reclassification to profit or loss	(7)	(66)
Related income tax - change	(7)	20
Balance at the year-end	**13**	**(18)**
Interest rate swaps – hedging of bonds and lease contracts with a variable rate	**2019**	**2018**
Balance at the beginning of the year	(23)	(24)
Interest rate swaps – bonds and lease contracts with a variable rate hedging	-	(11)
Reclassification to profit or loss	2	13
Related income tax – change	-	(1)
Balance at the year-end	**(21)**	**(23)**
Commodity options – oil price hedging	**2019**	**2018**
Balance at the beginning of the year	(15)	-
Change in fair value of hedging derivatives	-	(15)
Reclassification to profit or loss	15	-
Balance at the year-end	**-**	**(15)**
Commodity forwards – securing prices for the purchase of diesel and traction electricity	**2019**	**2018**
Balance at the beginning of the year	20	49
Change in fair value of hedging derivatives	4	-
Settled derivatives are accrued	-	-
Reclassification to profit or loss	11	(33)
Related income tax - change	(3)	4
Balance as at 31 December	**32**	**20**

25.2.2. Hedge Accounting Expenses

Hedge accounting expenses include accumulated gains and losses from changes in fair value excluded from the hedging derivatives related to the currency base margin of cross-currency interest rate swaps and time value of commodity options.

Changes in the fair value of the underlying currency of a financial instrument in respect of a hedged transaction-related item accumulated in the hedge expense fund are reclassified to profit or loss only when the hedged transaction affects profit or loss or is included as an adjustment to the non-financial hedged item. Changes in the fair value of the underlying currency spread of a financial instrument in respect of a hedged item associated with a time period accumulated in the hedge expense fund are amortized to profit or loss over the hedging relationship.

(CZK million)

	31 Dec 2019	31 Dec 2018
Balance at the beginning of the year	(264)	(300)
Hedging expenses	49	36
Balance at the year-end	**(215)**	**(264)**

25.2.3. Foreign Currency Translation Fund

(CZK million)

	31 Dec 2019	31 Dec 2018
Balance at the beginning of the year	(1)	2
Foreign exchange rate gains or losses arising from translation of foreign operations	(1)	(3)
Balance at the year-end	**(2)**	**(1)**

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.

25.2.4. Fund From Measurement of Financial Assets at Fair Value Through Other Comprehensive Income

Fund from the measurement of financial assets at fair value through other comprehensive income includes the accumulated net change in fair value of financial instruments remeasured through other comprehensive income.

(CZK million)

	31 Dec 2019	31 Dec 2018
Balance at the beginning of the year	110	93
Revaluation	12	17
Balance at the year-end	**122**	**110**

26. Loans and Borrowings

(CZK million)

	31 Dec 2019	31 Dec 2018
Liabilities from leases *)	836	-
Liabilities from leaseback *)	601	-
Liabilities from leases and leaseback **)	-	962
Overdraft accounts	61	11
Issued bonds	1,327	8,052
Other received short-term loans and borrowings	22	26
Total short-term	**2,847**	**9,051**
Liabilities from leases *)	3,593	-
Liabilities from leaseback *)	1,417	-
Liabilities from leases and leaseback *)	-	1,613
Issued bonds	33,840	20,748
Other received short-term loans and borrowings	140	57
Total long-term	**38,990**	**22,418**
Total	**41,837**	**31,469**

*) The marked lines refer to IFRS 16 only in the current period

**) The marked lines refer only to comparable data according to IAS 17

Borrowings are initially recognised at fair value less transaction costs. In the following periods borrowings are recognised at amortised cost applying the effective interest rate method. All differences between consideration less transaction costs and the amount of payments are recognised in consolidated statement of profit or loss over the borrowing period.

Portions of long-term loans and borrowings that are repayable in a period shorter than one year from the financial statements date are presented 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 2019 in CZK million	Book value at 31 December 2018 in CZK million
23 July 2012	EUR 300 million	7	Yes	4.125%	-	7,849
5 November 2014	EUR 30 million	10	No	2.875%	761	769
5 November 2014	EUR 150 million	15	No	3.50%	3,805	3,850
3 June 2015	EUR 37.7 million	7	No	1.89%	969	981
3 June 2015	EUR 77.5 million	20	No	3.00%	1,996	2,021
25 May 2016	EUR 400 million	7	Yes	1.875%	10,210	10,319
23 May 2019	EUR 500 million	7	Yes	1.50%	12,634	-
26 November 2015	CZK 1,000 million	5	No	1.40%	999	998
17 June 2016	CZK 500 million	5	No	1.28%	503	503
29 December 2016	CZK 500 million	7	Yes	1.26%	499	499
20 July 2018	CZK 1,000 million	7	Yes	2.55%	1,011	1,011
17 July 2019	CZK 1,000 million	7	No	2.17%	1,008	-
18 November 2019	CZK 770 million	7	Yes	2.09%	772	-
Total					**35,167**	**28,800**
- of which short term					1,327	8,052
- of which long-term					33,840	20,748

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

26.2. Finance Lease Payables

Disclosure Required by IAS 17:

The finance lease applies to railway vehicles, means of transport and equipment for computers and servers.

The value of finance leases is as follows:

(CZK million)

	Minimum lease payments 31 Dec 2018	Present value of minimum lease payments 31 Dec 2018
Less than 1 year	1,060	962
From 1 to 5 years	1,572	1,455
5 years and more	162	158
Total	**2,794**	**2,575**
Less future finance expenses	(219)	
Present value of minimum lease payments	**2,575**	**2,575**
In the statements of financial position as:		
short-term loans		962
long-term loans		1,613
Total		**2,575**

Fair value of finance lease liabilities disclosed in Note 36.3.

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

27. Provisions

(CZK million)

	Balance at 1 Jan 2018	Creation	Use	Release of unused part	Balance at 31 Dec 2018	Amend-ments to IFRS 16	Balance at 1 January 2019	Creation	Use	Release of unused part	Balance at 31 Dec 2019
Provision for discounts and refunds – short term	24	-	-	-	-	-	-	-	-	-	-
Provision for legal disputes	646	25	67	154	450	-	450	43	327	118	48
of which: long-term part	-				-		-				-
Provisions for employees benefits	413	167	155	-	425	-	425	88	89	-	424
of which: long-term part	250				257		257				274
Provisions for business risks	-	5	-	-	5	-	5	15	-	-	20
of which: long-term part	-				-		-				-
Provisions for restructuring	49	-	38	-	11	-	11	4	15	-	-
of which: long-term part	-				-		-				-
Provisions for loss -making transactions	480	-	52	-	428	(409)	19	-	-	-	19
of which: long-term part	409				350	(350)	-				-
Other provisions	130	49	35	5	139	-	139	44	29	19	135
of which: dlong-term part	1				-		-				-
Total	**1,742**	**246**	**347**	**159**	**1,458**	**(409)**	**1,049**	**194**	**460**	**137**	**646**
long-term	660				607		257				274
short-term	1,082				851		792				372

*) The provision for sales and complaints is classified as Refund liabilities as at 1 January 2018 - see Note 29 Other Liabilities and Contract Liabilities

The provision for employee benefits includes the employees right for a financial contribution when they celebrate anniversaries, financial contribution upon retirement and payment of treatment fees including salary refunds during 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 Group recognises a provision for legal disputes according to the anticipated results of all ongoing legal disputes and the relating cash outflows of the Group. Information about the legal claims is disclosed in Note 35.1.

In 2014, the company ČD Cargo, a.s. created a provision for onerous contracts. The amount of the provision was determined by a reasonable estimate in the amount of the estimated net future liability. Value is the difference between discounted net expected income and discounted expected expenditure. The total amount of the provision as at 31 December 2018 was CZK 409 million. Since this onerous contract relates to the lease of storage space, as a result of the implementation of IFRS 16, this contract has been reclassified to right-of-use assets. The estimated loss is, in accordance with IFRS 16, resp. IAS 16 and IAS 36, recognised as impairment of this right-of-use asset.

28. Other Financial Liabilities

(CZK million)

	31 Dec 2019	31 Dec 2018
Finance derivatives *)	35	363
Liability arising from supplier loans	-	5
Other	149	151
Total long-term	**184**	**519**
Finance derivatives *)	212	52
Liability arising from supplier loans	2	39
Other	235	187
Total short-term	**449**	**278**
Total	**633**	**797**

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

Three Agreements on sale and subsequent leasing for 1,141 vehicles were concluded between ČD Cargo, a.s., and company Financial Found, a.s. ČD Cargo has withdrawn from the agreements and in line with contracts paid remaining lease payments of CZK 146 million. As the Financial Found, a.s. has not agreed with the withdrawal, the payments were returned to the account. In order not to perform meaningless transfers of the money forth and back, CDC called Financial Found, a.s. to accept those money. As of today, Financial Found, a.s. has not reacted to the call. Simultaneously, Financial Found, a.s. appealed to Municipal Court for Prague 7 for the determination of the ownership of above mentioned 1,141 vehicles, while it was not decided yet. The company Financial Found, a.s. unsuccessfully tried to rewrite the ownership at the Railway Office. It means that ČD Cargo, a.s is stated as the owner of those vehicles. Due to this, the vehicles were accounted for into assets with all other related transactions (classification of components, depreciation accounting, etc.). The liability arising from this is the main part of the item "Other".

The items Other include, in particular, the liabilities of ČD Cargo, a.s. concerning the judicial conciliation in the dispute over the price of traction energy collected from the company Správa železnic, s.o. and relating to the settlement of the damage due to Správa železnic, s.o.'s traffic closures pursuant to a court judgment.

29. Other Liabilities and Contract Liabilities

(CZK million)

	31 Dec 2019	31 Dec 2018
Other	203	116
Total long-term	**203**	**116**
Advances received	3	4
Payables to employees	1,383	1,309
Liabilities for social security and health insurance	472	470
Tax liabilities - tax withheld from employees	161	151
Tax liabilities - VAT	50	26
Repayment of the subsidies under ROP projects	379	379
Contract liabilities	491	483
Refund liabilities	37	64
Other	268	466
Total short-term	**3,244**	**3,352**
Total	**3,447**	**3,468**

In 2016, ČD Cargo, a.s. received subsidy in the amount of CZK 292 million under the grant project for the equipment of the traction vehicles with the on-board part of ETCS European safety system. During 2018, ČD Cargo, a.s. received another part of the subsidy in the amount of CZK 68 million, and simultaneously in 2018 and 2019 paid part of the subsidy for the acquisition of the first prototypes of traction vehicles. The remaining funds are expected to be used, according to current assumptions, to supply prototypes for selected locomotive series in year 2020 and 2021. Therefore, the remaining part of the received subsidy in the amount of CZK 157 million was reported as short-term and part of CZK 48 million as long-term.

Other current liabilities are represented mainly by rent received in advance, paid security and other liabilities.

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

30. Changes in Liabilities from Financing

Changes in liabilities from financing, namely changes not only from cash flows but also non-monetary changes, are as follows.

(CZK million)

	Liabilities from lease – short-term	Liabilities from lease –long-term	Issued bonds – short-term	Issued bonds – long-terms	Overdraft accounts	Other	Total
Note	26 *)	26 *)	26 *)	26 *)	26 *)	26 *)	26 *)
Liabilities from financing as at 1 January 2018	**907**	**2,387**	**4,355**	**27,254**	**-**	**101**	**35,004**
Cash-flows from financing	**(738)**	**-**	**(4,000)**	**998**	**11**	**(17)**	**(3,746)**
Proceeds from loans, borrowings and bonds	195	-	-	998	11	35	1,239
Repayments of loans, borrowings and bonds	(933)	-	(4,000)	-	-	(52)	(4,985)
Non-monetary flows:							
Consequences of changes in exchange rates	-	-	8	185	-	-	193
Reclassification **)	793	(793)	7,718	(7,718)	-	-	-
Other non-monetary movements	-	19	(29)	29	-	(1)	18
Liabilities from financing as at 31 December 2018	**962**	**1,613**	**8,052**	**20,748**	**11**	**83**	**31,469**
IFRS 16 implementation	807	3,494	-	-	-	-	4,301
Liabilities from financing as at 1 January 2019	**1,769**	**5,107**	**8,052**	**20,748**	**11**	**83**	**35,770**
Cash-flows from financing	**(1,997)**	**527**	**(7,644)**	**14,403**	**50**	**77**	**5,416**
Proceeds from loans and borrowings	-	527	-	14,403	50	105	15,085
Repayments of loans and borrowings	-	-	(7,644)	-	-	(28)	(7,672)
Reimbursement of lease payments	(1,997)	-	-	-	-	-	(1,997)
Non-monetary flows:							
Consequences of changes in exchange rates	-	-	(81)	(337)	-	-	(418)
Reclassification **)	1,684	(1,684)	1,000	(1,000)	-	-	-
Other non-monetary movements	(19)	1,060	-	26	-	2	1,069
Liabilities from financing as at 31 December 2019	**1,437**	**5,010**	**1,327**	**33,840**	**61**	**162**	**41,837**

*) Columns Liabilities from lease refer to the lines 'Liabilities from lease' and 'Liabilities from leaseback' under Note 26.

**) Loans and borrowings classified in the previous period as long-term, which became short-term in the period under review.

31. Related Party Transactions

Relations between the Group and entities stated in Notes 31.1. – 31.5. are described in Note 1.3.

31.1. Loans to Related Parties

The Group provided no loans to related parties as of 31 December 2019, 31 December 2018 and 1 January 2018.

31.2. Sales to Related Parties

(CZK million)

2019	Sale of services	Other income	Total
JLV, a.s.	2	-	2
RAILLEX, a.s.	27	-	27
BOHEMIAKOMBI, spol. s r.o.	13	-	13
Ostravská dopravní společnost, a.s.	53	-	53
Ostravská dopravní společnost - Cargo, a.s.	24	2	26
Total	**119**	**2**	**121**

(CZK million)

2018	Sale of services	Other income	Total
JLV, a.s.	1	1	2
RAILLEX, a.s.	26	-	26
BOHEMIAKOMBI, spol. s r.o.	5	-	5
Ostravská dopravní společnost, a.s.	54	-	54
Ostravská dopravní společnost - Cargo, a.s.	24	-	24
Total	**110**	**1**	**111**

31.3. Purchases from Related Parties

(CZK million)

2019	Services	Total
JLV, a.s.	205	205
RAILLEX, a.s.	9	9
Ostravská dopravní společnost - Cargo, a.s.	65	65
Total	**279**	**279**

(CZK million)

2018	Services	Total
JLV, a.s.	161	161
RAILLEX, a.s.	9	9
Ostravská dopravní společnost, a.s.	65	65
Total	**235**	**235**

31.4. Purchases and Sales of Intangible and Tangible Fixed Assets with Related Parties

(CZK million)

Sales	Tangible fixed assets 2019	Tangible fixed assets 2018
JLV, a.s.	-	9
Total	**-**	**9**

31.5. Unsettled Balances at the End of the Period with Related Parties

(CZK million)

31 Dec 2019	Receivables	Payables
JLV, a.s.	-	63
RAILLEX, a.s.	3	-
BOHEMIAKOMBI, spol. s r.o.	1	-
Ostravská dopravní společnost, a.s.	15	-
Ostravská dopravní společnost - Cargo, a.s.	3	11
Total	**22**	**74**

(CZK million)

31 Dec 2018	Receivables	Payables
JLV, a.s.	-	47
RAILLEX, a.s.	2	1
Ostravská dopravní společnost, a.s.	17	-
Ostravská dopravní společnost - Cargo, a.s.	4	12
Total	**23**	**60**

Unsettled balances are not secured and will be settled by bank transfer or in the form of netting. No warranties were granted or accepted. In the current and previous accounting periods no costs were incurred in connection to doubtful receivables from related parties.

31.6. Key Management Members Compensation

Key management of the Group includes management of the Parent Company.

The following employee benefits were paid to key management members during 2019:

(CZK million)

	Board of Directors	Supervisory Board	Steering Committee
Remuneration of members of statutory bodies	94	22	-
Other short-term employee benefits	23	8	-
Total	**117**	**30**	**-**
Number of key management members	**41**	**74**	**7**

During the year 2018, these employee benefits were paid:

(CZK million)

	Board of Directors	Supervisory Board	Steering Committee
Remuneration of members of statutory bodies	65	18	-
Other short-term employee benefits	48	13	-
Total	**113**	**31**	**-**
Number of key management members	**42**	**74**	**7**

The Group's management had the possibility to use benefit-in-kind remuneration in the form of the use of Company cars for private purposes.

31.7. Relationships with Companies Owned by the State

The Group České dráhy is fully owned and controlled by the State of the Czech Republic. Accordingly, as allowed by IAS 24 Related Party Disclosures, the Group 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 orderers in the public service obligation (regions and the Ministry of Transport), the state organisation SŽ and ČEZ Group.

(CZK million)

Revenues and compensation	Counterparty	2019	2018
Income from rental property	SŽ	22	21
Payment for substitute bus service	SŽ	883	831
Payments from public service orderers - payments from the state budget	state - MD	4,266	4,723
Compensation of 75% discount fares	state - MD	2,329	732
Payment from public service orderers - payment from the regional budgets	regions	9,964	9,576
Revenues - telecommunication services	SŽ	623	644
Revenues from freight transportation	ČEZ	256	241
Operation and maintenance of SW	SŽ	103	54
Revenues from the sale of employee holidays	SŽ	55	53

(CZK million)

Expense	Counterparty	2019	2018
Use of railway route and allocated capacity of the railway - passenger transport	SŽ	1,868	1,845
Use of railway route and allocated capacity of the railway - freight transport	SŽ	909	1,002
Consumption of electric traction energy - passenger transport	SŽ	1,663	641
Consumption of electric traction energy - passenger transport	ČEZ	-	615
Consumption of electric traction energy - freight transport	SŽ	778	-
Telecommunication services	SŽ	50	44
Real Estate rental	SŽ	48	48

(CZK million)

Receivables	Counterparty	31 Dec 2019	31 Dec 2018
Payment for replacement bus service	SŽ	75	122
Public service obligation	state - MD	1	-
Compensation of 75% discount fares	state - MD	179	169
Public service obligation	regions	210	24
Telecommunications services	SŽ	172	210
Advances provided	SŽ	66	5
Revenues from freight transportation	ČEZ	18	40

(CZK million)

Liabilities	Counterparty	31 Dec 2019	31 Dec 2018
Use of railway route and allocated capacity of the railway – passenger transport	SŽ	418	418
Use of railway route and allocated capacity of the railway – freight transport	SŽ	182	226
Court settlement	SŽ	26	89
Telecommunication services	SŽ	34	29
Consumption of electric traction energy – passenger transport	SŽ	72	141
Consumption of electric traction energy – passenger transport	ČEZ	-	225
Consumption of electric traction energy – freight transport	SŽ	77	-

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

32. Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position are measured at amortised cost and are tested for impairment according to IFRS 9. The Group considers estimated impairment of cash and cash equivalents immaterial due to high quality credit-ratings of cooperating banks confirmed by the external investment rating.

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

(CZK million)

	31 Dec 2019	31 Dec 2018
Cash on hand and cash in transit	69	87
Cash at bank *)	5,969	3,251
Depository promissory notes *)	2,398	100
Total **)	**8,436**	**3,438**

*) The Group's parties are banks with high credit ratings (the investment grade is required), with which the Group cooperates on the basis of long-term and stable relationships.

**) According to IFRS 9, impairment losses on cash and cash equivalents were considered immaterial by the Group.

33. Contracts For Operating Lease

33.1. The Group as a Lessee

Disclosure required under IAS 17:

Assets held under operating lease included a significant number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognised in expenses amounted to CZK 267 million in 2018.

The Group's payments presented among expenses arising from the leasing of railway wagons on the basis of an agreement on the use of railway wagons in international traffic were CZK 635 million in 2018. Other payments for operating leases of railway wagons in 2018 were CZK 601 million.

In 2018, the Group as a lessee paid CZK 84 million for the lease of buildings and land in the Logistics Centre in Lovosice.

33.2. The Group as a Lessor

Disclosure required under IFRS 16:

Operating lease in which the Group acts as a lessor relate to investment property and movable assets held by the Group with various lease periods.

Maturity analysis of non-cancellable operating lease contracts:

(CZK million)

	31 Dec 2019
1st year	45
2nd year	46
3rd year	46
4th year	47
5th year	47
Over 5 years	146
Total	**377**

In 2019, income from operating leases recognised in profit or loss amounted to CZK 769 million (out of which the income from investment property was of CZK 260 million).

Direct operating expenses related to investment properties were of CZK 109 million in 2019.

Disclosure required under IAS 17:

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

Revenues generated by the Group in 2018 from investment property under operating leases amounted to CZK 247 million.

Direct operating expenses related to investment property in 2018 amounted to CZK 103 million.

Operating leases of movable assets amounted to CZK 491 million in 2018.

Future minimal lease payments from irrevocable operating leasing contracts as at 31 December 2018:

(CZK million)

	31 Dec 2018
1st year	36
2nd year	36
3rd year	36
4th year	36
5th year	36
Over 5 years	144
Total	**324**

34. Contractual Obligations Relating to Expenses

As of the consolidated balance sheet date, the Group concluded contracts for the purchase of property, plant and equipment in the amount of CZK 17,798 million.

(CZK million)

	31 Dec 2019
Deliveries agreed for 2020	3,683
Deliveries agreed for the following years	10,303
As at 31 Dec 2019 was paid	3,812
Total	**17,798**

A substantial part of the capital expenditure commitment (CZK 14,036 million) comprises investments in railway vehicles.

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 2019 was CHF 20.8 million (CZK 487 million as at 31 December 2019). 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.

The aggregate costs of clean-ups were CZK 23 million in 2019 and CZK 24 million in 2018. The Parent Company is not aware of any environmental burdens that would exceed legislative limits and represent harm to human health or the property of third parties. The provisions for clean-ups of other environmental burdens are not recognised as the České dráhy is unable to estimate the scope of these burdens and its potential involvement in their removal. The Parent Company has not prepared an overall strategy and clean-up plan according to which it could recognise the provisions.

The company ČD Cargo, a.s. records contingent assets arising from the penalty for trading partners in the amount of CZK 103 million. Penalty refers to delayed deliveries of repaired freight wagons, that have not been completed according to contractual terms. As business partners dispute this penalty, ČD Cargo, a.s. in accordance with IFRS 15, records these assets as contingent and does not recognised them in the financial statements as at 31 December 2019.

35.1. Legal Disputes

35.1.1. Railway Freight Transportation Market

The Office for the Protection of Competition (OPC) imposed a fine on ČD, a.s. for abusing its position on the market in the area of freight transportation of significant amounts of natural resources and raw materials of approximately CZK 250 million. Based on ČD's defence, the case was passed to the Administrative Court. The Supreme Administrative Court dismissed the OPC's appeal in December 2017. The case is finally resolved at the level of the administrative courts in favour of ČD and returned to the OPC, back to the first instance. In June 2018, the OPC issued a new first instance decision, which significantly reduced the scope of sanctioned proceedings against ČD and imposed a significantly lower fine of approximately CZK 15.6 million. In July 2018, ČD appealed against this decision. The chairman of OPC dismissed the appeal and the fine in amount of approximately CZK 15.6 million became final. ČD disagreed with the mentioned fine and has appealed against it. However, due to the fact that the decision was final and apparently, the court would not grant the suspensive effect due to amount of the fine, the fine was paid within the due date. If the administrative court accepts the appeal, the amount will be recovered.

35.1.2. Proceedings in the Matter of Alleged Abuse of a Dominant Position on the Prague – Ostrava Line

In January 2012, the OPC initiated proceedings against ČD regarding the alleged abuse of ČD's dominant position on the Prague – Ostrava line in the form of inadequately low (predatory) prices in response to the entry of a new competitive rail carrier. In November 2016, in reference to this case the formal investigation was initiated by the European Commission (‚EC'). Following the initiation of proceedings by the EC, the OPC interrupted the proceedings it conducted. The matter has not yet been decided by the EC, the proceedings are pending. ČD also filed an action with the General Court of the EU against the conduct of a local investigation by the EC at ČD headquarters. The General Court partially upheld the application (i.e. it decided that the local investigation was partially ordered unlawfully), ČD appealed against the decision. ČD's appeal was dismissed. However, it is only a procedural decision on the legality of its own control, and not a decision on whether ČD committed a defective conduct or not, which the court did not deal with at all.

35.1.3. Legal Action by LEO Express against ČD, a.s. for the Compensation of Damage in the Amount of CZK 434 million

In July 2014, LEO Express filed a legal action for compensation of damage amounting to approximately CZK 419 million with accessories which was allegedly caused to LEO Express by ČD and its pricing policy. The first-instance court rejected LEO Express's claim. LEO Express partially withdrew the legal action, against which ČD applied the legal remedy, but the court accepted the partial withdrawal, while Leo Express appealed against the decision of the Court of First Instance of dismissing the application to the extent of which there was no withdrawal. At the end of December 2016, Leo Express filed a new legal action against ČD for the approximate amount of CZK 434 million with accessories and for a similar reason. The second legal action mostly overlaps part of the legal action which was withdrawn by Leo Express after the failure in the first instance in the Municipal Court in Prague. In March 2018, the High Court in Prague cancelled the judgment dismissing the first LEO Express claim for damages and returned the case to the Municipal Court in Prague for further proceedings. Both above-mentioned proceedings (the first action, LEO Express claims, after partial withdrawal, payment of approximately CZK 34 million and the second action for payment of approximately CZK 434 million) are now being handled before the Municipal Court in Prague as a court of first instance.

35.1.4. RegioJet Legal Action for the Return of Allegedly Prohibited Public Support (the defendants being ČD, a.s., SŽ, 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 SŽ in 2008 for CZK 12 billion, were allegedly overstated by this amount. On 6 February 2019, the Court of First Instance dismissed the RegioJet legal action in its entirety. RegioJet appealed to the High Court against the decision of the Court of First Instance. České dráhy, a.s. appeal in respect of proceedings costs.

35.1.5. 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 damages dated 10 April 2015 in which it seeks payment of about CZK 717 million. The alleged damages were caused by ČD's sanction activities in operating the Prague – Ostrava line, involving the application of dumping prices. ČD refused to pay for the damages. RegioJet filed a legal action seeking the payment of compensation of approximately CZK 717 million with accrued interest and charges that resulted in legal proceedings being initiated in the matter. During the course of a judicial proceeding in the first instance, the trial was interrupted until the European Commission's decision on the Falcon case (investigating whether ČD applied the dumping prices on the Prague – Ostrava line).

35.1.6. Legal Action by Grandi Stazioni Česká republika, s.r.o. against SŽ and ČD for the Transfer of Prague Main Railway Station to SŽ

The company Grandi Stazioni Česká republika, s.r.o. (GS) filed three legal actions against the state organisation Railway Infrastructure Administration (SŽ) and against ČD. GS is seeking payment of compensation of CZK 777 million, increased by a fine for delayed payment and default interest from SŽ or from ČD, depending on the court decision on the ownership of Prague Main Railway Station – Praha hlavní nádraží (Fanta's building and passenger terminal). SŽ and ČD agree that the owner of Prague Main Station is SŽ, so that ČD should not be a party in the payment dispute. This was confirmed by the District Court for Prague 1, which dismissed the action on 5 April 2019, and the Municipal Court in Prague which finally upheld the negative decision against ČD by a judgment of 3 December 2019.

In the matter of determining the ownership of Fanta's building, GS's action was dismissed on 27 September 2017, which was then upheld by the Municipal Court in Prague (23 October 2018) and the Supreme Court (27 September 2019).

České dráhy were thus fully successful in both cases. No decision has yet been taken on the ownership of the new terminal building.

35.1.7. Legal Action by Grandi Stazioni Česká republika, s.r.o. against SŽ and ČD Compensation of Pre-Contractual Obligation

In August 2017, Grandi Stazioni Czech Republic, s.r.o. (GS) filed a lawsuit with the District Court in Prague 1, in which it seeks payment of CZK 1,256 million from SŽ and ČD for the payment of compensation of a pre-contractual obligation. The alleged damage was caused by the failure to apply Amendment No.5 to the lease agreement regarding the lease and revitalisation of Prague Main Railway Station - Praha hlavní nádraží.

Action brought by Grandi Stazioni Czech Republic, s.r.o. against SŽ and ČD for damages from pre-contractual liability was rejected by the District Court for Prague 1 on 13 August 2019. GS has the right to appeal against the decision. GS appealed against the decision of the Prague 1 District Court on 2 December 2019.

35.1.8. Proceedings in the Matter of a Possible Abuse of the Dominant Position on the Lines Pardubice - Liberec a Plzeň - Most

In April 2016, the OPC initiated administrative proceedings. The alleged violation of competition rules were charged against 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 presented a price offer which did not cover the costs of service provision on the lines in question. In accordance with the agreement, ČD provided the service on the stated lines until the end of the 2013/2014 timetable.

On 14 December 2017, OPC imposed a fine of CZK 368 million on ČD. ČD filed an appeal against this decision, which was on 15 July 2019 by II. grade decision was rejected and a fine of CZK 275 million was imposed on ČD. An administrative action was brought against the decision. The application for the suspensive effect of the action was not granted and ČD paid the fine. In case that court decided in favour of ČD, the fine paid will be returned to ČD. The decision not to grant suspensory effect is only a decision of a procedural nature and is not a decision as to whether ČD allegedly committed a defective conduct.

35.1.9. 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 operations at ČD 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. Following the audits carried out by the Audit Body, individual Regional Councils of the Cohesion Region issued payment demands in total anticipated amount of CZK 549 million. ČD disagrees with the mentioned conclusions and appealed against them to the Ministry of Finance. In June 2018, on the basis of the Ministry of Finance's decision regarding one case, a CZK 272 million payment was reduced to CZK 68 million. ČD lodged an administrative action against this decision with a suspensive effect. The remaining appeal proceedings before the Ministry of Finance are still ongoing and payment demands are not valid yet. ČD is not obliged to pay them.

For assessment No. 3/2019 for the amount of CZK 5 million, the suspension of payment was allowed within 30 days from the date of delivery of the decision on the appeal against the payment assessment. For the assessment No. 2/2019 for the amount of CZK 36 million, the suspension of was allowed within 30 days from the date of delivery of the decision on the appeal against the payment assessment.

35.1.10. Alleged Cartel Agreement between ČD, ZSSK and OBB for the Sale of the Disposed Railway Vehicles

In June 2016, the European commission („EC") performed a local investigation in the headquarters of ČD for the suspicion of the cartel agreement made for the mutual sale of railway vehicles. EC investigates if ČD, ZSSK and OBB have concluded an agreement on sale of the disposed railway vehicles limitation, for the purposes of restricting the entrance of new carriers to the market. ČD filed a complaint to the Court of Justice of the EU against EC's local investigation in the headquarters of ČD. The court dismissed the complaint against the local investigation and subsequently dismissed the appeal filed by ČD against the dismissal of the complaint. However, this is only a procedural matter, i.e. a decision on the lawfulness of its own control, and not on a decision on whether ČD committed a defective actions, which the court does not deal with at all. ČD denies that it entered into a cartel agreement. Currently, no official proceedings have started against ČD; the case is in the investigation and information gathering phase. No official proceeding has started, however, the investigation is not finished.

35.1.11. Legal Action by CB Station Development, a.s. against ČD

ČD's contractual partner the company CB Station Development, a.s. (hereinafter „CBSD"), by letter from 25 October 2018, asked ČD for information on the sale of a part of the locality in the České Budějovice railway station and proposed to start negotiations on the conclusion of Amendment No. 3 to the Project Agreement. CBSD's contractual partner did not manage to meet the basic condition for fulfilling the concept of the project within 10 years of the project: a change in the land-use plan and the subsequent obtaining of a land--use decision to place buildings on potentially sold land.

On 5 November 2018, the ČD's Board of Directors did not approve the conclusion of a purchase agreement with CBSD for the sale of ČD real estate affected by the Project Agreement. At the same meeting, the Board of Directors of ČD also did not approve the opening of negotiations on the draft amendment No. 3 and thus the continuation of the development project at the České Budějovice railway station. CBSD demands ČD its claims by a contractual penalty of CZK 50 million. Claims for other damages (damages, pre-contractual liability) cannot be excluded.

On 29 January 2020, ČD received for one of its projects an action against ČD from the company Station CB for substitution of a declaration of will, and a request from the District Court in České Budějovice to respond to the complaint. In the second project, ČD received a pre-litigation appeal.

35.1.12. Administrative Proceedings of the Research Institute of Railway, a.s. at OPC

The OPC sees in the concerted action and / or agreement of the parties of the administrative procedure consisting in coordinating participation and / or offers to the tender procurement for the elaboration of a technical and operational study on a complex level in the field of high-speed lines, contract number 492320, contracting authority SŽ, s.o., at least in 2014 and 2015. The amount of the possible sanction is a fine of up to 10% of the net turnover of the entire Group, of which it is a part for the last accounting period for breaching Section 3 (1) of the Act. According to the external AC with which this administrative dispute is resolved, it is possible to expect with a certain degree of probability that if a sanction is imposed, it will not be in this amount.

36. Financial instruments

36.1. Capital Risk Management

Group's main objective in capital risk management is to maintain the rating at the investment grade and maintain a balanced ratio between equity and debt. The Group uses issues of bonds as a principal source of long-term funding.

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

(CZK million)

Net debt		31 December 2019	31 December 2018
Loans and receivables	26	41,837	31,469
Less: Cash and cash equivalent	32	8,436	3,438
Total net debt		**33,401**	**28,031**
Equity			
Share capital	25	20,000	20,000
Reserves and other fund	25	17,889	17,241
Retained earnings / Unallocated loss	25	3,429	2,183
Total Equity		**41,318**	**39,424**
Total Managed equity		**74,719**	**67,455**

The Group does not have any capital requirements set by external entities.

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

36.2. Financial Instruments Classification

(CZK million)

Category of financial assets	Class of financial assets		31 Dec 2019	31 Dec 2018
Financial assets measured at amortised cost	Trade receivables	22	3,340	3,612
	Cash and cash equivalents	32	8,436	3,438
	Receivables from financial leases	23	142	79
	Other	23	568	745
Financial assets measured at fair value through profit or loss	Financial derivatives used in hedge accounting	23	115	163
Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through other comprehensive income	23	458	446
	Total		**13,059**	**8,483**

(CZK million)

Category of financial assets	Class of financial assets		31 Dec 2019	31 Dec 2018
Financial liabilities measured at fair value through other comprehensive income	Financial derivatives used in hedge accounting	28	247	415
Financial liabilities measured at amortised cost	Loans and borrowings	26	41,837	31,469
	Trade payables		5,647	5,886
	Liabilities arising from supplier loans	28	2	44
	Other	28	384	338
	Total		**48,117**	**38,152**

Income from individual categories of financial assets is as follows:

(CZK million)

Category of financial assets	2019	2018	Reported in the statement of profit or loss line
Interest on cash and cash equivalents	90	13	Financial income
Interest on leasing receivables	19	16	Financial income
Dividends from available-for-sale financial assets	20	-	Other operating income
Total	**129**	**29**	

Impairment losses on financial assets are disclosed in Note 22 'Trade receivables' and 36.8. 'Credit risk management'. Other classes of financial assets were not significantly impaired.

36.3. Fair Value of Financial Instruments

Financial Assets Measured at Fair Value

(CZK million)

Financial assets	Level	Fair value as of 31 Dec 2019	Carrying value as of 31 Dec 2019	Fair value as of 31 Dec 2018	Carrying value as of 31 Dec 2018
Measured at fair value		**737**	**737**	**703**	**703**
Derivative instruments in designated hedge accounting relationships	Level 2	115	115	163	163
Financial assets at fair value through other comprehensive income	Level 2	458	458	446	446
Other financial derivatives – long term	Level 2	164	164	94	94
Measured at amortised cost		**142**	**142**	**79**	**79**
Financial lease receivables	Level 2	142	142	79	79
Total		**879**	**879**	**782**	**782**

(CZK million)

Financial liabilities	Level	Fair value as of 31 Dec 2019	Carrying value as of 31 Dec 2019	Fair value as of 31 Dec 2018	Carrying value as of 31 Dec 2018
Derivative instruments in designated hedge accounting relationships	Level 2	247	247	415	415
Financial derivatives held for trading	Level 2			-	-
Measured at amortised cost	Level 2	**37,974**	**37,532**	**32,397**	**31,587**
Liabilities from financial lease and leaseback	Level 2	1,986	2,077	2,656	2,575
Issued bonds	Level 2	12,924	12,322	10,719	10,632
Issued bonds (traded)	Level 1	22,776	22,845	18,808	18,168
Other financial liabilities	Level 2	288	288	214	212
Total		**38,221**	**37,779**	**32,812**	**32,002**

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

During the year 2019 and 2018, there were no transfers of Financial instruments between levels.

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

36.3.1. Valuation Procedures Used to Determine Fair Value

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

- fair values of financial assets and financial liabilities with standard relationships and terms that are traded on an active liquid market are determined on the basis of quoted market prices,
- fair values of other financial assets and financial liabilities (excluding financial derivatives) are determined in accordance with generally accepted valuation models based on discounted cash-flow analysis using the inputs from observable current market operations and market prices for similar instruments, or an appropriate yield curves with the corresponding duration,
- fair values of financial derivatives are calculated using quoted prices. If these prices are not available, linear derivatives are valued using discounted cash flows based on quoted exchange rates, quoted commodity prices, and appropriate yield curves corresponding to the maturity of the contracts. Valuation models for options are used for derivative options.

36.3.2. Fair Value Measurement Recognised in The Statement of Financial Position

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

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

All financial instruments measured at fair value as at 31 December 2019 and 31 December 2018 are included in level 2.

36.4. Financial Risk Management Objectives

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

36.5. Currency Risk Management

The Group undertakes 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 Parent Company hedges anticipated payments in a foreign currency such that the size of the open risk position not exceeding the limit defined for the period by the Risk Management Committee and approved by the Parent Company'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 2019	EUR	USD	Other	Total
Financial assets	2,156	10	38	2,204
Financial liabilities	(32,207)	(27)	(39)	(32,273)
Total	**(30,051)**	**(17)**	**(1)**	**(30,069)**

(CZK million)

31 Dec 2018	EUR	USD	Other	Total
Financial assets	3,454	10	48	3,512
Financial liabilities	(28,686)	(14)	(38)	(28,738)
Total	**(25,232)**	**(4)**	**10**	**(25,226)**

36.5.1. Foreign Currency Sensitivity Analysis

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

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

The following table shows the impact that the strengthening and weakening of the Czech currency by 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)

Strenghtening of Czech crown by 1 to Euro	2019	2018
Translation of items denominated in foreign currencies at the end of the period	1,184	981
Change in the fair value of derivatives at the end of the period	(799)	(555)
Total impact on the profit for the period	**385**	**426**
Change in the fair value of derivatives at the end of the period	(45)	31
Total impact on other comprehensive income	**(45)**	**31**

(CZK million)

Weakening of Czech crown by 1 to Euro	2019	2018
Translation of items denominated in foreign currencies at the end of the period	(1,184)	(981)
Change in the fair value of derivatives at the end of the period	799	555
Total impact on the profit for the period	**(385)**	**(426)**
Change in the fair value of derivatives at the end of the period	45	(31)
Total impact on other comprehensive income	**45**	**(31)**

36.5.2. Currency Forwards

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

At the same time, ČDC does not separate the hedging costs, as it assumes that they are insignificant at the moment. Possible changes are regularly monitored.

As the characteristics of the hedging instrument fully correspond to the characteristics of the hedged item, the management of ČDC expects a high level of efficiency in the hedging.

The nominal value of the hedge is lower than the future expected cash flows in EUR. ČDC never hedged more than 80% of the expected EUR cash flows. A CZK / EUR exchange rate is hedged, which then converts foreign currency earnings (EUR) into the functional currency (CZK). The maximum hedging volumes are set in the Financial Risk Management Strategy of the Group and then:

- For 2020, a maximum of 80% of the underlying asset (estimated EUR balance)
- For 2021, a maximum of 65% of the underlying asset (estimated EUR balance)
- For 2022, a maximum of 50% of the underlying asset (estimated EUR balance)

Monetary hedge is negotiated under market conditions (without premium payments), the fair value of derivatives on the day of the deal is nil. Based on the above-mentioned facts, ČDC assumes that the hedging relation will be effective over its lifetime. The result of the transaction is a predictable (fixed) CZK / EUR exchange rate to be used to sell the positive company's EUR balance.

Potential causes of the possible inefficiencies may arise from a basis spread. Another factor may be a time mismatch. ČDC does not provide specific transactions, but only the volume of the planned balance and a possible significant decline in the counterparty's creditworthiness. ČDC considers the above-mentioned factors to be insignificant or highly improbable and therefore deems the currency hedging to be effective.

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

Sales	Average exchange rate	Foreign currency	Nominal value in CZK million	Fair value in CZK million
31 Dec 2019	26.162	EUR	1,884	20
31 Dec 2018	25.969	EUR	2,493	(37)

Opened foreign currency forwards and options on foreign currency purchase were not closed in 2018. In 2019, three foreign parforwards were closed.

Expected Realisation of Hedged Items by Currency Forwards

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

(CZK million)

31 Dec 2019	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Secure of future sales in EUR	102	203	915	610	-	1,830

(CZK million)

31 Dec 2018	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Secure of future sales in EUR	129	257	1,158	926	-	2,470

36.5.3. Cross-currency Interest Rate Swaps

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

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

- Swaps' nominal values are equal to the nominal values of the volume of the bond.
- Both transactions are contracted in the same currencies.
- Maturity of interest rate swaps payment and interest bond payment are equal.
- Swaps were contracted at market prices (without premium payment), the fair value of derivatives is nil as of the contract date.
- Swaps do not include any arrangements on agreed interest rate restriction (embedded interest rate options)
- The Group does not expect the early bond repayment.

Sources of hedge relationship ineffectiveness are recognised as follows:

- termination of the cross-currency interest rate swap by the counterparty,
- significant decrease in the Group's or the counterparty's creditworthiness.

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

31 Dec 2019	Nominal value (EUR million)	Average collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) CZK million
Up to 1 year	792	2.00%	(20,963)	2.92%	(211)
1 to 5 years	792	2.01%	(20,963)	2.97%	276
Over 5 years	666	1.98%	(17,498)	3.09%	(225)
Total					**(160)**

31 Dec 2018	Nominal value (EUR million)	Average collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) CZK million
Up to 1 year	542	3.45%	(14,412)	3.63%	116
1 to 5 years	292	2.90%	(8,062)	2.99%	157
Over 5 years	195	3.36%	(5,404)	3.52%	(484)
Total					**(211)**

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.

36.5.4. Expected Realisation of Items Hedged by Cross-currency Interest Rate Swaps

Expected cash flows of hedged foreign currency bonds are listed in Note 36.9.1. in tables with remaining contractual maturities of financial liabilities in line-fixed interest rate Instruments.

36.6. Interest Rate Risk Management

The Group manages interest rate risk by maintaining an appropriate mix between fixed and floating rate financing, and, for this purpose, the Group concludes contracts for interest rate swaps so that the amount of the open risk position does not exceed the limit set for the period by the Risk Management Committee and approved by the Board of Directors of the Parent Company.

36.6.1. Interest Rate Sensitivity Analysis

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

- changes in interest expenses from loans and lease with a variable rate
- change in the fair value of concluded financial derivatives

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

(CZK million)

	2019	2018
Interest from loans and lease with variable rate for the period	(11)	(14)
Total impact on the profit for the period	**(11)**	**(14)**
Change in the fair value of derivatives at the end of the period	(52)	19
Total impact on other comprehensive income	**(52)**	**19**

36.6.2. Interest Rate Swap Contracts

In accordance with currency risk management requirements, the Group has entered into interest rate swap contracts which reduces the risk of lease contracts and bonds with variable interest rates.

The hedge ratio is determined at 1:1.
The economic relationship between the hedging instrument and the hedged item is described according to the following parameters:

- Swaps' nominal values are equal to the nominal values of the nominal values of the volume of leaseback loans and variable interest rate bonds
- Both transactions are contracted in the same currencies
- Maturity of interest rate swaps payments and interest leaseback loan and bond payments are equal
- Swaps were contracted at market prices (without premium payment), the fair value of derivatives is nil as of the contract date
- Swaps do not include any arrangements on agreed interest rate restriction (embedded interest rate options)
- The Group does not expect the early leaseback loan or bond repayment

Sources of hedge relationship ineffectiveness are recognised as follows:

- early repayment of the remaining value of the leaseback or bonds,
- termination of the interest rate swap by the counterparty,
- significant decrease in the Group's or the counterparty's creditworthiness.

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

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

31 Dec 2019	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value in CZK million
Up to 1 year	Leases	1.32%	CZK 318 million	3
1 to 5 years	Leases	1.23%	CZK 109 million	1
Total				**4**

31 Dec 2018	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value in CZK million
Up to 1 year	Leases	1.52%	CZK 576 million	0
1 to 5 years	Leases	1.32%	CZK 220 million	3
Total				**3**

36.6.3. Interest Rate Options

In accordance with the interest rate risk management requirements, in 2011, the Group entered into an interest rate hedging agreement for 3 floating-rate leasing transactions. The hedging took the form of a collar, in three individual tranches. The hedging was effective from 2013 to 2019.

	Hedged range	Principal in CZK million	Fair value of assets (liabilities) in CZK million at 31 Dec 2019
Up to 1 year	1.13% - 3.13%	-	-
1 to 5 years	1.13% - 3.13%	-	-
Total			**-**

	Hedged range	Principal in CZK million	Fair value of assets (liabilities) in CZK million at 31 Dec 2018
Up to 1 year	1.13% - 3.13%	177	-
1 to 5 years	1.13% - 3.13%	-	-
Total			**-**

36.6.4. Expected Realisations of Hedged Item Interest Rate Swaps and Interest Rate Options

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

36.7. Commodity Risk Management

The Group is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically oil and electricity, are significant cost items 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 Parent Company's Board of Directors. The risk is managed by the Group using the combination of several instruments as follows:

- conclusion of hedging derivatives for diesel purchase
- negotiating a fixed price of electricity always for the following calendar year

Except for those mentioned above, in case of an increase in the price of the commodities, the Group has the option of asking the regions and the state for increased payments for transportation.

36.7.1. Analysis of Sensitivity to Changes in Commodity Prices

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

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

(CZK million)

	2019	2018
Change in the fair value of derivatives at the end of the period	-	-
Total impact on the profit for the period	**-**	**-**
Change in the fair value of derivatives at the end of the period	12	13
Total impact on other comprehensive income	**12**	**13**

36.7.2. Commodity Derivatives

In accordance with the commodity risk management requirements, the Group has entered into contracts hedging traction diesel pricing stability. The hedging was carried out by the Commodity collar, which is to restrict the maximum (cap) price and the minimum (floor) price and in the form of a commodity swap consisting of a fixed price of traction diesel.

The hedge ratio is determined at 1:1. The Group is aware that risk components such as excise duty, trader margins, etc. are included in the calculation of the hedging ratio, however their effect on the amount is insignificant. The hedging ratio is regularly monitored in relation to risk management objectives.

At the same time, the Group does not separate the hedge accounting expenses as it assumes that they are currently insignificant. Possible changes are regularly monitored.

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

- Commodity collars and swaps nominal values are equal to nominal values of hedged fuel consumption
- Treasury indexes of both transactions are the same (Ultra Low Sulphur Diesel 10ppm FOB Barges Rotterdam)
- Both transactions/indexes are contracted in the same currencies
- Commodity collar's and swaps' maturities are set in line with the expected purchases of fuel
- Commodity collars and swaps were contracted at market prices (without premium payment), the fair value of derivatives is nil as of the contract date
- The Group does not expect the overcollateralization, that if the price of the physical supply is fixed before the commodity collar's and swaps' maturity, the commodity collars and commodity swaps will be early terminated

Sources of hedge relationship ineffectiveness are recognised as follows:

- Risk components were not separated from the hedging instrument (i.e. various surcharges, impact of biodiesel price, excise tax, trader's margin, etc.)
- Termination of commodity collar by the counterparty
- Significant decrease in the counterparty's creditworthiness.

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

Purchase of diesel	Hedged value	Volume of contracts (MT)	Fair value (CZK million)
31 Dec 2019	12,912 CZK/MT	9,600	4
	10,450-16,670 CZK/MT	400	-
31 Dec 2018	19,920 CZK/MT	7,200	8
	10,450-16,670 CZK/MT	7,200	(15)

Expected Realizations of Hedged Items of Commodity Derivatives

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

(CZK million)

31 Dec 2019	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Secured future purchases of fuel	7	14	62	50	-	133

(CZK million)

31 Dec 2018	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Secured future purchases of fuel	14	28	122	-	-	164

36.8. Credit Risk Management

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

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

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

Hence, the approval of business operations with new counterparties is a subject to standardized approval procedures by designated departments. The credit risk management does not include assets and receivables management, as standard financial instruments, such as prepayments and bank guarantees are used in order to reduce the risk.

Financial assets that the Group exposes to potential credit risk include cash and cash equivalents, trade receivables and financial derivative contracts. The Group's cash is deposited in prestigious domestic financial institutions. The Group is mainly exposed to the following credit risk categories due to its business activities:

- direct credit risk,
- credit equivalent risk.

Most frequently, the direct credit risk arises from receivables from ongoing trading relationships, particularly from supplier loans granted. The quality credit-ratings of the customer are assessed individually, based on the financial position, previous experiences and other factors.

To measure expected credit losses using the simplified approach, current receivables are classified according to common features relating to credit risk and appropriate maturities. On this basis, the Group assesses expected credit loss rates for trade receivables.

Expected credit losses are determined based on the payment profile and sales over the 5-year period preceding 1 December 2019 and 31 December 2019, respectively, on the historical actual credit losses basis. The Group analysed the number of macroeconomic variables (gross domestic product, industrial production indexes, etc.) together with the possible correlation with the customers' solvency. However, since no correlation was recognised, the Group considers the customers' individual creditworthiness.

The following table shows the impairment of current receivables:

(CZK million)

				Past due date (days)			
As at 31 December 2019	**Before due date**	**1 - 30**	**31 - 90**	**91 - 180**	**181 - 365**	**Over 365**	**Total**
Expected credit loss rate	2%	1%	24%	63%	85%	100%	
Current trade receivables – brutto	3,182	187	38	8	37	169	3,621
Expected credit loss	**65**	**2**	**9**	**5**	**31**	**166**	**281**

(CZK million)

				Past due date (days)			
As at 31 December 2018	**Before due date**	**1 - 30**	**31 - 90**	**91 - 180**	**181 - 365**	**Over 365**	**Total**
Expected credit loss rate	3%	6%	23%	44%	60%	100%	
Current trade receivables – brutto	3,422	231	64	9	10	201	3,937
Expected credit loss	**87**	**13**	**15**	**4**	**6**	**200**	**325**

Movement in allowance for doubtful accounts:

(CZK million)

	2019	**2018**
Allowance as at 1 January	**325**	**343**
Creation of allowance – trade receivables	162	68
Utilisation of allowance – trade receivables	(206)	(86)
Allowance as at 31 December	**281**	**325**

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 the case of payments from public services orderers from the state budget or regional budgets, the risk is low due to the state's high credit rating (see Note 31.7.). Receivable from state and regions represent 10% of all receivables as at 31 December 2019 (as at 31 December 2018: 5%). These receivables are covered with payables in even higher amounts and dislosed net in other payables. In other transactions, the Group seeks to deal only with creditworthy counterparties whom the Group reviews individually on an ongoing basis using publicly available information. The group's exposure and the credit ratings of its counterparties are continuously monitored.

Financial Assets:

(CZK million)

As at 31 December 2019		Before due date, not impaired	Before due date, impaired	Past due date, not impaired	Past due date, impaired	Impairment	Total
Trade receivables *)	22	3,117	65	223	216	(281)	3,340
Cash and cash equivalents	32	8,436	-	-	-	-	8,436
Receivables from finance leases	23	142	-	-	-	-	142
Restricted cash	23	477	-	-	-	-	477
Other	23	91	-	-	23	(23)	91
Financial derivatives used in hedge accounting	23	115	-	-	-	-	115
Total		**12,378**	**65**	**223**	**239**	**(304)**	**12,601**

(CZK million)

As at 31 December 2018		Before due date, not impaired	Before due date, impaired	Past due date, not impaired	Past due date, impaired	Impairment	Total
Trade receivables *)	22	3,321	88	290	238	(325)	3,612
Cash and cash equivalents	32	3,438	-	-	-	-	3,438
Receivables from finance leases	23	79	-	-	-	-	79
Restricted cash	23	539	-	-	-	-	539
Other	23	206	-	-	41	(41)	206
Financial derivatives used in hedge accounting	23	163	-	-	-	-	163
Total		**7,746**	**88**	**290**	**279**	**(366)**	**8,037**

*) The age structure of trade receivables is described in the chapter 22.1.

Various combinations of standard instruments (deposits, payment terms, customer tracking, internal tools, etc.) are used by ČD Cargo, a.s. for additional security of potentially risky receivables. To improve the Group's liquidity, a policy of net settlement of receivables and payables is actively used. At the same time, ČD Cargo, a.s. applies 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 monitored by senior staff that are the individuals responsible and ultimately by the Commission claims.

The credit risk on liquid funds and derivative financial instruments are limited as the counterparties are banks with credit-ratings assigned on the investment grade. Due to that fact, the impact of impairment of cash is considered immaterial.

(CZK million)

Bank	Rating	Bank balances as at 31 Dec 2019	Bills deposits as at 31 Dec 2019	Bank balances as at 31 Dec 2018	Bills deposits as at 31 Dec 2018
Komerční banka	A1	430	2,095	585	100
ČSOB	A1	1,648	203	1,959	-
Citibank	Aa3	199	-	87	-
ING bank	Aa3	2,023	-	86	-
Česká spořitelna	A1	1,019	-	4	-
Equa bank		-	-	1	-
UniCredit Bank	A3	86	-	170	-
Raiffeisenbank	Baa1	51	-	126	-
Sberbank CZ	BBB-	103	-	121	-
J&T Banka		102	100	-	-
Všeobecná úvěrová banka	A2	32	-	61	-
Millennium bank	Baa2	4	-	2	-
Deutsche Bank	A3	22	-	-	-
Frankfurter Sparkasse	F1+	5	-	27	-
Bank Austria	Baa1	15	-	12	-
Slovenská sporiteľňa	A2	5	-	-	-
Tatra banka	A3	24	-	9	-
Fio banka		-	-	1	-
PPF banka		201	-	-	-
Total		**5,969**	**2,398**	**3,251**	**100**

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 due and are not impaired in any other way, is good and corresponds to the carrying value.

The Group does not recognise any pledged assets as at 31 December 2019 and 2018.

36.9. Liquidity Risk Management

The Group manages its liquidity risk through a process of planning future cash flows and provision of short-term funding with reputable financial institutions (promissory notes programme and agreed overdraft and revolving 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 expected short-term expenditures. The liquidity is continuously monitored by the rating agency Moody's.

36.9.1. Liquidity and Interest Rate Risk Tables

The following tables details 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 interest, the undiscounted amount is derived from interest rate curves at the end of the reporting period and may change, if interest rates differ from the determined estimates.

(CZK million)

31 Dec 2019	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	3,220	2,129	589	44	51	6,033
Derivatives	-	-	209	981	1,079	2,269
Incoming cash flows	-	-	375	3,158	18,096	21,629
Outgoing cash flows	-	-	584	4,139	19,175	23,898
Finance lease liabilities *)	28	37	888	3,263	738	4,954
Leaseback liabilities *)	56	112	505	1,199	332	2,204
Float interest rate instruments	1	1	6	17	-	25
Fixed interest rate instruments	157	3	1,717	15,414	23,034	40,325
Total	**3,462**	**2,282**	**3,914**	**20,918**	**25,234**	**55,810**

(CZK million)

31 Dec 2018	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	2,972	2,333	822	116	37	6,280
Derivatives	2	5	44	183	536	770
Incoming cash flows	-	-	187	1,698	5,987	7,872
Outgoing cash flows	2	5	231	1,881	6,523	8,642
Finance lease and leaseback liabilities **)	191	134	735	1,572	162	2,794
Float interest rate instruments	11	1	6	26	-	44
Fixed interest rate instruments	1	8	8,517	15,137	9,215	32,878
Total	**3,177**	**2,481**	**10,124**	**17,034**	**9,950**	**42,766**

*) The marked lines relate to the application of IFRS 16 only in the current year.

**) The marked lines refer only to comparative data according to IAS 17.

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

(CZK million)

31 Dec 2019	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	4,998	1,331	591	113	460	7,493
Derivatives	-	1	3	(96)	-	(92)
Incoming cash flows	-	1	31	1,611	-	1,643
Outgoing cash flows	-	-	28	1,707	-	1,735
Finance lease liabilities	4	-	13	70	413	500
Fixed interest rate instruments	4,203	1,095	100	-	-	5,398
Total	**9,205**	**2,427**	**707**	**87**	**873**	**13,299**

(CZK million)

31 Dec 2018	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	5,641	1,587	700	55	447	8,430
Derivatives	2	3	68	(73)	-	-
Incoming cash flows	2	3	6,730	1,662	-	8,397
Outgoing cash flows	-	-	6,662	1,735	-	8,397
Finance lease liabilities	3	-	15	77	475	570
Total	**5,646**	**1,590**	**783**	**59**	**922**	**9,000**

36.9.2. Financing Facilities

The Group has access to the following credit lines:

(CZK million)

Bank overdraft	ČSOB	Citibank	ING	VUB	KB	Millenium Bank	SLPL	Total
Amount of the loan facility as at 1 January 2018	**1,110**	**200**	**200**	**400**	**1,600**	**-**	**-**	**3,510**
Amount unused as at 1 January 2018	**1,110**	**200**	**200**	**400**	**1,600**	**-**	**-**	**3,510**
Change of loan facility amount in 2018	-	-	-	-	-	77	13	90
Amount of the loan facility as at 31 December 2018	**1,110**	**200**	**200**	**400**	**1,600**	**77**	**13**	**3,600**
Amount unused as at 31 December 2018	**1,110**	**200**	**200**	**400**	**1,600**	**67**	**12**	**3,589**
Change of loan facility amount in 2019	-	-	-	300	-	19	-	319
Amount of the loan facility as at 31 December 2019	**1,110**	**200**	**200**	**700**	**1,600**	**96**	**13**	**3,919**
Amount unused as at 31 December 2019	**1,110**	**200**	**200**	**700**	**1,600**	**35**	**13**	**3,858**

(CZK million)

Promissory notes program	ČSOB	Citibank	ING	KB	Česká spořitelna	Total
Amount of the loan facility as at 1 January 2018	**500**	**1,000**	**2,000**	**1,000**	**1,000**	**5,500**
Amount unused as at 1 January 2018	**500**	**1,000**	**2,000**	**1,000**	**1,000**	**5,500**
Change of loan facility amount in 2018	1,700	(1,000)	1,000	1,450	1,250	4,400
Amount of the loan facility as at 31 December 2018	**2,200**	**-**	**3,000**	**2,450**	**2,250**	**9,900**
Amount unused as at 31 December 2018	**2,200**	**-**	**3,000**	**2,450**	**2,250**	**9,900**
Change of loan facility amount in 2019	300	-	(1,500)	(450)	-	(1,650)
Amount of the loan facility as at 31 December 2019	**2,500**	**-**	**1,500**	**2,000**	**2,250**	**8,250**
Amount unused as at 31 December 2019	**2,500**	**-**	**1,500**	**2,000**	**2,250**	**8,250**

(CZK million)

Revolving loan	Citibank	Total
Amount of the loan as at 1 January 2018	**-**	**-**
Unused amount as at 1 January 2018	**-**	**-**
Change in the amount of the loan in 2018	2,000	2,000
Amount of the loan as at 31 December 2018	**2,000**	**2,000**
Unused amount as at 31 December 2018	**2,000**	**2,000**
Change in the amount of the loan in 2019	(500)	(500)
Amount of the loan as at 31 December 2019	**1,500**	**1,500**
Unused amount as at 31 December 2019	**1,500**	**1,500**

37. Post Balance Sheet Events

Since 1 January 2020 the change in Board of Directors of the Parent company was made and it is described in the chapter Corporate governance in the Annual report.

The existence of novel coronavirus causing the COVID-19 disease was confirmed in early 2020 and has spread across mainland China and beyond, including the Czech Republic, causing disruptions to businesses and economic activity. The Group considers this outbreak to be a non-adjusting post-balance-sheet event. As the situation is not stable and is developing rapidly, it is not possible to estimate the potential impact on the Group. In the personal transportation segment the decrease in mobility and significant decrease in passengers occured. The international connections have been completely canceled. Development of revenues, that the Group obtains from the public service orderers (Ministry of Transportation and regions) will depend mainly on the range and time of the limitations in public transport. In the freight transport, the impact on the Group's performace will depend on the development of specific industries.The Group actively operates with several scenarios of possible development. Taking into account the amount of free cash and contracted bank credit lines, the Group doesn't expect liquidity restrictions in the horizon of next 12 months, even in the worst case scenario.

There were no other events between the balance sheet date and the date of preparation of the financial statements.

38. Approval of the Financial Statements

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

Separate Financial Statements for the Year 2019

Prepared under IFRS as Adopted by the EU

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

Separate Financial Statements Were Prepared on 14 April 2020.
Statutory Body of the Reporting Entity

Components of the Separate Financial Statements for the Year 2019 Prepared Under IFRS as Adopted by the EU:
Statement of Profit or Loss
Statement of Other Comprehensive Income
Statement on Financial Position (Balance Sheet)
Statement of Changes in Equity
Cash Flow Statement
Notes to the Financial Statements

Václav Nebeský
Chairman of the Board of Directors
České dráhy, a.s.

Patrik Horný
Member of the Board of Directors
České dráhy, a.s.

Statement of Profit or Loss for the Year Ended 31 December 2019

(CZK million)

		Year ended 31 Dec 2019	Year ended 31 Dec 2018
CONTINUING OPERATIONS			
Revenues	5	25,445	23,892
Other operating income	6	1,198	1,564
Purchased consumables and services	7	(10,280)	(9,897)
Employee benefit costs	8	(9,785)	(9,080)
Depreciation and amortisation	9	(5,023)	(4,720)
Other operating costs	10	(418)	(322)
Cancellation of provision for investment in ČD Cargo	18	2,852	-
Profit from operating activities		**3,989**	**1,437**
Financial expenses	11	(1,263)	(1,245)
Financial income	12	525	265
Profit before tax		**3,251**	**457**
Profit for the period from continuing operations		**3,251**	**457**
Profit for the year		**3,251**	**457**

Statement of Other Comprehensive Income for the Year Ended 31 December 2019

(CZK million)

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Profit for the year	**3 251**	**457**
Actuarial gains on employee benefit liabilities	2	17
Revaluation reserve at fair value through other comprehensive income	12	17
Other comprehensive income for the year (items that are not subsequently reclassified to profit or loss)	**14**	**34**
Cash flow hedging	488	(48)
Hedge accounting expenses	49	36
Other comprehensive income for the year (items that may be reclassified to profit or loss	**537**	**(12)**
Other comprehensive income for the year	**551**	**22**
Total comprehensive income for the year	**3,802**	**479**

Statement of Financial Position (Balance Sheet) as at 31 December 2019

(CZK million)

		31 Dec 2019	31 Dec 2018
Property, plant and equipment	14	52,400	52,411
Investment property	15	606	611
Intangible assets	16	364	314
Right-of-use assets	17	917	-
Investments in subsidiaries and associates and joint ventures	18	10,913	8,061
Other financial assets	21	1,249	1,238
Other assets	22	2	3
Total non-current assets		**66,451**	**62,638**
Inventories	19	1,411	1,260
Trade receivables	20	1,266	1,463
Other financial assets	21	721	499
Other assets	22	1,474	1,834
Cash and cash equivalents	29	6,602	1,837
Total current assets		**11,474**	**6,893**
TOTAL ASSETS		**77,925**	**69,531**
Share capital	23	20,000	20,000
Reserve and other funds	23	17,468	16,916
Retained earnings / Accumulated losses		2,217	(1,009)
Total equity		**39,685**	**35,907**
Loans and borrowings	24	31,040	18,224
Provisions	25	137	136
Other financial liabilities	26	185	462
Total non-current liabilities		**31,362**	**18,822**
Trade payables		3,375	3,692
Loans and borrowings	24	877	8,373
Provisions	25	202	599
Other financial liabilities	26	248	73
Other liabilities and contractual liabilities	27	2,176	2,065
Total current liabilities		**6,878**	**14,802**
TOTAL LIABILITIES		**77,925**	**69,531**

Statement of Changes in Equity for the Year Ended 31 December 2019

(CZK million)

	Share capital	Reserve and other funds*	Cash flow hedging reserve	Hedge accounting expenses	Revaluation reserve at fair value through other comprehensive income	Retained earnings / Accumulated losses	Total equity
Balance as at 1 January 2018	**20,000**	**16,540**	**567**	**(300)**	**93**	**(1,472)**	**35,428**
Profit for the period	-	-	-	-	-	457	457
Other comprehensive income for the year	-	-	(48)	36	17	17	22
Comprehensive income for the year - total	**-**	**-**	**(48)**	**36**	**17**	**474**	**479**
Allocation to reserve fund	-	11	-	-	-	(11)	-
Transactions with owners for the year - total	**-**	**11**	**-**	**-**	**-**	**(11)**	**-**
Balance as at 31 December 2018	**20,000**	**16,551**	**519**	**(264)**	**110**	**(1,009)**	**35,907**
Impact of IFRS 16 implementation	-	-	-	-	-	(24)	(24)
Balance as at 1 January 2019	**20,000**	**16,551**	**519**	**(264)**	**110**	**(1,033)**	**35,883**
Profit for the period	-	-	-	-	-	3,251	3,251
Other comprehensive income for the year	-	-	488	49	12	2	551
Comprehensive income for the year - total	**-**	**-**	**488**	**49**	**12**	**3,253**	**3,802**
Allocation to reserve fund	-	3	-	-	-	(3)	-
Transactions with owners for the year - total	**-**	**3**	**-**	**-**	**-**	**(3)**	**-**
Balance as at 31 December 2019	**20,000**	**16,554**	**1,007**	**(215)**	**122**	**2,217**	**39,685**

* Reserve and other funds include Share premium of CZK 16,439 million (as at 1 January 2018, 31 December 2018 and 31 December 2019).

Cash Flow Statement for the Year Ended 31 December 2019

(CZK million)

		Year ended 31 Dec 2019	Year ended 31 Dec 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax		**3 251**	**457**
Dividend income	6	(149)	(275)
Financial expenses - interest	11	963	919
Profit from the sale and disposal of non-current assets	6	(526)	(455)
Depreciation and amortisation of non-current assets	9	5,023	4,720
(Reversal of impairment) / Impairment losses of property, plant and equipment, investment property and assets held for sale	6, 10	62	(335)
(Reversal of) / Impairment of trade receivables	6	(4)	4
Change in provisions	25	(395)	(210)
Foreign exchange rate gains (losses)		(75)	89
Reversal of impairment losses on financial investments		(2,852)	-
Other		(224)	(67)
Cash flows from operating activities before changes in working capital		**5,074**	**4,847**
Decrease (increase) in trade receivables and contractual assets	20	203	(523)
Increase in inventories	19	(150)	(138)
Decrease (increase) in other assets	21,22	313	(335)
Decrease (increase) in trade payables		(457)	473
Increase in other and contractual liabilities	26,27	137	239
Total changes in working capital		**46**	**(284)**
Cash flows from operating activities		**5,120**	**4,563**
Interests paid	11	(842)	(967)
Dividends received	6	149	275
Net cash flows from operating activities		**4,427**	**3,871**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment	14	(4,657)	(4,540)
Proceeds from disposal of property, plant and equipment	6	580	658
Payments for investment property	15	(11)	(1)
Costs of acquisition of intangible assets	16	(137)	(196)
Costs of acquisition of subsidiaries	18	-	(29)
Interest received	12	109	57
Loans and borrowings provided to related parties	28.6	(427)	(154)
Repayments of loans and borrowings from related parties	28.6	233	213
Net cash flows from investment activities		**(4,311)**	**(3,992)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans and borrowings	24	12,725	-
Repayments of loans and borrowings	24	(7,644)	(4,000)
Payment of leasing instalments *)	24	(433)	-
Payment of financial leasing instalments **)	24	-	(374)
Net cash flows from financing activities		**4,648**	**(4,374)**
Net increase (decrease) in cash and cash equivalents		**4,765**	**(4,495)**
Cash and cash equivalents at the beginning of the reporting period		1,837	6,332
Cash and cash equivalents at the end of the reporting period	29	**6,602**	**1,837**

*) Marked rows relate to implementation of IFRS 16 only in current period **) Marked rows relate only to comparative period in relation to IAS 17

Notes to the Separate Financial Statements

for the Year Ended 31 December 2019

1. General Information

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

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 Company is principally engaged in operating railway passenger transportation. In addition, the Company is engaged in other activities relating to its principal business activities.

The separate financial statements have been prepared as at and for the year ended 31 December 2019 (hereinafter "financial statement"). The reporting period is the calendar year from 1 January 2019 to 31 December 2019. The Company additionally prepares the consolidated financial statements under IFRS that will be approved as at the same date as the separate financial statements.

2. Significant Accounting Policies

2.1. Statement of Compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter 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.

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 4.

2.3. Revenue Recognition

2.3.1. Revenue from Contracts with Customers

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

Revenue from personal transportation is recognised as at the first day of the ticked validity.

Revenue from the sale of services is recognised at the time when the service was provided, or on linear basis throughout the period of time, if the services are provided by an undetermined number of actions during the determined period. The received payment is initially recognised as a contractual liability that is subsequently released to revenue as the service is provided to a customer.

Revenue related to transportation services is recognised in the period in which the services are provided in reference to the stage of completion of the service contract (e.g. period of validity of long-term travel documents).

In contrast with domestic transportation international transportation also includes the settlement process of receivables and liabilities to foreign carriers and sellers of international tickets. In some cases, such settlements may be delayed by a few months. For this reason, the revenue is accrued for as at the time the service is provided based on the information available to the Company.

In addition to selling tickets and similar documents, a significant part of revenue from transportation includes revenue from the usage of passenger cars in the RIC mode („Regolamento Internazionale delle Carrozze", based on the Convention for the Reciprocal Use of Wagons in International Traffic), where there is settlement once per year. Therefore, in this case revenue is also recognised based on the estimate.

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

Payments from ordering parties such as the Ministry of Transportation and regions are key revenues and are included in passenger transportation. These revenues are accounted monthly in accordance with annually approved orders and the volume of services provided.

2.3.2. Other Income

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

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

2.4. Lease

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

2.4.1. The Company as a Lessee

Effective from 1 January 2019

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

At the commencement date, the lease liability is initially recognised at the present value of the lease payments that are not yet paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease or, if this rate is not available, incremental borrowing rate should be is used.

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

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

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

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

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

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

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

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

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

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

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

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

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

Effective before 1 January 2019

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

Assets held under finance leases were initially recognized 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 were included in the statement of financial position as a finance lease liability.

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

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

2.4.2. The Company as a Lessor

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

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

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

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

2.4.3. Sale and leaseback

A sale and leaseback transaction include the sale of an asset and subsequent lease-back of the same asset. Lease payments and the sale prices are usually interdependent because they are negotiated in the same transaction. The accounting treatment of a sale and leaseback transaction depends on the type of leasing, which is part of this transaction.

If the leaseback is a finance lease, the lessor provides the lessee with cash and the leased asset as a security of the loan. For this reason, the proceeds from a sale exceeding the asset's carrying amount is not considered as income. Company recognises recoveries as a financial liability (debt), which, together with interest, is amortised by lease payments.

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

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

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

2.5. Foreign Currencies

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

Transactions denominated in foreign currencies are recorded at the fixed exchange rate announced by the Czech National Bank. If the exchange rate does not change significantly over time, the Company uses the foreign exchange rate announced on the first day of the period for a longer period of time– usually one month. At the balance sheet date, monetary items denominated in foreign currencies are translated to Czech crowns at the Czech National Bank exchange rate as of that date. Non-monetary items that are measured at 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 other comprehensive income and reclassified to profit or loss when the hedged underlying item is settled.

2.6. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which 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 reduction of the cost of those 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 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 to the statutory health insurance, social security and pension insurance schemes and other employee benefits costs resulting from the collective agreement.

The employee benefit obligations and provisions reported in the statements of the financial position represent their present value. Additions to these obligations and provisions are expensed after the services, which entitle the employee to such benefits, have been provided.

Provision for long-term employee benefits is recognised in the present value of the future cash outflows used to settle those obligations. 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. The currency and terms of these bonds are consistent with the currency and terms of the corresponding other long-term benefits. The value of this provision is determined annually based on reports prepared by independent qualified actuaries. Gains or losses arising from changes in actuarial assumptions for post employment benefits at retirement are included in other comprehensive income: changes in the provision for other benefits are recognised in profit or loss.

2.9. Taxation

The income tax includes current tax payable and deferred tax.

2.9.1. Current Tax

Current tax calculation is based on taxable profit for the year. The taxable profit differs from the profit as reported in the 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 Company's current tax payable is calculated using tax rates that have been enacted by law or announced 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 to calculate taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset 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 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 carried at cost less impairment and by accumulated depreciation in the case of property and equipment. Freehold land is not depreciated.

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

Depreciation is recognized so as to write off the cost of assets (other than freehold land and assets under construction) less their residual values over their useful lives, applying 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.

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. Investment Property

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

2.12. Intangible Assets

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

An intangible asset is derecognised upon disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period 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 of impairment. If such indication exists, the recoverable amount of such assets is estimated in order to determine the amount of possible impairment. When it is not possible to determine the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are also allocated to individual cash-generating units, if reasonable and consistent basis of allocation can be determined. Otherwise, corporate assets are allocated to the smallest group of cash-generating units for which it is possible to determine a reasonable and consistent basis for allocation.

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

Recoverable amount is the higher of fair value less cost to sell and value in use. When assessing 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 a cash-generating unit) is lower than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

2.14. 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 such entity. In such case, the Company usually controls 20-50% of the voting rights.

The 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 that exists 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. Inventories

Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined using the weighted average method. The net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are mainly held for own use rather than for re-sale.

2.16. Provisions

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

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

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

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

2.17. Financial Instruments

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

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

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

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

2.17.1. Effective Interest Rate Method

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

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

2.17.2. Financial Assets Measured at Fair Value Through Other Comprehensive Income

Financial assets measured at fair value through other comprehensive income include equity investments not held for trading. The Company holds equity investments that are not traded on an active market in these assets. Dividend income from equity investments is recognised in profit or loss when the Company's right to receive the dividends is established.

2.17.3. Financial Assets Measured at Amortised Cost

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

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

2.17.4. Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of expected credit losses as at the asset recognition.

Full model (3 stage impairment model): the financial asset is initially categorised within Stage 1, where credit loss allowance is recognised at an amount equal to 12-month expected credit losses. During the useful life of an asset, the Company considers whether there is no significant increase in credit risk. If the increased risk is recognised, the financial asset is reclassified to Stage 2, where the credit loss allowance is recognised at a lifetime expected credit loss. In the case of a counterparty default, such an asset is reclassified to Stage 3, where interest income on financial assets is recognised at amortised cost less impairment, applying the initial effective interest method.

For the measurement of expected credit losses of current trade receivables and financial lease receivables, the Company applies the IFRS 9 simplified approach, whereby credit losses are always determined for the whole lifetime of the financial asset.

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

For receivables assessed on an individual basis, the Company considers the following factors that affect the debtor's ability to meet his obligations:

- Future prospects
- Knowledge of a customer
- Payment habits

The Company considers estimated to be impairment of cash and cash equivalents immaterial due to high-quality credit-ratings of cooperating banks confirmed by the external investment rating.

Based on historic experience, the Company uses the following criteria for determining the credit default of the counterparty:

- If information gathered from external sources indicates that the debtor will not be able to pay its creditors in full (bankruptcy or insolvency proceedings)
- If the financial asset is more than 180 days past due and the Company has no evidence that the delay in payments is not sufficient criteria for default determination

2.17.5. 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.

2.17.6. Financial Liabilities at Fair Value Through Profit or Loss

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

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

2.17.7. Financial Assets Measured at Amortised Cost

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

2.17.8. Derecognition of Financial Liabilities

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

2.17.9. Derivative Financial Instruments

The Company enters into a variety of derivative financial instrument 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 the criteria for being recognised as hedging instruments are treated by the Company as fair value through profit or loss.

2.17.10. Hedge Accounting

The Company designates certain hedging instruments as cash flow hedges.

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

2.17.11. Cash Flow Hedges

The effective part 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 in the cash flow hedging reserve. According to IFRS 9 the Company recognises hedge accounting expenses separately, where the criteria of expenses recognition through other comprehensive income are met. 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 only when the hedging relationship no longer qualifies for hedge accounting (fully or partially), after considering any rebalancing of the hedging relationship or when the hedging instrument expires or is sold, terminated, or exercised. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedging reserve at that time remains in equity and is remeasured through profit or loss when the forecast transaction is recognised. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedging reserve is remeasured immediately through profit or loss.

3. Adoption of New and Revised International Financial Reporting Standards

3.1. Standards and Interpretations Effective for the Annual Period Ended 31 December 2019

During the year ended 31 December 2019, the following standards, amendments and interpretations became effective:

Modifications, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 16 – Leases	1 January 2019
IFRS 9 – Modification of IFRS 9 – Prepayment Features with Negative Compensation	1 January 2019
IAS 19 – Modification to IAS 19 – Plan Amendment, Curtailment or Settlement	1 January 2019
IAS 28 – Modification to IAS 28 – Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual improvements of IFRS – cycle 2015 – 2017	1 January 2019
IFRIC 23 – Uncertainty over Income Tax Treatment	1 January 2019

Except the impact of IFRS 16 implementation described below, the adoption of the other abovementioned standards, modifications and interpretations did not have a material impact on the Company during the period.

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

When initially applying IFRS 16, the Company decided to use following simplifications:

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

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

The incremental borrowing rate applied by the Company to lease liabilities as at 1 January 2019 is of 2.9%.

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

(CZK million)

	31 Dec 2018 /1 Jan 2019
Total future minimum lease payments for non-cancellable operating leases as at 31 December 2018	1,284
Discounted using the incremental interest rate as at 1 January 2019	1,159
- Financial lease liabilities as at 31 December 2018	34
- Less short-term leases not recorded as liabilities	(59)
- Less low-value assets leases not recorded as liabilities	(66)
Total lease liabilities as at 1 January 2019	**1,068**
Of which	
- Short - term lease liabilities	165
- Long - term lease liabilities	903

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

(CZK million)

	Note	Impact of IFRS 16 implementation
Impairment of property, plant and equipment	14	(32)
Recognition of right-of-use assets	17	1,043
Increase / (decrease) in deferred tax assets	13	-
Decrease in trade receivables	20	-
Decrease of credit and loans	24	-
Increase in lease liabilities	17, 24	1,034
Increase / (decrease) in equity - retained earnings	23	(24)

3.2. Standards and Interpretations Used Prior to the Effective Date

The Company did not apply standard or any interpretations before their effective dates..

3.3. Standards and Interpretations Issued but Not Yet Used

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

Modifications, new and revised standards and interpretations	Effective for accounting periods beginning on or after
IFRS 3 – Modifications to IFRS 3 - Definition of a Business	1 January 2020*)
IFRS 17 – Insurance Contracts	1 January 2021*)
IFRS 10, IAS 28 – Modifications to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date will be determined *)
IAS 1, IAS 8 – Modifications to IAS 1 and IAS 8 – Definition of Material	1 January 2020*)
IFRS 9, IFRS 7, IAS 39 – Modifications to IFRS 9, IFRS 7 and IAS 39 Interest Rate Benchmark Reform	1 January 2020*)

*) Standards, modifications and interpretations not yet approved for use in the EU

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

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

For of the Company's accounting policies, which are described in Note 2, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not 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. Key Sources of Estimation Uncertainty

4.1.1. 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. Impairment of property, plant and equipment is disclosed in Note 14.1.

4.1.2. Provisions for Legal Disputes

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. The information on legal disputes is disclosed in Note 32.

4.2. Judgements

4.2.1. Payments from the Orderers

The Company receives compensation from regional budgets and the Ministry of Transport's budget for railway transport and the provision of public services. The Company also receives compensation from the budget of Ministry of Transport for the provision of transport services at discounted prices for selected groups (students, pensioners). The Company recognises the compensation as revenue from contracts with customers. In case of payments from the ordering party, the essence of the relation is the order of transport services in the given location. This service is provided by the Company regardless number of persons using the passenger transport service. The compensation is not a subsidy, because the contract for the provision of transport services is competed among a number of entities interested in providing that service. Only the company which wins the tender obtains the compensation. Another type transaction occurs in case of preferential prices for different categories of customers (students, pensioners), when the customer uses the service (passenger transport) and pays only part of its price and the remaining part is paid by the third party (the state). It is not a subsidy, but rather a discount provided to the population groups, not an economic incentive to influence the behaviour of companies in a particular direction.

4.2.2. Lease – Discount Rate and Lease Term

The Company measures the initial lease liability at the present value of the lease payments discounted using the implicit interest rate. Since the Company is unable to determine this rate reliably, it uses its incremental borrowing rate as the discount rate. While determining it, the coverage of lease collateral and the length of the lease contracts were considered.

In addition, the Company uses an estimate to determine the lease term of contracts concluded for indefinite period. This estimate was made with respect of the period and circumstances of the termination of individual contracts. The Company has determined the estimated lease term of indefinite duration contracts at 5 years, due to following reasons:

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

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

Contracts with SŽ for the lease of premises at railway stations are concluded for individual areas (7 contracts). When measuring individual leased premises under the same contract, the Company used aggregation into larger valuation units under the framework contracts because of the insignificance of these individual rental premises.

5. Revenue

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

5.1. Breakdown of Revenue

(CZK million)

	2019	2018
REVENUE FROM CONTRACTS WITH CUSTOMERS		
Revenue from passenger transportation - fare	10,398	8,851
Domestic passenger transportation	7,514	6,236
International passenger transportation	2,884	2,615
Revenue from passenger transportation - payments from public service orderers	14,230	14,299
Payment from the state budget	4,266	4,723
Payment from the regional budget	9,964	9,576
Sale of other services	440	394
Sale of other services recognized over time	440	394
Commission for mediation of the purchase of diesel and spare parts	39	32
Commission from ticket sales and other transactions at cash desks	6	5
Total revenue from contacts with customers	**25,113**	**23,581**
RENTAL INCOME		
Rental income	332	311
Total revenue	**25,445**	**23,892**

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

The Company provides transport services in public railway transport for a stated (rectified) price and assures transport services in the specified categories of passenger trains on the railway network of the Czech Republic. The scope of these services and the compensation (revenue of the Company) are specified in contacts between the State and regional authorities. The payment from the ordering party - the state is limited by the volume of financial resources that were determined by the state budget to cover the provable loss in railway passenger transport.

The Czech Republic has aligned its legislation in the area of public transport with the EU requirements by adopting Act no. 194/2010 Coll. Concerning public transport services and amendments of other laws. České dráhy, a.s. arranged public service obligation agreement for the period of ten years and more, and these agreements are governed by the legislation prior to the adoption of the above-mentioned law.

In 2016, the method of state participation in the financing of regional rail transport was clarified. The Government of the Czech Republic adopted a resolution on organisation and financing of regional rail transport after 2019. Under this resolution, the rules for financing regional transport for the period following after expiration of most of the public service obligations contract were set. This document is essential for the decision of individual orderers regarding regional transport after 2019.

Until 2019, ČD had concluded 16 contracts with the regions for the operation of public rail transport under the public service obligation. Since 2020, there are 38 such contracts concluded with the regions (because contracts with regions are splitted into operation sets or separate operating lines). Most of the original contracts with the regions were concluded for 10 years what gave the ČD certainty of operation. However, since only a general inflation indexation was included in contracts what did not sufficiently cover a significant increase in staff costs, thus most contracts with regions became economically disadvantageous over the time. This issue has been solved in most of the newly concluded contracts with regions, what should lead to a positive impact of new contracts on the ČD economy in 2020.

Although ČD has lost some operational units in regions since 2020, this year's transport performance for regions will be lower by only 1.6% compared to 2019. While in the past, most contracts with regions were concluded for ten years, now the situation in regions is different. In 2020, no contract concluded with regions terminate, but in 2021 two contracts will terminate. Furthermore, the situation is complicated due so-called options, where it is not clear in advance whether the region will exercise the option to extend the contract or not. However, we can say that by 2029, ČD has contracts with regions for at least 50% of its current transport performance.

Significant transactions with the main customers with state participation are stated in Note 28.8.

5.2. Contractual Liabilities and Refund Liabilities

The Company recognises following contractual liabilities (see also Note 27) and refund liabilities (see also Note 27) related to revenue from contracts with customers:

(CZK million)

Contractual liabilities related to revenue from contracts with customers	31 Dec 2019	31 Dec 2018
Prepaid products – such as Kilometric Bank, annual ticket	203	188
Prepayments received	64	61
Revenues from domestic passenger transportation over time	-	1
Other contractual liabilities	3	4
Total contractual liabilities	**270**	**254**

(CZK million)

Refund liabilities	31 Dec 2019	31 Dec 2018
Other refund liabilities	9	21
Total refund liabilities	**9**	**21**

5.2.1. Revenues from Contractual Liabilities

(CZK million)

	2019	2018
Revenues included in the opening balance of the contractual liabilities		
Revenue from passenger transportation - fare	174	146
Sale of other services	53	52
Commission from ticket sales and other transactions at cash desks	1	5
Total	**228**	**203**

5.2.2. Remaining Contractual Liabilities

As of December 31, 2019, the Company has concluded more than 40 contracts with public rail transport orderers (Ministry of Transport and Regions). The validity of these contracts varies from 1 to 15 years individually. According to these contracts, the Company is obliged to provide transport performance to the specified extent. For this service, the Company is entitled to a fixed remuneration which will be recognised by the Company as income. The Company does not disclose the allocated transaction price under the exemption from IFRS 15. Transport revenue is disclosed in Note 5.1.

6. Other Operating Income

(CZK million)

	2019	2018
Gain from sale of property, plant and equipment and investment property	526	455
Profit from disposal of redundant assets	38	38
Compensations for deficits and damage	86	38
Contractual penalties and default interest	26	52
Dividends received	149	275
Foreign exchange gains – operating	57	53
Released provisions	122	132
Release of allowance for accounts receivables	17	11
Release of allowance for property, plant and equipment	-	335
Reversal of write-off of inventory to net realisable value	3	6
Other	174	169
Total other operating income	**1,198**	**1,564**

7. Purchased Consumables and Services

(CZK million)

	2019	2018
Traction costs	(2,886)	(2,451)
Traction fuel (diesel)	(1,223)	(1,230)
Traction electricity	(1,663)	(1,221)
Payment for the use of railway route	(1,820)	(1,798)
Other purchased consumables and services	(5,574)	(5,648)
Consumed material	(1,119)	(972)
Consumed other energy	(278)	(264)
Consumed fuel	(57)	(61)
Repairs and maintenance	(789)	(790)
Travel costs	(131)	(133)
Telecommunication, data and postal services	(124)	(116)
Other rental costs	(58)	(149)
Lease of rail vehicles	(404)	(550)
Transportation charges	(16)	(15)
Rail replacement bus service	(165)	(143)
Services of dining and sleeping carriages	(183)	(160)
Services associated with the use of buildings	(221)	(221)
Operational cleaning of rail vehicles	(370)	(342)
Border area services	(498)	(483)
Advertising and promotion costs	(167)	(232)
Commission from ticket sales to other carriers and vendors	(146)	(139)
Infrastructure capacity allocation	(56)	(56)
Services related to IT	(323)	(319)
Fire brigade services	(3)	(26)
Services in the field of ecology	(34)	(33)
Other services	(432)	(444)
Total purchased consumables and services	**(10,280)**	**(9,897)**

Other services include mainly training costs, preventive health care, consulting, expert opinions and other services.

Other services also include audit and non-audit services provided by the PwC network companies. The total remuneration for these services:

(CZK million)

	2019	2018
Audit services	(2)	(2)
Non-audit services	-	(8)
Total	**(2)**	**(10)**

8. Employee Benefit Costs

(CZK million)

	2019	2018
Payroll costs	(7,038)	(6,409)
Severance pay	(65)	(52)
Statutory social security and health insurance	(861)	(806)
Pension insurance	(1,482)	(1,372)
Contributions to the pension insurance and capital life insurance	(208)	(212)
Other social costs	(64)	(57)
Other employee benefit costs	(67)	(172)
Total employee benefit costs	**(9,785)**	**(9,080)**

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

9. Depreciation and Amortisation

(CZK million)

	2019	2018
Depreciation of property, plant and equipment	(4,740)	(4,606)
Depreciation of investment property	(24)	(23)
Depreciation of right-of-use assets	(174)	-
Amortisation of intangible assets	(85)	(91)
Total depreciation and amortisation	**(5,023)**	**(4,720)**

10. Other Operating Expenses

(CZK million)

	2019	2018
Impairment losses on property, plant and equipment, investment property and assets held for sale	(62)	-
Write-off of inventories to their net realisable value	(28)	(20)
Taxes and fees	(11)	(15)
Insurance	(80)	(75)
Foreign Exchange loses - operating	(46)	(48)
Shortages and damages	(14)	(11)
Expenses for uniforms and personal protective equipment	(42)	(41)
Provision for legal disputes related to other operating expenses	-	-
Lump sum payments to employees	(17)	(17)
Other expenses	(118)	(95)
Total other operating expenses	**(418)**	**(322)**

Other operating expenses include mainly fines and penalties and expenses related to tax returns from last year.

11. Financial Expenses

(CZK million)

	2019	2018
Interest on issued bonds	(765)	(823)
Interest on leasing liabilities *)	(62)	-
Interest on financial lease liabilities **)	-	(41)
Other interests	(148)	(57)
Less: amounts capitalised as part of the costs of an qualifying asset	16	8
Foreign exchange loses– financial	(259)	(293)
Other financial expenses	(45)	(39)
Total financial expenses	**(1,263)**	**(1,245)**

*Applies to IFRS 16 application only in the current period

** Applies only to comparable information under IAS 17

The capitalisation rate in the year 2019 is 2.02 % p. a. (2018: 2.92 % p. a.).

12. Financial Income

(CZK million)

	2019	2018
Foreign exchange gains – financial	389	208
Received interest	135	57
Other financial income	1	-
Total other financial income	**525**	**265**

13. Income Tax

13.1. Income Tax Recognised in Profit or Loss

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

(CZK million)

	2019	2018
Profit (loss) for the period before tax	**3,251**	**457**
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected income tax expense	**(618)**	**(87)**
Adjustments:		
Effect of the unrecognised deferred tax asset	576	163
Effect of unused tax losses release	-	(134)
Revenues exempt	28	52
Non-taxable revenue - cancellation of provisions for the fine from the Office for the Protection of Competition	70	38
Tax non-deductible expenses - deficits and damage	(3)	(2)
Tax non-deductible payroll expenses	(26)	(24)
Tax non-deductible expenses - fines	(47)	-
Other tax non-deductible items, net	20	(6)
Income tax recognised in profit or loss	**-**	**-**

13.2. Deferred Tax

(CZK million)

	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Other	Total
Balance at 1 Jan 2018 – calculated	**196**	**1,420**	**42**	**(204)**	**16**	**(21)**	**1,449**
Balance at 1 Jan 2018 – recognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deferred tax recognised in profit or loss:	-	-	-	-	-	-	-
- *of which current changes*	(196)	78	(21)	(30)	5	1	(163)
- *of which impairment *)*	196	(78)	21	30	(5)	(1)	163
Deferred tax recognised in other comprehensive income	-	-	-	-	-	-	-
- *of which current changes*	-	(21)	(3)	-	-	2	(22)
- *of which impairment *)*	-	21	3	-	-	(2)	22
Balance at 31 Dec 2018 – calculated	**-**	**1,477**	**18**	**(234)**	**21**	**(18)**	**1,264**
Balance at 31 Dec 2018 – recognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deferred tax recognised in profit or loss	-	-	-	-	-	-	-
- *of which current changes*	-	(582)	(4)	(19)	(2)	31	(576)
- *of which impairment *)*	-	582	4	19	2	(31)	576
Deferred tax recognised in other comprehensive income	-	-	-	-	-	-	-
- *of which current changes*	-	(2)	(1)	-	-	(102)	(105)
- *of which impairment *)*	-	2	1	-	-	102	105
Balance at 31 Dec 2019 – calculated	**-**	**893**	**13**	**(253)**	**19**	**(89)**	**583**
Balance at 31 Dec 2019 – recognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**

*) Decrease of deferred tax asset recognised in the balance sheet (directly or indirectly as items decreasing deferred tax liabilities) to its recoverable value.

With regards to the low expected future taxable profit, realisation of deferred tax assets is uncertain. Therefore, when the calculated net position of the deferred tax as at balance sheet date results in a deferred tax asset, the Company recognizes this receivable at nil value.

14. Property, Plant and Equipment

(CZK million)

Cost	Balance at 1 Jan 2018	Additions	Disposals	Reclassification	Balance at 31 Dec 2018	Impact of IFRS16	Balance at 1 Jan 2019	Additions	Disposals	Reclassification	Balance at 31 Dec 2019
Land	5,599	73	145	(2)	5,525	-	5,525	31	39	(1)	5,516
Constructions	9,475	203	176	44	9,546	-	9,546	117	77	56	9,642
Equipment	87,996	3,488	5,090	115	86,509	(46)	86,463	3,167	3,141	84	86,573
- *Machinery, equipment, and furniture and fixtures*	2,099	127	53	35	2,208	-	2,208	64	36	52	2,288
Vehicles)*	69,356	1,560	182	80	70,814	-	70,814	1,119	104	32	71,861
- *Vehicles acquired under finance leases **)*	44	2	-	-	46	(46)	-	-	-	-	-
- *Components*	16,467	1,799	4,854	-	13,412	-	13,412	1,984	2,998	-	12,398
- *Other*	30	-	1	-	29	-	29	-	3	-	26
Other Assets	13	-	-	-	13	-	13	-	1	-	12
Assets under construciton	1,390	378	2	(199)	1,567	-	1,567	375	10	(187)	1,745
Prepayments	247	30	193	-	84	-	84	1,305	97	-	1,292
Total	**104,720**	**4,172**	**5,606**	**(42)**	**103,244**	**(46)**	**103,197**	**4,995**	**3,365**	**(48)**	**104,780**

(CZK million)

Accumulated depreciation	Balance at 1 Jan 2018	Additions	Disposals	Reclassification	Balance at 31 Dec 2018	Impact of IFRS16	Balance at 1 Jan 2019	Additions	Disposals	Reclassification	Balance at 31 Dec 2019
Constructions	5,200	192	110	(69)	5,213	-	5,213	193	61	(35)	5,310
Equipment	44,652	4,414	5,089	-	43,977	(14)	43,963	4,547	3,145	-	45,365
- *Machinery, equipment, and furniture and fixtures*	1,656	90	51	-	1,695	-	1,695	97	37	-	1,755
- *Vehicles*)*	31,714	2,685	302	-	34,097	-	34,097	2,721	244	-	36,574
- *Vehicles acquired under finance leases **)*	3	11	-	-	14	(14)	-	-	-	-	-
- *Components*	11,250	1,628	4,735	-	8,143	-	8,143	1,729	2,862	-	7,010
- *Other*	29	-	1	-	28	-	28	-	2	-	26
Total	**49,852**	**4,606**	**5,199**	**(69)**	**49,190**	**(14)**	**49,176**	**4,740**	**3,206**	**(35)**	**50,675**

(CZK million)

Impairment	Balance at 1 Jan 2018	Additions	Disposals	Reclassification	Balance at 31 Dec 2018	Impact of IFRS16	Balance at 1 Jan 2019	Additions	Disposals	Reclassification	Balance at 31 Dec 2019
Land	68	-	1	-	67	-	67	26	-	-	93
Constructions	62	-	7	-	55	-	55	15	-	-	70
Equipment	1,375	35	327	-	1,083	-	1,083	100	88	-	1,095
*- Vehicles**	1,375	35	327	-	1,083	-	1,083	100	88	-	1,095
Assets under construction	474	-	36	-	438	-	438	9	-	-	447
Total	**1,979**	**35**	**371**	**-**	**1,643**	**-**	**1,643**	**150**	**88**	**-**	**1,705**

*) Vehicles purchased under leaseback agreements are disclosed within „Vehicles". Their net book value is CZK 133,426 million as at 31 December 2019 and CZK 195,143 million as at 31 December 2018. Amount of these leaseback liabilities is included in Note 24. The Group's leaseback liabilities are guaranteed by the lessor's ownership of the leased assets. These assets are not classified as finance leases under IFRSs, however, their legal substance is a lease arrangement and hence legally they are assets acquired under lease.

**) Until 31 December 2018, according to IAS 17 the item Vehicles acquired under finance leases was presented in line Vehicles. From 1 January 2019 it has been reclassified according to IFRS 16 to Right-of use assets (see Note 17).

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

(CZK million)

Net book value	Balance at 1 Jan 2018	Balance at 31 Dec 2018	Impact of IFRS 16	Balance at 1 Jan 2019	Balance at 31 Dec 2019
Land	5,531	5,458	-	5,458	5,423
Constructions	4,213	4,278	-	4,278	4,262
Equipment	41,969	41,449	(32)	41,417	40,113
- Machinery, equipment, and furniture and fixtures	443	513	-	513	533
- Vehicles	36,267	35,634	-	35,634	34,192
*- Vehicles acquired under finance leases **)*	41	32	(32)	-	-
- Other	5,217	5,269	-	5,269	5,388
- Components	1	1	-	1	-
Other assets	13	13	-	13	12
Assets under construction	916	1,129	-	1,129	1,298
Prepayments	247	84	-	84	1,292
Total	**52,889**	**52,411**	**(32)**	**52,379**	**52,400**

**) The item Vehicles acquired under finance leases is presented until 31 December 2018 according to IAS 17 in the Vehicles and from 1 January 2019 it is reclassified according to IFRS 16 to Right-of-use assets (see Note 17).

The following useful lives were used in the calculation of depreciation:

	Number of years
Buildings	20 – 50
Vehicles	
- Locomotives	20 – 30
- Passenger cars	20 – 30
- Wagons	25 – 33
Components	2 – 15
Machinery and equipment	8 – 20

The most significant additions from 1 January 2018 to 31 December 2019 are the acquisition and modernization of railway vehicles for the renewal of the Company's fleet of railway vehicles. Due to the long-term nature of the acquisition of this type of assets, significant balances are presented in assets under construction.

In 2019, the Company provided advance payment of CZK 1,114 million for purchase of new railway rolling stock and advance payment CZK 447 million for equipment of electrical locomotive with ETCS mobile part. No significant advance payment were provided in 2018.

In 2018, the company received a "Promise to provide a subsidy" of CZK 857 million for the renewal of the rolling stock for the Pilsen Region. The value of assets under construction as at 31 December 2018 was reduced by this amount.

The Company leases to external entities some of its assets which are not currently used for its activities. The most significant leased assets are buildings and land. The carrying amount of these leased assets is shown in the table below.

(CZK million)

Net book value	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Land	2,929	3,490
Constructions	1,122	1,036
Total	**4,051**	**4,526**

14.1. Impairment Loses Recognised in the Reporting Period

Vehicles are predominantly defined railway vehicles (locomotives, passenger coaches, other railway vehicles) used for operating passenger railway transportation. Pursuant to the inventory count and analyses, the Company identified asset 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 higher of fair value less cost to sall and value in use.

The asset item with the most significant impairment loss are the 680 series tilting trains (Pendolino). Amount of the impairment is CZK 443 million as at 31 December 2019), CZK 471 million(as at 31 December 2018) and CZK 573 million (as at 31 December 2017). 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 2017, the independent expert's assessment did not indicate any decline in the value and since the circumstances have not changed since 2018, there was no change in impairment for 2019 either. Other items with significant impairment are type 380 locomotives. As at 31 December 2019 the impairment loss was CZK 544 million, as at 31 December 2017 CZK 567 million.

Since 2010 in the field of acquisition and modernization in accordance with Regional Operational Programs (ROP) ČD completed in particular regions 19 grant project plans in amount of more than CZK 7.6 billion. As of 31 December 2019, based on finding of audit unit of Ministry of Finance and its quantified correction, the Company increases cost of equipment (vehicles) of CZK 379 million and in the same time the impairment loss is accounted in the amount of CZK 379 million.

Impairment losses are included in Other operating expenses and its reversal in Other operating income in the statement of profit or loss.

14.2. Pledged Assets

The Company's does not have any pledged assets as at 31 December 2019.

14.3. Unused Immovable Assets

In the property, plant and equipment class, the Company reports assets of CZK 311 million which are currently not used. These are primarily vacant buildings. The Company anticipates selling these 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.

15. Investment Property

(CZK million)

	2019	2018
Balance at the beginning of the year	611	666
Additions from subsequent capitalised expenses	11	1
Disposals	(6)	(34)
Disposals annual depreciation	(24)	(23)
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	15	48
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	-	(45)
Impairment	(1)	(2)
Balance at the end of the year	**606**	**611**

(CZK million)

	Balance at 31 Dec 2019	Balance at 31 Dec 2018	Balance at 1 Jan 2018
Cost	1,362	1,313	1,287
Accumulated depreciation and impairment	(756)	(702)	(621)
Net book value	**606**	**611**	**666**

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

The properties are located around the railway route, in train stations and depots of rail vehicles. The Company applies market approach to determine the fair value of its land and income approach to determine the fair value of its buildings.

For buildings, the fair value calculation is based on the size of a specific property, occupancy by the particular type of premises, external annual rent in accordance to individual type of premises. Furthermore, the costs incurred for a given property and the capitalisation rate for a given location (yield) is taken into account to determine the final value of the property. Yield is updated annually based on the expert's opinion and then entered into the application. Yield is calculated as the sum of net earned revenues (net rent) divided by the sum of sales prices for comparable property. To determine the fair value of real estates as at 31 December 2019, taking into account the type of real estate and its location, yield used was in the range of 6-10%.

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

The fair value estimate as at 31 December 2019, 2018 and 1 January 2018 amounted to CZK 4,795 million, CZK 4,052 million, CZK 4,353 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 buildings (see Note 14).

16. Intangible Assets

(CZK million)

Cost	Balance at 1 Jan 2018	Additions	Disposals	Reclassification	Balance at 31 Dec 2018	Additions	Disposals	Reclassification	Balance at 31 Dec 2019
Development costs	2	-	2	-	-	-	-	-	-
Software	916	43	27	83	1,015	33	15	58	1,091
Software licences	633	1	-	21	655	7	-	12	674
Assets under construction	111	126	1	(104)	132	95	-	(70)	157
Total	**1,662**	**170**	**30**	**-**	**1,802**	**135**	**15**	**-**	**1,922**

(CZK million)

Accumulated amortisation	Balance at 1 Jan 2018	Additions	Disposals	Balance at 31 Dec 2018	Additions	Disposals	Balance at 31 Dec 2019
Development costs	2	-	2	-	-	-	-
Software	830	67	26	871	69	15	925
Software licences	593	24	-	617	16	-	633
Total	**1,425**	**91**	**28**	**1,488**	**85**	**15**	**1,558**

(CZK million)

Net book value	Balance at 1 Jan 2018	Balance at 31 Dec 2018	Balance at 31 Dec 2019
Development costs	-	-	-
Software	86	144	166
Software licences	40	38	41
Assets under construction	111	132	157
Total	**237**	**314**	**364**

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

	Number of years
Software	3-4
Other royalties	6

Intangible fixed assets include software used in business activities entitled DISOD, PARIS, APS, In-karta, POP, UNIPOK, IS OPT and KASO.

In 2019, the Company extended the amortisation period of the software from 3 to 4 years with an impact of CZK 13 million in 2019.

17. Right-of-use Assets and Lease Liabilities

The Company rents land, administrative premises, railway station premises, locomotives, cars and equipment. Lease contracts are usually concluded for a defined period (3 to 10 years). Part of the contracts is concluded for an indefinite period, see note 4.2.2.

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

(CZK million)

Gross amount	Balance at 1 Jan 2019	Additions	Disposals	Change in estimates *)	Balance at 31 Dec 2019
Land	4	-	-	-	4
Constructions	434	-	-	48	482
- *of which premises at railway stations*	286	-	-	38	324
- *of which administrative buildings*	148	-	-	10	158
Equipment	4	-	-	-	4
Vehicles	851	-	-	-	851
- *of which locomotives*	805	-	-	-	805
Total	**1,293**	**-**	**-**	**48**	**1,341**

(CZK million)

Accumulated depreciation and impairment	Balance at 1 Jan 2019	Additions	Disposals	Change in estimates *)	Balance at 31 Dec 2019
Land	2	1	-	-	3
Constructions	141	81	-	-	222
- *of which premises at railway stations*	91	39	-	-	130
- *of which administrative buildings*	50	42	-	-	92
Equipment	2	-	-	-	2
Vehicles	105	92	-	-	197
- *of which locomotives*	91	81	-	-	172
Total	**250**	**174**	**-**	**-**	**424**

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

(CZK million)

Net book value	Balance at 1 Jan 2019	Balance at 31 Dec 2019
Land	2	1
Constructions	293	260
- *of which premises at railway stations*	195	194
- *of which administrative buildings*	98	66
Equipment	2	2
Vehicles	746	654
- *of which locomotives*	714	633
Total	**1,043**	**917**

The Company recognised the lease liability as follows:

(CZK million)

	Balance as at 1 Jan 2019	Balance as at 31 Dec 2019
Short-term lease liabilities	165	151
Long-term lease liabilities	903	791
Total lease liabilities	**1,068**	**942**

The amounts recognised in the income statement:

(CZK million)

	Balance as at 31 Dec 2019
Depreciation of right-of-use assets	(174)
Interest expense on lease liabilities	(62)
Expense related to short-term leases	(65)
Expense related to the leasing of low value assets	(91)

Costs relating to short-term leases and low-value assets' leases, that are not included in the above short-term lease liabilities, are included in the profit and loss statement in line in Services, raw materials and consumables used.

Total cash expenses related to leasing amounted to CZK 651 million in 2019.

The Company is not exposed to any significant liquidity risk with respect to lease obligations. Liabilities are monitored within the Treasury section. All lease payables are denominated in CZK.

18. Investments in Subsidiaries, Associates an Joint Ventures

18.1. Information on Subsidiaries

(CZK million)

Name of the entity	Registered office	Value of investment as of 31 Dec 2019	Value of investment as of 31 Dec 2018
Výzkumný Ústav Železniční, a.s.	Prague	383	383
ČD – Telematika a.s.	Prague	1,089	1,089
DPOV, a.s.	Přerov	434	434
ČD Cargo, a.s.	Prague	8,760	5,908
ČD – Informační Systémy, a.s.	Prague	122	122
Dopravní vzdělávací institut, a.s.	Prague	6	6
ČD travel, s.r.o.	Prague	8	8
Total		**10,802**	**7,950**

Name of the entity	Principal activity	Ownership percentage as at 31 Dec 2019	Ownership percentage as at 31 Dec 2018
Výzkumný Ústav Železniční, a.s.	Research and development in rail vehicles	100%	100%
ČD – Telematika a. s.	Provision of ITC services	70.96%	70.96%
DPOV, a.s.	Repairs and renovations of rail vehicles	100%	100%
ČD Cargo, a.s.	Operations of railway freight transportation	100%	100%
ČD – Informační Systémy, a.s.	Provision of ITC services	100%	100%
Dopravní vzdělávací institut, a.s.	Provision of educational services	100%	100%
ČD travel, s.r.o.	Travel agency	51.72%	51.72%

In recent years, the economy of ČD Cargo, as has significantly stabilised, to which the implementation of restructuring measures started in 2013 and completed in early 2019 contributed. The liquidity of the company was also strengthened in connection with these measures. The Company has been profitable for several years and in 2019 invested record funds in the modernisation of the fleet. At present, there is no indication of impairment of ownership share in ČD Cargo, a.s. For these reasons, the impairment loss of CZK 2,852 million was reversed in 2019.

18.1.1. Details on Significant Co-owned Subsidiaries

Summary of financial information on ČD – Telematika, a. s.:

(CZK million)

	31 Dec 2019	31 Dec 2018
Fixed assets	1,801	1,467
Current assets	1,953	1,277
Long-term liabilities	499	105
Short-term liabilities	1,267	665
Equity	1,988	1,974
Equity attributable to the owners of the Company	1,411	1,401
Non-controlling interests	577	573

(CZK million)

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Income	1,705	1,678
Expenses	(1,651)	(1,620)
Profit for the period	**54**	**58**
Profit attributable to company owners	38	41
Other comprehensive income attributable to company owners	-	-
Total comprehensive income attributable to company owners	**38**	**41**
Profit attributable to non-controlling interests	16	17
Other total profit attributable to non-controlling interests	-	-
Total profit attributable to non-controlling interests	**16**	**17**
Net cash flows from operating activities	572	192
Net cash flows from investment activities	(63)	(99)
Net cash flows from financing activities	(74)	(53)
Net cash flow	**435**	**40**

18.2. Information on Associates and Joint Ventures

(CZK million)

Name of the entity	Registered office	Investment as of 31 Dec 2019	Investment as of 31 Dec 2018
JLV, a.s.	Prague	110	110
Masaryk Station Development, a.s.	Prague	-	-
Smíchov Station Development, a.s.	Prague	-	-
Žižkov Station Development, a.s.	Prague	1	1
Total		**111**	**111**

Name of the entity	Principal activity	Ownership percentage as at 31 Dec 2019	Ownership percentage as at 31 Dec 2018
JLV, a.s.	Development of the Masaryk train station	38,79%	38,79%
Masaryk Station Development, a.s.	Development of the Smíchov train station	34 %	34 %
Smíchov Station Development, a.s. *)	Development of the Žižkov train station	51%	51%
Žižkov Station Development, a.s. *)	Rozvoj nádraží Žižkov	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, so it is a Joint venture.

Summary of financial information on associates and joint ventures:

(CZK million)

31 Dec 2019	Masaryk Station Development, a.s.	JLV, a.s.	Joint venturesy	Total
Total assets	12	518	13	543
Of which long-term assets	7	320	8	335
short-term assets	5	198	5	208
Total liabilities	5	153	9	167
Of which long-term liabilities	1	63	-	64
short-term liabilities	4	90	9	103
Net assets	7	365	4	376
The Company's share of net assets	**3**	**142**	**2**	**147**
Total income	5	553	164	722
Profit (loss) for the period	1	16	34	51
The Company's share of profit	**-**	**6**	**17**	**23**

(CZK million)

31 Dec 2018	Masaryk Station Development, a.s.	JLV, a.s.	Joint ventures	Total
Total assets	11	497	125	633
Of which long-term assets	2	306	121	429
short-term assets	9	191	4	204
Total liabilities	4	144	155	303
Of which long-term liabilities	1	75	141	217
short-term liabilities	3	69	14	86
Net assets	7	353	(30)	330
The Company's share of net assets	**2**	**137**	**(15)**	**124**
Total income	5	505	7	517
Profit (loss) for the period	1	17	(4)	14
The Company's share of profit	**-**	**7**	**(2)**	**5**

19. Inventories

(CZK million)

	31 Dec 2019	31 Dec 2018
Spare parts for machinery and equipment	192	183
Spare parts for rail vehicles and locomotives	1,039	899
Fuels, lubricants and other oil products	31	32
Work clothes, work shoes, protective devices	110	110
Other	92	92
Total cost	**1,464**	**1,316**
Impairment of inventories to their net realisable value *)	(53)	(56)
Total net book value	**1,411**	**1,260**

*) Amount of the inventories for which the impairment was accounted for is CZK 146 million as at 31 December 2019 and CZK 312 million as at 31 December 2018.

20. Trade Receivables

20.1. Aging of Trade Receivables

(CZK million)

			Past due date (days)						
	Category	Before due date	1 - 30 days	31 – 90	91- 180	181 -365	Over 365	Total Past due date	Total
31 Dec 2019	Gross	1,275	23	4	1	7	103	138	1,413
	Allowances	(32)	(1)	(3)	(1)	(7)	(103)	(115)	(147)
	Net	**1,243**	**22**	**1**	**-**	**-**	**-**	**23**	**1,266**
31 Dec 2018	Gross	1,458	31	16	2	3	105	157	1,615
	Allowances	(40)	(1)	(1)	(2)	(3)	(105)	(112)	(152)
	Net	**1,418**	**30**	**15**	**-**	**-**	**-**	**45**	**1,463**

Information on receivables is disclosed in Note 33.10. Credit Risk Management.

21. Other Financial Assets

(CZK million)

	31 Dec 2019	31 Dec 2018
Financial assets measured at fair value through other comprehensive income	452	440
Receivables from finance leases	79	79
Hedging derivatives *)	87	14
Loans within the ČD Group	518	641
Restricted cash	113	64
Total non-current financial assets	**1,249**	**1,238**
Hedging derivatives *)	4	141
Group cash pooling	222	45
Claims for damages and losses	52	30
Loans within the ČD Group	320	183
Restricted cash	98	91
Other	25	9
Total current financial assets	**721**	**499**
Total	**1,970**	**1,737**

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

Movement in allowances for other financial assets:

(CZK million)

	2019	2018
Allowances as at 1 January	**19**	**37**
Creation of allowances – other financial assets	1	-
Use of allowances – other financial assets	(13)	(18)
Allowances as at 31 December	**7**	**19**

21.1. Receivables from Financial Lease

The Company leased in the form financial lease the station buildings at Brno - hlavní nádraží (Main Railway Station).

Disclosure required by IFRS 16:

Analysis of receivables' maturity from leasing payments:

(CZK million)

	31 Dec 2019
1st year	17
2nd year	17
3rd year	17
4th year	17
5th year	17
Over 5 years	413
Undiscounted leasing payments	**498**
Less unrealised financial gain	(419)
Present value of lease payments receivable	**79**
Impairment allowance	-
Net investment in leasing	**79**
In the statement of financial position as:	
Other financial assets short-term	-
Other financial assets long-term	79
Total	**79**

Amounts recognised in the income statement:

(CZK million)

	31 Dec 2019
Net income from financial investments	19

The Group uses a simplified approach to measure expected credit losses in accordance with IFRS 9. This approach uses an allowance for expected losses over the useful life on all finance lease receivables.

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

None of the receivables from finance lease at the end of the reporting period is past due and, considering past experience of the past periods and the future prospects of the lessee's operations, management of the Company considers that no finance lease receivables are impaired.

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

Disclosure Required by IAS 17:

(CZK million)

	Minimum lease payments 31 Dec 2018	Minimum lease payments 31 Dec 2018
Less than 1 year	18	-
From 1 to 5 years	77	-
5 years and more	475	79
Total	**570**	**79**
Less unrealised financial income	(491)	-
Present value of minimum lease payments receivables	**79**	**79**
In the statement of financial position as: Other financial assets long-term		79
Total		**79**

Present value of minimum lease payments is nil because payments covered just the interests.

22. Other Assets

(CZK million)

	31 Dec 2019	31 Dec 2018
Total non-current assets	**2**	**3**
Prepayments	125	67
Tax receivables – VAT	432	689
Tax receivables – other (except for the corporate income tax)	6	6
Prepaid expenses	45	60
Subsidies (see Note 14)	863	1,004
Other	3	8
Total current assets	**1,474**	**1,834**
Total	**1,476**	**1,837**

23. Equity

23.1. Share Capital

The Company's share capital is composed of the investment made by the Czech Republic as the sole shareholder, represented by the Ministry of Transportation of Czech Republic. 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 Ministry of Transportation, and are transferable only subject to the prior consent of the Czech Government. All the shares are fully paid.

23.2. Reserve and Other Funds

(CZK million)

	31 Dec 2019	31 Dec 2018
Share premium	16,439	16,439
Statutory reserve fund	115	112
Cash flow hedging reserve	1,007	519
Hedging costs	(215)	(264)
Fund from valuation of financial assets at fair value through other comprehensive income	122	110
Total	**17,468**	**16,916**

The allocations to the statutory reserve fund are in accordance with the Company's Articles of Association. The statutory reserve fund may only be used to cover losses.

23.2.1. Cash Flow Hedge Reserve

(CZK million)

	2019	2018
Balance at the beginning of the year	**519**	**567**
Revaluation gain / (loss)	523	(68)
Reclassification to profit or loss	(35)	20
Total change in the cash flow hedging reserve	**488**	**(48)**
Relating income tax	-	-
Balance at the year-end	**1,007**	**519**

The cash-flow hedge 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 carrying amount 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 "Services, raw materials and consumables used" and "Financial expenses" in the statement of profit or loss.

Reclassification of cash -low hedge reserve to profit or loss for each of risk exposures:

(CZK million)

Cross-currency interest rate swaps – hedging of bond funding in EUR with fix-rate	2019	2018
Balance at the beginning of the year	**529**	**549**
Change in fair value of hedging derivatives	523	(55)
Reclassification to profit or loss	(48)	35
Balance at the year-end	**1,004**	**529**

(CZK million)

Interest rate swaps – bonds and lease contracts with a variable rate hedging	2019	2018
Balance at the beginning of the year	**5**	**(17)**
Change in fair value of hedging derivatives	0	2
Reclassification to profit or loss	(2)	20
Balance at the year-end	**3**	**5**

(CZK million)

Commodity options – oil price hedging	2019	2018
Balance at the beginning of the year	**(15)**	**-**
Change in fair value of hedging derivatives	-	(15)
Reclassification to profit or loss	15	-
Balance at the year-end	**-**	**(15)**

(CZK million)

Commodity forwards – traction electricity price hedging	2019	2018
Balance as at 1 January	**-**	**35**
Change in fair value of hedging derivatives	-	-
Settled deferred derivatives	-	-
Reclassification to profit or loss	-	(35)
Balance as at 31 December	**-**	**-**

23.2.2. Hedging Accounting Expenses

Hedge accounting expenses include accumulated gains and losses from changes in fair value excluded from the hedging derivatives related to the currency base margin of cross-currency interest rate swaps and time value of commodity options.

Changes in the fair value of the underlying currency of a financial instrument in respect of a hedged transaction-related item accumulated in the hedge expense fund are reclassified to profit or loss only when the hedged transaction affects profit or loss or is included as an adjustment to the non-financial hedged item. Changes in the fair value of the underlying currency spread of a financial instrument in respect of a hedged item associated with a time period accumulated in the hedge expense fund are amortized to profit or loss over the hedging relationship.

(CZK million)

	31 Dec 2019	31 Dec 2018
Balance at the beginning of the year	**(264)**	**(300)**
Hedging expenses	49	36
Balance at the year-end	**(215)**	**(264)**

23.2.3. Fund from Measurement of Financial Assets at Fair Value Through Other Comprehensive Income

Fund from the measurement of financial assets at fair value through other comprehensive income includes the accumulated net change in fair value of financial instruments remeasured through other comprehensive income, net of accumulated gains / losses transferred to retained earnings on derecognition.

(CZK million)

	31 Dec 2019	31 Dec 2018
Balance at the beginning of the year	**110**	**93**
Revaluation	12	17
Balance at the year-end	**122**	**110**

24. Loans and Borrowings

(CZK million)

	31 Dec 2019	31 Dec 2018
Lease liabilities *)	151	-
Leaseback liabilities *)	277	-
Lease and leaseback liabilities **)	-	280
Group cash pooling	149	57
Issued bonds	300	8,036
Total short-term	**877**	**8,373**
Lease liabilities *)	791	-
Leaseback liabilities *)	174	-
Lease and leaseback liabilities **)	-	472
Issued bonds	30,075	17,752
Total long-term	**31,040**	**18,224**
Total	**31,917**	**26,597**

*) The marked lines refer to IFRS 16 only in the current period

**) The marked lines refer only to comparable data according to IAS 17

Borrowings are initially recognised at fair value less transaction costs. In the following periods borrowings are recognised at amortised cost applying the effective interest rate method. All differences between consideration less transaction costs and the amount of payments are recognised in the profit or loss progressively over the borrowing period.

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.

Issued bonds in book value of CZK 7,849 million repaid in July 2019 were disclosed as short-term loans and borrowings as at 31 December 2018.

24.1. Issued Bonds

Issue date	Nominal value	Maturity	Public traded	Coupon	Carrying value at 31 Dec 2019 CZK million	Carrying value at 31 Dec 2018 CZK million
23 Jul 2012	EUR 300 million	7	Yes	4.125%	-	7,849
5 Nov 2014	EUR 30 million	10	No	2.875%	761	769
5 Nov 2014	EUR 150 million	15	No	3.50%	3,805	3,850
3 Jun 2015	EUR 37.7 million	7	No	1.89%	969	981
3 Jun 2015	EUR 77.5 million	20	No	3.00%	1,996	2,021
25 May 2016	EUR 400 million	7	Yes	1.875%	10,210	10,318
23 May 2019	EUR 500 million	7	Yes	1.50%	12,634	-
Total					**30,375**	**25,788**
of which current					300	8,036
of which non-current					30,075	17,752

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

24.2. Financial Lease Payables

Disclosure Required by IAS 17:

Finance leases relate to railway vehicles with the lease period of 10 and more years. In the year 2017, the lease agreement for 12 wagons ended and the Company renewed the car fleet, also under finance lease arrangement. Payables arising from finance leases are as follows:

Fair value of finance lease liabilities disclosed in Note 33.3.

The acquisition of fixed assets under finance leases is recognized as a non--cash transaction in the statement of cash-flows. Repayment of finance lease liabilities is recognized as cash flows from financial activities.

(CZK million)

	Minimal lease payments 31 Dec 2018	Present value of minimum lease payments 31 Dec 2018
Up to 1 year	311	280
1 to 5 years	493	472
Over 5 years	-	-
Total	**804**	**752**
Less: future financial costs	(52)	-
Present value of minimum lease payments	**752**	**752**
In the statement of financial position as:		
short-term loans		280
long-term loans		472
Total		**752**

24.3. Changes in Financing Liabilities

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

(CZK million)

	Lease liabilities – short-term	Lease liabilities – long-term	Group cash pooling	Issued bonds – short-term	Issued bonds – long-term	Total
Note	24 *)	24 *)	24	24	24	24
Financing liabilities as at 1 Jan 2018	**375**	**751**	**57**	**4,351**	**25,257**	**30,791**
Cash flows from financing activities *)	**(374)**	**-**	**-**	**(4,000)**	**-**	**(4,374)**
Repayments of loans and borrowings	-	-	-	(4,000)	-	(4,000)
Repayments of finance lease	(374)	-	-	-	-	(374)
Non-cash flows:						
Effect of exchange rate changes	-	-	-	8	184	192
Reclassification **)	279	(279)	-	7,718	(7,718)	-
Other non-cash movements	-	-	-	(41)	29	(12)
Financing liabilities as at 31 Dec 2018	**280**	**472**	**57**	**8,036**	**17,752**	**26,597**
Implementation of IFRS 16	**154**	**880**	**-**	**-**	**-**	**1,034**
Financing liabilities as at 1 Jan 2019	**434**	**1,352**	**57**	**8,036**	**17,752**	**27,631**
Cash flows from financing activities	**(433)**	**-**	**92**	**(7,644)**	**12,633**	**4,648**
Drawdown of loans and borrowings	-	-	92	-	12,633	12,725
Repayments of loans and borrowings	-	-	-	(7,644)	-	(7,644)
Repayments of finance lease	(433)	-	-	-	-	(433)
Non-cash flows:						
Effect of exchange rate changes	-	-	-	(82)	(336)	(418)
Reclassification **)	427	(427)	-	-	-	-
Other non-cash movements	-	40	-	(10)	26	56
Financing liabilities as at 31 Dec 2019	**428**	**965**	**149**	**300**	**30,075**	**31,917**

*) Columns Lease liabilities refer to the lines 'Lease liabilities' and 'Leaseback liabilities' under Note 24.

**) Loans and borrowings classified in the previous period as long-term, which became short-term in the current period.

25. Provisions

(CZK million)

	Balance at 1 Jan 2018	Creation	Use	Release of unused par	Balance at 31 Dec 2018	Creation	Use	Release of unused par	Balance at 31 Dec 2019
Provision for legal disputes	591	21	66	154	392	-	274	113	5
out of which: long-term	-				-				-
Other provision	109	-	-	-	109	-	-	9	100
out of which: long-term	-				-				-
Provisions for employee benefits	244	82	92	-	234	16	16	-	234
out of which: long-term	152				136				137
Total provisions	**944**	**103**	**158**	**154**	**735**	**16**	**290**	**122**	**339**
long-term	152				136				137
short-term	792				599				202

The provision for employee benefits includes the employees right for a financial contribution when they celebrate anniversaries, financial contribution upon retirement and payment of treatment fees including salary refunds during 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 results of all ongoing legal disputes and the relating cash outflows of the Company. Information about the legal claims is disclosed in Note 32.1.

26. Other Financial Liabilities

(CZK million)

	31 Dec 2019	31 Dec 2018
Financial derivatives *)	35	338
Other	150	124
Total long-term	**185**	**462**
Financial derivatives *)	212	39
Other	36	34
Total short-term	**248**	**73**
Total	**433**	**535**

*) The Company uses fair value measurement for the financial derivatives and other financial liabilities are valued in amortized cost.

27. Other Liabilities and Contractual Liabilities

(CZK million)

	31 Dec 2019	31 Dec 2018
Advances received	3	4
Payables to employees	1,012	919
Liabilities for social security and health insurance	302	288
Tax liabilities - tax withheld from employees	104	92
Repayment of part of subsidy within ROP project *)	379	379
Contract liabilities	270	254
Refund liabilities	9	21
Other	97	108
Total short-term	**2,176**	**2,065**

*) Detail for subsidy repayment is included in Note 14.1.

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

28. Related Parties

28.1. Income Generated from Subsidiaries and Associates

(CZK million)

2019	Sale of inventories	Sale of services	Other income	Total
ČD – Telematika a.s.	-	2	6	8
Výzkumný Ústav Železniční, a.s.	-	4	1	5
DPOV, a.s.	23	61	21	105
ČD Cargo, a.s.	8	199	3	210
ČD - Informační Systémy, a.s.	-	17	26	43
JLV, a.s.	-	2	-	2
Dopravní vzdělávací institut, a.s.	-	6	-	6
ČD travel, s.r.o.	-	1	-	1
Total	**31**	**292**	**57**	**380**

*) including financial income

(CZK million)

2018	Sale of inventories	Sale of services	Other income	Total
ČD – Telematika a.s.	-	8	11	19
Výzkumný Ústav Železniční, a.s.	-	9	-	9
DPOV, a.s.	19	38	6*)	63
ČD Cargo, a.s.	9	184	4*)	197
ČD - Informační Systémy, a.s.	-	16	29*)	45
JLV, a.s.	-	1	1	2
Dopravní vzdělávací institut, a.s.	-	3	-	3
ČD travel, s.r.o.	-	7	1	8
Total	**28**	**266**	**52**	**346**

*) including financial income

28.2. Purchases from Subsidiaries and Associates

(CZK million)

2019	Purchase of material	Services	Total
ČD - Telematika a.s.	8	67	75
DPOV, a.s.	8	165	173
ČD Cargo, a.s.	1	20	21
ČD - Informační Systémy, a.s.	2	273	275
JLV, a.s.	-	204	204
Dopravní vzdělávací institut, a.s.	-	62	62
ODP-software, spol. s r.o.	4	11	15
ČD relax s.r.o.	-	28	28
CHAPS spol. s r.o.	-	8	8
Total	**23**	**838**	**861**

(CZK million)

2018	Purchase of material	Services	Total
ČD - Telematika a.s.	10	55	65
Výzkumný Ústav Železniční, a.s.	-	1	1
DPOV, a.s.	2	141	143
ČD Cargo, a.s.	-	20	20
ČD - Informační Systémy, a.s.	2	235	237
JLV, a.s.	-	160	160
Dopravní vzdělávací institut, a.s.	-	53	53
ODP-software, spol. s r.o.	13	10	23
ČD travel, s.r.o.	-	2	2
ČD relax s.r.o.	-	28	28
CHAPS spol. s r.o.	-	12	12
Total	**27**	**717**	**744**

Subsidiaries and affiliates utilise services provided by the Company under the same conditions as for other customers. On the cost side, the Company purchased certain services, materials and energy from subsidiaries and affiliates under the same conditions as other consumers.

28.3. Purchases and Sales of Fixed Assets and Financial Assets with Subsidiaries and Associates

(CZK million)

Sales	Tangible fixed assets 2019	Tangible fixed assets 2018
JLV, a.s.	-	9
Total	**-**	**9**

(CZK million)

Purchases	Intangible fixed assets 2019	Tangible fixed assets 2019	Intangible fixed assets 2018	Tangible fixed assets 2018
ČD - Telematika a.s.	1	3	-	2
Výzkumný Ústav Železniční, a.s.	-	25	-	-
DPOV, a.s.	-	1,774	-	1,692
ODP-software, spol. s r.o.	-	-	-	13
ČD - Informační Systémy, a.s.	116	-	148	-
Dopravní vzdělávací institut, a.s.	-	-	-	10
CHAPS spol. s r.o.	1	-	-	-
Total	**118**	**1,802**	**148**	**1,717**

Purchases of fixed assets from DPOV, a.s. include the purchases of railway vehicle components – major periodical repairs.

28.4. Outstanding Balances at the End of the Reporting Period with Subsidiaries and Associates

(CZK million)

31 December 2019	Receivables	Liabilities
ČD - Telematika a.s.	8	28
Výzkumný Ústav Železniční, a.s.	1	-
DPOV, a.s.	51	391
ČD Cargo, a.s.	99	6
JLV, a.s.	-	63
ČD - Informační Systémy, a.s.	5	92
Dopravní vzdělávací institut, a.s.	-	3
ODP-software, spol. s r.o.	-	6
ČD relax s.r.o.	-	2
CHAPS spol. s r.o.	-	3
Total	**164**	**594**

(CZK million)

31 December 2018	Receivables	Liabilities
ČD - Telematika a.s.	-	23
Výzkumný Ústav Železniční, a.s.	6	-
DPOV, a.s.	49	315
ČD Cargo, a.s.	178	5
JLV, a.s.	-	47
ČD - Informační Systémy, a.s.	5	94
Dopravní vzdělávací institut, a.s.	-	5
ČD travel, s.r.o.	2	-
ODP-software, spol. s r.o.	-	6
ČD relax s.r.o.	-	4
CHAPS spol. s r.o.	-	4
Total	**240**	**503**

Unsettled balances are not secured and will be settled by bank transfer or in the form of netting. No warranties were granted or accepted. In the current and previous accounting periods no costs were incurred in connection to doubtful receivables from related parties.

28.5. Contractual Obligations Relating to Expenses

As of the financial statement's preparation date, the Company concluded contracts for the purchase of fixed assets, inventory and services with related parties:

(CZK million)

	31 Dec 2019	31 Dec 2018
ČD - Telematika a.s.	508	2
DPOV, a.s.	685	800
ČD - Informační Systémy, a.s.	29	43
Total	**1,222**	**845**

28.6. Loans to Related Parties

(CZK million)

Counterparty	Loan amount	Date of supply	Maturity	Interest rate	Book value as at 31 Dec 2019	Book value as at 31 Dec 2018
ČD Cargo, a.s.	540	17 Oct 2016	Monthly payment till 17 Oct 2023	6M EURIBOR plus margin 1.00% p.a.	278	354
ČD - Informační Systémy, a.s.	400	27 Sep 2017	27 Sep 2027	3M Pribor + 5.4% p.a.	310	360
ČD - Informační Systémy, a.s.	30	29 Oct 2018	29 Jan 2019	2.3% p.a	-	30
Výzkumný Ústav Železniční, a.s.	80	21 Nov 2018	20 May 2019	2.56% p.a	-	80
ČD Cargo, a.s.	250	19 Dec 2019	18 Mar 2020	2.3% p.a.	250	-
Total					**838**	**824**

28.7. Key Management Members Compensation

The following employee benefits were paid to key management members during 2019:

(CZK million)

2019	Board of Directors	Supervisory Board	Steering committee
Remuneration of members of statutory bodies	30	3	-
Other short-term employee benefits	7	2	-
Total	**37**	**5**	**-**
Number of key management members	**5**	**9**	**7**

(CZK million)

2018	Board of Directors	Supervisory Board	Steering committee
Remuneration of members of statutory bodies	32	4	-
Other short-term employee benefits	5	2	-
Total	**37**	**6**	**-**
Number of key management members	**5**	**9**	**7**

The Group's management had the possibility to use benefit-in-kind remuneration in the form of the use of Company cars for private purposes.

28.8. Transactions with Companies Owned by State

The Company is fully 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: orders of transport in public services (region and Ministry of Transportation), government organization SŽ and the ČEZ group.

(CZK million)

Income	Counterparty	2019	2018
Income from rental property	SŽ	22	21
Payment for substitute bus service	SŽ	883	831
Payments from public services orderers – payment from the state budget	state - Ministry of Transportation	4,266	4,723
Compensation of 75% discount fares	state - Ministry of Transportation	2,329	732
Payments from public services orderers – payment from the region budget	regions	9,964	9,576

(CZK million)

Expenses	Counterparty	2019	2018
Use of railway route and allocated capacity of the railway	SŽ	1,868	1,845
Consumption of traction energy	SŽ	1,663	641
Consumption of traction energy	ČEZ	-	615
Rental estate	SŽ	48	48

(CZK million)

Receivables	Counterparty	31 Dec 2019	31 Dec 2018
Payment for substitute bus service	SŽ	75	122
Public service obligation	state - Ministry of Transportation	1	-
Compensation of 75% discount fares	state - Ministry of Transportation	179	169
Public service obligation	regions	210	24

(CZK million)

Liabilities	Counterparty	31 Dec 2019	31 Dec 2018
Use of railway route and allocated capacity of the railway	SŽ	418	418
Consumption of traction energy	SŽ	72	141
Consumption of traction energy	ČEZ	-	225

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

29. Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position are measured at amortised cost and are tested for impairment according to IFRS 9. The Company considers estimated impairment of cash and cash equivalents immaterial due to high quality credit-ratings of cooperating banks confirmed by the external investment rating.

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

(CZK million)

	31 Dec 2019	31 Dec 2018
Cash on hand and cash in transit	64	82
Cash at banks *)	4,339	1,755
Depository promissory notes *)	2,199	-
Total)	**6,602**	**1,837**

*) The Company's parties are banks with high credit-ratings (the investment grade is required) with which the Company cooperates on the basis of long-term and stable relationships.

**) According to IFRS 9, impairment losses on cash and cash equivalents were considered immaterial by the Company.

30. Contracts for operating lease

30.1. The Company as Lessee

Assets under operating lease includes a number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognised in expenses amounted to CZK 99 million in 2018.

The Company's payments as accounted into costs for the purpose of the lease of railway vehicles, and on the basis of agreement of the usage of railway vehicles in international transport amounted to CZK 378 million in 2018. Other payments for the operating lease of railway vehicles amounted to CZK 172 million in 2018.

The Company as a lessee had not concluded any irrevocable lease contracts, contingent lease contracts or onerous contracts.

Due to fact that contracts for operating leases were not irrevocable, the Company did not present value of minimal future lease payments.

30.2. The Company as a Lessor

Disclosure Required by IFRS 16:
Operating leases in which the Company acts as a lessor relate to investment property and movable assets held by the Company with various lease periods.

Maturity analysis of non-cancellable operating lease contracts:

(CZK million)

	31 Dec 2019
1st year	45
2nd year	46
3rd year	46
4th year	47
5th year	47
Over 5 years	146
Total	**377**

In 2019, income from operating leases recognised in profit or loss amounted to CZK 332 million (out of which the income from investments property was of CZK 260 million). Direct operating expenses related to investment properties were of CZK 109 million in 2019.

Disclosure Required by IAS 17:
Operating leases applies to investment property and movable assets held by the Company with various lease periods.

Revenues generated by the Company in 2018 from investment property under operating leases amounted to CZK 247 million.

Direct operating expenses related to investment property in 2018 amounted to CZK 103 million in 2018.

Income from operating leases of movable assets in 2018 amounts to CZK 64 million.

Future minimal leasing payments from irrevocable operating leasing contracts:

(CZK million)

	31 Dec 2018
1st year	36
2nd year	36
3rd year	36
4th year	36
5th year	36
Over 5 years	144
Total	**324**

31. Contractual Obligations Relating to Expenses

As at the balance sheet date, the Company concluded contracts for the purchase of fixed assets in the amount of CZK 12,202 million.

(CZK million)

	31 Dec 2019
Deliveries agreed for 2020	1,273
Deliveries agreed for the following years	8,352
As at 31 December 2019 was paid	2,577
Total	**12,202**

Investments in railway vehicles represent a significant part of the obligations relating to expenses of CZK 9,262 million.

32. Contingent Liabilities and Contingent Assets

The 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 2019 was CHF 20.8 million (CZK 487 million as at 31 December 2019). 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.

The aggregate costs of clean-ups were CZK 23 million in 2019 and CZK 24 million in 2018. 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.

32.1. Legal disputes

32.1.1. Railway Freight Transportation Market

The Office for the Protection of Competition (OPC) imposed a fine on ČD for abusing its position on the market in the area of freight transportation of significant amounts of natural resources and raw materials of approximately CZK 250 million. Based on ČD's defence, the case was passed to the Administrative Court. The Supreme Administrative Court dismissed the OPC's appeal in December 2017. The case is finally resolved at the level of the administrative courts in ČD's favour and returned to the OPC, back to the first instance. In June 2018, the OPC issued a new first instance decision, which significantly reduced the scope of sanctioned proceedings against ČD and imposed a significantly lower fine of approximately CZK 15.6 million. In July 2018, ČD appealed against this decision. The chairman of OPC dismissed the appeal and the fine in amount of approximately CZK 15.6 million became final. ČD, a.s. disagrees with the mentioned fine and appealed against it. However, due to the fact that the decision was final and' apparently, the court would not grant the suspensive effect, the fine was paid within the due date. If the administrative court accepts the appeal, the amount will be recovered.

32.1.2. Proceedings in the Matter of Alleged Abuse of a Dominant Position on the Prague – Ostrava Line

In January 2012, the OPC initiated proceedings against ČD regarding the alleged abuse of ČD's dominant position on the Prague – Ostrava line in the form of inadequately low (predatory) prices in response to the entry of a new competitive railway transporter. In November 2016 in reference to this case the formal investigation was initiated by the European Commission (‚EC'). The OPC has suspended theinvestigation due to the initiation of a European Commission investigation. The matter has not been decided yet, the proceedings are ongoing. ČD has filed legal action with the Court of Justice of the EU against execution of the local European Commission investigation in the seat of ČD. The Court of Justice partially upheld the action (the legal action was considered partly unlawful), ČD appealed against that decision. ČD's appeal was dismissed. However, it is only a procedural decision on the legality of its own control, and not a decision on whether ČD committed a defective conduct or not, which the court did not deal with at all.

32.1.3. Legal Action by LEO Express against ČD, a.s. for the Compensation of Damage in the Amount of CZK 434 million

In July 2014, LEO Express filed a legal action for 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 withdrew the legal action, against which ČD applied the legal remedy, but the court accepted the partial withdrawal, while Leo Express appealed against the decision of the Court of First Instance of dismissing the application to the extent of which there was no withdrawal. At the end of December 2016, Leo Express filed a new legal action against ČD for the approximate amount of CZK 434 million with accessories and for a similar reason. The second legal action mostly overlaps part of the legal action which was withdrawn by Leo Express after the failure in the first instance in the Municipal Court in Prague. In March 2018, the High Court in Prague cancelled the judgment dismissing the first LEO Express claim for damages and returned the case to the Municipal Court in Prague for further proceedings. Both of the above-mentioned proceedings (the first action, LEO Express claims, after partial withdrawal, payment of approximately CZK 34 million and the second action for payment of approximately CZK 434 million) are now being handled before the Municipal Court in Prague as a court of first instance.

32.1.4. RegioJet Legal Action for the Return of Allegedly Prohibited Public Support (the Defendants Being ČD, SŽ, 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 SŽ in 2008 for CZK 12 billion, were allegedly overstated by this amount. On 6 February 2019, the Court of First Instance dismissed the RegioJet legal action in its entirety. RegioJet appealed to the High Court against the decision of the Court of First Instance. České dráhy, a.s. appeal in respect of proceedings costs.

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

RegioJet sent a pre-trial call to ČD for the payment of the compensation for the damages dated 10 April 2015 in which it seeks payment of about CZK 717 million. The alleged damages were caused by ČD's sanction activities in operating the Prague – Ostrava line, involving the application of dumping prices. ČD refused to pay for the damages. RegioJet filed a legal action seeking the payment of compensation of approximately CZK 717 million with accrued interest and charges that resulted in legal proceedings being initiated in the matter. During the course of a judicial proceeding in the first instance, the trial was interrupted until the European Commission decision on the Falcon case (investigating whether ČD applied the dumping prices on the Prague – Ostrava line).

32.1.6. Legal Action by Grandi Stazioni Česká republika, s.r.o. against SŽ and ČD for the Transfer of Hlavní Nádraží Praha to SŽ

The company Grandi Stazioni Česká republika, s.r.o. (GS) filed three legal actions against the state organisation SŽ and against ČD. GS is seeking payment of compensation of CZK 777 million, increased by a fine for delayed payment and default interest from SŽ or ČD, depending on the court decision as to who the owner of Prague Main Railway Station – Praha Hlavní nádraží (Fanta's building and passenger terminal) is SŽ. In accordance to this was confirmed by the District Court for Prague 1, which dismissed the action on 5 April 2019, and the Municipal Court in Prague, which finally upheld the negative decision against ČD by a judgment of 3 December 2019.

In the matter of determining the ownership of Fanta's building, GS's action was dismissed on 27 September 2017, which was then upheld by the Municipal Court in Prague (23 October 2018) and the Supreme Court (27 September 2019).

Czech Railways was thus fully successful in both cases. No decision has yet been taken on the ownership of the new terminal building.

32.1.7. Legal Action by Grandi Stazioni Česká republika, s.r.o. against SŽ and ČD Compensation of Pre-Contractual Obligation

In August 2017, Grandi Stazioni Czech Republic, s.r.o. (GS) filed a lawsuit with the District Court in Prague 1, in which it seeks payment of CZK 1,256 million from SŽ and ČD for the payment of compensation of a pre-contractual obligation. The alleged damage was caused by the failure to apply Amendment No.5 to the lease agreement regarding the lease and revitalisation of Prague - Main Railway Station - Praha Hlavní nádraží.

Action brought by Grandi Stazioni Czech Republic, s.r.o. against ČŽ and ČD for damages from pre-contractual liability was rejected by the District Court for Prague 1 on 13 August 2019. GS has the right to appeal against the judgment. GS appealed against the decision of the Prague 1 District Court on 2 December 2019.

32.1.8. 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. The alleged violation of competition rules were charged against 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 presented a price offer which did not cover the costs of service provision on the routes in question. In accordance with the agreement, CD provided the service on the stated routes until the end of the 2013/2014 timetable.

On 14 December 2017, OPC imposed a fine of CZK 368 million on ČD. ČD filed an appeal against this decision, which was on 15 July 2019 by II grade decision was rejected and a fine of CZK 275 million was imposed on ČD. An administrative action was brought against the decision. The application for the suspensive effect of the action was not granted and ČD paid the fine. The decision not to grant suspensory effect is only a decision of a procedural nature and is not a decision as to whether ČD allegedly committed a defective conduct.

32.1.9. 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 operations at ČD 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. Following the audits carried out by the Audit Body, individual Regional Councils of the Cohesion Region issued payment demands in total anticipated amount of CZK 549 million. ČD. disagrees with the mentioned conclusions and appealed against them to the Ministry of Finance. In June 2018, on the basis of the Ministry of Finance's decision regarding one case, a CZK 272 million payment was reduced to CZK 68 million. ČD lodged an administrative action against this decision with a suspensive effect. The remaining appeal proceedings before the Ministry of Finance are still ongoing and payment demands are not valid yet. ČD is not obliged to pay them.

For assessment no. 3/2019 for the amount of CZK 5 million, the postponement with payment was allowed within 30 days from the date of delivery of the decision on the appeal against the payment assessment. For the assessment 2/2019 for the amount of CZK 36 million, postponement was allowed within 30 days from the date of delivery of the decision on the appeal against the payment assessment.

32.1.10. Alleged Cartel Agreement between CD, ZSSK and OBB for the Sale of the Disposed Railway Vehicles

In June 2016, the European commission („EC") performed a local investigation in the headquarters of ČD for the suspicion of the cartel agreement made for the mutual sale of railway vehicles. EC investigates if ČD, ZSSK and OBB have concluded an agreement on of sale of the disposed railway vehicles limitation, for the purposes of restricting the entrance of new transporters to the market. ČD filed a complaint to the Court of Justice of the EU against EC's local investigation in the headquarters of ČD. The court dismissed the complaint against the local investigation and subsequently dismissed the appeal (appeal) filed by ČD against the dismissal of the complaint. However, this is only a procedural matter, i.e. a decision on the lawfulness of its own control, and not on a decision on whether ČD committed a defective conduct, which the court does not deal with at all. ČD denies that it entered into a cartel agreement. Currently, no official proceedings have started against ČD: the case is in the investigation and information gathering phase. No official proceeding has started; however, the investigation is not finished.

32.1.11. Legal Action by CB Station Development, a.s. against ČD

ČD's contractual partner, CB Station Development, a.s. (hereinafter „CBSD"), by letter from 25 October 2018, asked ČD for information on the sale of a part of the locality in the České Budějovice railway station and proposed to start negotiations on the conclusion of Amendment no. 3 to the Project Agreement. CBSD's contractual partner did not manage to meet the basic condition for fulfilling the concept of the project within 10 years of the project: a change in the land-use plan and the subsequent obtaining of a land-use decision to place buildings on potentially sold land.

On 5 November 2018, the ČD's Board of Directors did not approve the conclusion of a purchase agreement with CBSD for the sale of ČD real estate affected by the Project Agreement. At the same meeting, the Board of Directors of ČD also did not approve the opening of negotiations on the draft amendment no.3 and thus the continuation of the development project at the České Budějovice railway station. CBSD demands ČD its claims by a contractual penalty of CZK 50 million. Claims for other damages (damages, pre-contractual liability) cannot be excluded.

On 29 January 2020, ČD received for on one of its projects an action against ČD from the company Station CB for substitution of a declaration of will, and a request from the District Court in České Budějovice to respond to the complaint. In the second project, ČD received a pre-litigation appeal.

33. Financial Instruments

33.1. Capital Risk Management

Company's main objective in capital risk management is to maintain the rating at the investment grade and maintain a balanced ratio between equity and debt. The Company uses issues of bonds as a principal source of long-term funding.

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

(CZK million)

Net debt		31 Dec 2019	31 Dec 2018
Loans and borrowings	24	31,917	26,597
Cash and cash equivalents	29	6,602	1,837
Total net debt		**25,315**	**24,760**
Equity		**31 Dec 2019**	**31 Dec 2018**
Share capital	23	20,000	20,000
Reserve and other funds	23	17,468	16,916
Retained earnings/ (accumulated loss)	23	2,217	(1,009)
Total equity		**39,685**	**35,907**
Total managed eguity		**14,370**	**11,147**

The Company does not have any capital requirements set by external entities.

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

33.2. Categories of Financial Instruments

(CZK million)

Category of financial assets	Class of financial assets		31 Dec 2019	31 Dec 2018
Financial assets measured at amortised cost	Trade receivables	20	1,266	1,463
	Cash and cash equivalents	29	6,602	1,837
	Receivables from financial leases	21	79	79
	Loans in the CD Group	21	1,060	869
	Other	21	288	194
Financial assets measured at fair value through profit or loss	Financial derivatives used in hedge accounting	21	91	155
Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through other comprehensive income	21	452	440
	Total		**9,838**	**5,037**

(CZK million)

Classification of financial liabilities	Class of financial liabilities		31 Dec 2019	31 Dec 2018
Financial assets measured at fair value through other comprehensive income	Financial derivatives used in hedge accounting	26	247	377
Financial liabilities measured at amortised cost	Loans and borrowings	24	31,917	26,597
	Trade payables		3,375	3,692
	Other	67	186	158
	Total		**35,725**	**30,824**

Income from individual categories of financial assets is as follows:

(CZK million)

Category of financial assets	2019	2018	Reported in the statement of profit or loss line
Interest on cash and cash equivalents	81	11	Financial income
Interest on cash pooling and on loans granted	35	29	Financial income
Interest on leasing receivables	19	16	Financial income
Dividends from available-for-sale financial assets	2	-	Other operating income
Total	**137**	**56**	

Impairment losses on financial assets are disclosed in Note 20 'Trade receivables and contractual assets' and 33.10. 'Credit risk management'. Other classes of financial assets were not significantly impaired.

33.3. Fair Value of Financial Instruments

(CZK million)

Financial assets	Level	Fair value as at 31 Dec 2019	Carrying value as at 31 Dec 2019	Fair value as at 31 Dec 2018	Carrying value as at 31 Dec 2018
Derivative instruments in designated hedge accounting relationships	Level 2	91	91	155	155
Loans	Level 2	889	889	836	836
Financial assets at fair value through other comprehensive income	Level 2	452	452	440	440
Other financial assets- long-term	Level 2	113	113	64	64
Total		**1,545**	**1,545**	**1,495**	**1,495**

(CZK million)

Financial liabilities	Level	Fair value as at 31 Dec 2019	Carrying value as at 31 Dec 2019	Fair value as at 31 Dec 2018	Carrying value as at 31 Dec 2018
Derivate instruments in designed hedge accounting relarionships	Level 2	247	247	377	377
Measured at amortised cost		**31,745**	**31,148**	**27,474**	**26,721**
Liabilities from financial lease and leaseback	Level 2	474	474	752	752
Issued bonds	Level 2	8,196	7,531	7,733	7,621
Issued bonds (traded)	Level 1	22,776	22,844	18,808	18,167
Other financial liabilities	Level 2	299	299	181	181
Total		**31,992**	**31,395**	**27,851**	**27,098**

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

During the year 2018 and 2019, there were no transfers of Financial instruments between levels.

Determining 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.

33.4. Valuation Procedures Used to Determine Fair Value

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

- fair values of financial assets and financial liabilities with standard relationships and terms that are traded on an active liquid market are determined on the basis of quoted market prices,
- fair values of other financial assets and financial liabilities (excluding financial derivatives) are determined in accordance with generally accepted valuation models based on discounted cash-flow analysis using the prices of observable current market operations and market prices for similar instruments, or an appropriate yield curve with the appropriate duration.
- fair values of financial derivatives are calculated using quoted prices. If these prices are not available, linear derivatives are valued using discounted cash flows based on quoted exchange rates, quoted commodity prices, and appropriate yield curves corresponding to the maturity of the contracts. Valuation models for options are used for derivative options.

33.5. Fair Value Measurement Recognized in the Statement of Financial Position

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

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

All financial instruments measured at fair value as at 31 December 2019 and 31 December 2018 are included in Level 2.

33.6. Financial Risk Management Objectives

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

33.7. 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 not exceeding 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 December 2019	EUR	Other	Total
Financial assets	790	2	792
Financial liabilities	(31,312)	-	(31 312)
Total	**(30,522)**	**2**	**(30 520)**

(CZK million)

31 December 2018	EUR	Other	Total
Financial assets	774	3	777
Financial liabilities	(26,906)	-	(26,906)
Total	**(26,132)**	**3**	**(26,129)**

33.7.1. 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 and weakening 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)

Strengthening of Czech crown by 1 to Euro	2019	2018
Translation of items denominated in foreign currencies at the end of the period	1,201	1,016
Change in the fair value of derivatives at the end of the period	(799)	(549)
Total impact on the profit for the period	**402**	**467**
Change in the fair value of derivatives at the end of the period	(116)	(63)
Total impact on other comprehensive income	**(116)**	**(63)**

(CZK million)

Weakening of Czech crown by 1 to Euro	2019	2018
Translation of items denominated in foreign currencies at the end of the period	(1,201)	(1,016)
Change in the fair value of derivatives at the end of the period	799	549
Total impact on the profit for the period	**(402)**	**(467)**
Change in the fair value of derivatives at the end of the period	116	63
Total impact on other comprehensive income	**116**	**63**

33.7.2. 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 using hedge ratio 1:1.

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

- swaps' nominal values are equal to the nominal values of volume of bond.
- both transactions are contracted in the same currencies.
- maturity of interest rate swaps payment and interest bond payment are equal.
- swaps were contracted at market prices (without bonuses), the fair value of derivatives is nil as of the contract date.
- swaps does not include any arrangements on agreed interest rate restriction (embedded interest rate options)
- the Company does not expect the early bond repayment.

Sources of hedge relationship ineffectiveness are recognised as follows:

- termination of the cross-currency interest rate swap by the counterparty,
- significant decrease in the Company's or the counterparty's creditworthiness.

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

31 Dec 2019	Nominal value (EUR million)	Collected interest rate (annual)	Nominal value (EUR million)	Average paid interest rate (annual)	Fair value of assets (liabilities) CZK million
Up to 1 year	792	2.00%	(20,963)	2.92%	(211)
1 to 5 years	792	2.01%	(20,963)	2.97%	276
Over 5 years	666	1.98%	(17,498)	3.09%	(225)
Total					**(160)**

31 Dec 2018	Nominal value (EUR million)	Collected interest rate (annual)	Nominal value (EUR million)	Average paid interest rate (annual)	Fair value of assets (liabilities) CZK million
Up to 1 year	542	3.45%	(14,412)	3.63%	116
1 to 5 years	292	2.90%	(8,062)	2.99%	157
Over 5 years	195	3.36%	(5,404)	3.52%	(484)
Total					**(211)**

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 Realisation of Hedged Items by Cross-currency Interest Rate Swaps

Expected cash flows of hedged foreign currency bonds are listed in Note 33.11.1. in tables with remaining contractual maturities of financial liabilities in line Fixed interest rate Instruments.

33.8. Interest Rate Risk Management

The Company manages 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.

33.8.1. Interest Rate Sensitivity Analysis

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

- changes in interest expenses from loans and lease with a variable rate;
- change in the fair value of concluded financial derivatives

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

(CZK million)

	2019	2018
Interest from loans and lease with variable rate for the period	2	-
Total impact on the profit for the period	**2**	**-**
Change in the fair value of derivatives at the end of the period	(52)	19
Total impact on other comprehensive income	**(52)**	**19**

33.8.2. Interest Rate Swap Contracts

In accordance with currency risk management requirements, the Company has entered into interest rate swap contracts which reduces the risk of leaseback loans contracted variably and bonds with variable interest rates.

The hedge ratio is determined at 1:1.

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

- swaps' nominal values are equal to the nominal values of the nominal values of the volume of leaseback loans and variable interest rate bonds
- both transactions are contracted in the same currencies
- maturity of interest rate swaps payments and interest leaseback loans payments are equal
- swaps were contracted at market prices (without bonuses), the fair value of derivatives is nil as of the contract date
- swaps do not include any arrangements on agreed interest rate restriction (embedded interest rate options)
- the Company does not expect the early leaseback loan repayment

Sources of hedge relationship ineffectiveness are recognised as follows:

- early repayment of the remaining value of the leaseback,
- termination of the interest rate swap by the counterparty,
- significant decrease in the Company's or the counterparty's creditworthiness.

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 at 31 Dec 2019
Up to 1 year	Leases	1.23%	CZK 305 million	3
1 to 5 years	Leases	1.23%	CZK 109 million	1
Total				**4**

	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value in CZK million as at 31 Dec 2018
Up to 1 year	Leases	1.23%	CZK 494 million	1
1 to 5 years	Leases	1.23%	CZK 207 million	3
Total				**4**

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

The Expected Realization of the Hedged Items with Interest Rate Swaps

The expected hedged cash flows from interest on variable rate loans are stated in Note 33.11.1. in the tables remaining contractual maturities of financial liabilities in the rows Financial lease liabilities and instruments with a variable interest rate.

33.9. Commodity Risk Management

The Company is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically oil and electricity, are significant cost items 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 oil purchase;
- negotiating a fixed price of electricity always for the following calendar year.

Except for those mentioned above, in case 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. .

33.9.1. 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 commodities prices due to change in the fair value of concluded financial derivatives.

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

(CZK million)

	2019	2018
Change in the fair value of derivatives at the end of the period	-	-
Total impact on the profit for the period	**-**	**-**
Change in the fair value of derivatives at the end of the period	-	5
Total impact on other comprehensive income	**-**	**5**

33.9.2. Commodity Derivatives

In accordance with the currency risk management requirements, the Company has entered into contracts hedging traction diesel pricing stability. The hedging was carried out by the Commodity collar, which is to restrict the maximum (cap) price and the minimum (floor) price.

The hedge ratio of commodity derivatives is determined at 1:1.

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

- commodity collar nominal values are equal to nominal values of hedged fuel consumption
- treasury indexes of both transactions are the same (Ultra Low Sulphur Diesel 10ppm FOB Barges Rotterdam)
- both transactions/indexes are contracted in the same currencies
- commodity collar's maturities are set in line with the expected purchases of diesel
- commodity collars were contracted at market prices (without bonuses), the fair value of derivatives is nil as of the contract date
- the Company does not expect the overcollateralization, that if the price of the physical supply is fixed before the commodity collar's maturity, the commodity collars will be early terminated

Sources of hedge relationship ineffectiveness are recognised as follows:

- risk components were not separated from hedging instrument (i.e. various surcharges, impact of biodiesel price, excise tax, trader's margin, etc.)
- termination of commodity collar by the counterparty
- significant decrease in the counterparty's creditworthiness.

The table presents outstanding commodity contracts for the oil and electricity purchases as of:

Purchase of diesel	Hedged value	Volume of contracts (MT)	Fair value (CZK million)
31 Dec 2019	10,450-16,670 CZK/MT	400	0
31 Dec 2018	10,450-16,670 CZK/MT	7,200	(15)

Expected Realization of Hedged Items in Commodity Derivatives

The following table states the expected secured cash flows from the purchasing of fuel and electricity:

(CZK million)

31 Dec 2018	Up to 1 month	1 - 3 months	3 months up to 1 year	1 - 5 years	Over 5 years	Total
Hedged future purchases of fuel	7	14	61	-	-	82

33.10. Credit Risk Management

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

Sources of credit risks related to threat of a counterparty default during transaction were recognised by the Company as follows:

- financial institutions,
- employees or tenants – natural persons to whom the receivable arises,
- corporate customers,
- suppliers in the Group who receive advances from ČD
- the state and regions as public service payers

Hence, the approval of business operations with new counterparties is a subject to standardized approval procedures by designated departments. The credit risk management does not include assets and receivables management, as standard financial instruments, such as prepayments and bank guarantees are used in order to reduce the risk.

Financial assets that the Company exposes to potential credit risk include cash and cash equivalents, trade receivables, loans granted within the Group and financial derivatives contracts. The Company's cash is deposited in prestigious domestic financial institutions. To the intercompany loans, no significant credit risk relates because such companies' exposure and rating is monitoring within the Group.
The Company is mainly exposed to the following credit risk categories due to its business activities:

- direct credit risk
- credit equivalent risk

Most frequently, the direct credit risk arises from receivables from ongoing trading relationships, particularly from supplier loans granted. The quality credit-ratings of the customer are assessed individually, based on the financial position, previous experiences and other factors.

To measure expected credit losses using the simplified approach, current receivables are classified according to common features relating to credit risk and by maturity. Based on this measurement, the Company assesses the expected credit losses for trade receivables.

Expected credit losses are determined based on the payment profile and sales over the 5-year period preceding 1 December 2019 and 31 December 2019, respectively, on the historical actual credit losses basis. The Company analysed the number of macroeconomic variables (gross domestic product, industrial production indexes, etc.) together with the possible correlation with the customer's solvency. However, since no correlation was recognised, the Company considers the customer's individual creditworthiness.

The following table states the impairment of current receivables:

(CZK million)

		Past due date (days)					
As at 31 December 2019	**Before due date**	**1 – 30**	**31 – 90**	**91–180**	**181-365**	**Over 365**	**Total**
Expected credit loss rate	3%	4%	75%	100%	100%	100%	
Current trade receivables – brutto	1,275	23	4	1	7	103	1,413
Expected credit loss	**32**	**1**	**3**	**1**	**7**	**103**	**147**

(CZK million)

		Past due date (days)					
As at 31 December 2018	**Before due date**	**1 – 30**	**31 – 90**	**91–180**	**181-365**	**Over 365**	**Total**
Expected credit loss rate	3%	3%	6%	100%	100%	100%	
Current trade receivables – brutto	1,458	31	16	2	3	105	1,615
Expected credit loss	**40**	**1**	**1**	**2**	**3**	**105**	**152**

Movement in allowances for doubtful accounts receivable:

(CZK million)

	2019	**2018**
Allowances as at 1 January	152	145
Recognition of allowances – trade receivable	28	21
Use of allowances – trade receivable	(33)	(14)
Allowances as at 31 December	**147**	**152**

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 the case of payments from public services orderers from the state budget or regional budget, the risk is low due to bank's high (see Note 28.8.). Receivable from state and regions represent 24% of all receivables as at 31 December 2019 (as at 31 December 2018: 12%). These receivables are covered with payables in even higher amounts and disclosed net in other payables. In other transactions, the Company seeks to deal only with creditworthy counterparties whom the Company reviews individually on an ongoing basis using publicly available information. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

Financial assets:

(CZK million)

As at 31 December 2019		Before due date, not impaired	Before due date, impaired	Past due date, not impaired	Past due date, impaired	Impairment	Total
Trade receivables*)	19	1,243	32	23	115	(147)	1,266
Cash and cash equivalents	29	6,602	-	-	-	-	6,602
Receivables from finance leases	20	79	-	-	-	-	79
Loans in the ČD Group	20	1,060	-	-	-	-	1,060
Other	20	288	-	-	5	(5)	288
Financial derivatives used in hedge accounting	20	91	-	-	-	-	91
Total		**9,363**	**32**	**23**	**120**	**(152)**	**9,386**

(CZK million)

As at 31 December 2018		Before due date, not impaired	Before due date, impaired	Past due date, not impaired	Past due date, impaired	Impairment	Total
Trade receivables*)	19	1,606	42	45	111	(153)	1,651
Cash and cash equivalents	29	1,837	-	-	-	-	1,837
Receivables from finance leases	20	78	-	-	-	-	78
Loans in the CD Group	20	869	-	-	-	-	869
Other	20	195	-	-	19	(19)	195
Financial derivatives used in hedge accounting	20	155	-	-	-	-	155
Total		**4,740**	**42**	**45**	**130**	**(172)**	**4,785**

*) Aging of trade receivables is disclosed in Note 20.1.

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. Due to that fact, the impact of impairment of cash is considered immaterial

(CZK million)

Bank	Rating	Bank balances as at 31 Dec 2019	Bills deposits as at 31 Dec 2019	Bank balances as at 31 Dec 2018	Bills deposits as at 31 Dec 2018
Komerční banka	A1	116	1,996 *)	401	-
ČSOB	A1	995	203 **)	1,341	-
Citibank	Aa3	198	-	8	-
ING bank	Aa3	2,019	-	2	-
Česká spořitelna	A1	1,011	-	3	-
Total		**4,339**	**2,199**	**1,755**	**-**

*) The issuer of a bill of exchange of CZK 996 million is company ČEZ, a. s.

**) The issuer of a bill of exchange of EUR 8 million is company ČSOB Leasing, a.s.

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.

The Company does not recognise any pledged assets as at 31 December 2019 and 2018.

33.11. Liquidity Risk Management

The Company manages its liquidity risk through 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. In order to secure sufficient short-term liquidity, the Company has contracted committed credit facilities so that its available funds exceed its expected short-term expenditures. The liquidity is monitored by the Moody´s rating agency on an ongoing basis.

33.11.1. Liquidity and Interest Rate Risk Tables

The following tables details 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 interest, the undiscounted amount is derived from interest rate curves at the end of the reporting period and may change, if interest rates differ from the determined estimates.

(CZK million)

31 December 2019	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	1,661	1,381	431	36	50	3,559
Derivatives	-	-	209	981	1,079	2,269
Incoming cash flows	-	-	375	3,158	18,096	21,629
Outgoing cash flows	-	-	584	4,139	19,175	23,898
Finance lease liabilities *)	22	26	123	569	264	1,004
Leaseback liabilities *)	25	49	221	178	-	473
Float interest rate instruments	149	-	-	-	-	149
Fixed interest rate instruments	-	-	614	14,112	20,184	34,910
Total	**1,857**	**1,456**	**1,598**	**15,876**	**21,577**	**42,364**

(CZK million)

31 December 2018	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	1,699	1,508	527	81	35	3,850
Derivatives	1	3	35	158	536	733
Incoming cash flows	-	-	187	1,698	5,987	7,872
Outgoing cash flows	1	3	222	1,856	6,523	8,605
Finance lease and leaseback liabilities **)	28	53	230	493	-	804
Float interest rate instruments	57	-	-	-	-	57
Fixed interest rate instruments	-	-	8,464	12,955	8,174	29,593
Total	**1,785**	**1,564**	**9,256**	**13,687**	**8,745**	**35,037**

*) The marked lines relate to the application of IFRS 16 only in the current year.

**) The marked lines refer only to comparative data according to IAS 17.

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 December 2019	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	2,355	380	222	-	452	3,409
Finance lease assets	4	-	13	70	413	500
Fixed interest rate instruments	4,203	1,247	-	-	-	5,450
Float interest rate instruments	228	18	73	301	375	995
Hedging derivatives	-	1	3	(96)	-	(92)
Incoming cash flows	-	1	31	1,611	-	1,643
Outgoing cash flows	-	-	28	1,707	-	1,735
Total	**6,790**	**1,646**	**311**	**275**	**1,240**	**10,262**

(CZK million)

31 December 2018	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	2,486	556	453	1	440	3,936
Finance lease assets	3	-	15	77	475	570
Fixed interest rate instruments	-	-	112	-	-	112
Float interest rate instruments	51	19	77	392	460	999
Hedging derivatives	-	-	65	(73)	-	(8)
Incoming cash flows	-	-	6,727	1,662	-	8,389
Outgoing cash flows	-	-	6,662	1,735	-	8,397
Total	**2,540**	**575**	**722**	**397**	**1,375**	**5,609**

33.11.2. Financing Facilities

The Company has access to the following credit lines:

(CZK million)

Bank overdrafts	ČSOB	KB	Total
Amount of the loan as at 1 Jan 2018	**700**	**1,500**	**2,200**
Unused amount as at 1 Jan 2018	**700**	**1,500**	**2,200**
Change of loan facility amount in 2018	-	-	-
Amount of the loan as at 31 Dec 2018	**700**	**1,500**	**2,200**
Unused amount as at 31 Dec 2018	**700**	**1,500**	**2,200**
Change of loan facility amount in 2019	-	-	-
Amount of the loan as at 31 Dec 2019	**700**	**1,500**	**2,200**
Unused amount as at 31 Dec 2019	**700**	**1,500**	**2,200**

(CZK million)

Promissory notes programme	ČSOB	Citibank	ING	KB	Česká spořitelna	Total
Amount of the loan facility as at 1 Jan 2018	**-**	**1,000**	**2,000**	**-**	**1,000**	**4,000**
Unused amount as at 1 Jan 2018	**-**	**1,000**	**2,000**	**-**	**1,000**	**4,000**
Change of loan facility amount in 2018	1,700	(1,000)	1,000	950	1,250	3,900
Amount of the loan facility as at 31 Dec 2018	**1,700**	**-**	**3,000**	**950**	**2,250**	**7,900**
Unused amount as at 31 Dec 2018	**1,700**	**-**	**3,000**	**950**	**2,250**	**7,900**
Change of loan facility amount in 2019	300	-	(1,500)	(450)	-	(1,650)
Amount of the loan facility as at 31 Dec 2019	**2,000**	**-**	**1,500**	**500**	**2,250**	**6,250**
Unused amount as at 31 Dec 2019	**2,000**	**-**	**1,500**	**500**	**2,250**	**6,250**

(CZK million)

Revolving loan	Citibank	Total
Amount of the loan as at 1 Jan 2018	**-**	**-**
Unused amount as at 1 Jan 2018	**-**	**-**
Change of loan facility amount in 2018	2,000	2,000
Amount of the loan as at 31 Dec 2018	**2,000**	**2,000**
Unused amount as at 31 Dec 2018	**2,000**	**2,000**
Change of loan facility amount in 2019	(500)	(500)
Amount of the loan as at 31 Dec 2019	**1,500**	**1,500**
Unused amount as at 31 Dec 2019	**1,500**	**1,500**

34. Post Balance Sheet Events

Since 1 January 2020 the change in Board of Directors of the Parent company was made and it is described in the chapter Corporate governance in the Annual report.

The existence of novel coronavirus causing the COVID-19 disease was confirmed in early 2020 and has spread across mainland China and beyond, including the Czech Republic, causing disruptions to businesses and economic activity. The Group considers this outbreak to be a non-adjusting post-balance-sheet event. As the situation is not stable and is developing rapidly, it is not possible to estimate the potential impact on the Company. In the personal transportation segment the decrease in mobility and significant decrease in passengers occured. The international connections have been completely canceled. Development of revenues, that the Company obtains from the public service orderers (Ministry of Transportation and regions) will depend mainly on the range and time of the limitations in public transport. The Company actively operates with several scenarios of possible development. Taking into account the amount of free cash and contracted bank credit lines, the Group doesn't expect liquidity restrictions in the horizon of next 12 months, even in the worst case scenario.The impact of this outbreak on the macroeconomic forecasts, our position and results, if any, will be incorporated into our estimates of asset impairment and other provisions in 2020.

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

35. Approval of the Financial Statements

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

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Providing Information

Pursuant to Act No. 106/1999 coll., on Free Access to Information for 2019

Pursuant to Section 18 of Act No. 106/1999 Coll., on Free Access to Information, as amended (hereinafter the "Act") České dráhy, a.s. (hereinafter the "ČD"), hereby publishes its annual report on its activities in providing information pursuant to the Act in 2019.

On 26 September 2017, according to judgement under file number 8A 80/2017 - 50-54, Municipal Court in Prague decided, that České dráhy, a.s., are not a mandatory subject under Section 2 (1) of Act No. 106/1999 Coll., on Free Access to Information, as amended.

a) The number of submitted information requests and the number of issued decisions. In the reporting period, the total number of 60 information requests were responded to.
b) Under Section 16a of the Act there were 2 complaints filed in relation to incorrect handling to the Chairman of the ČD Board of Directors, which were rejected for the lack of justification.
c) 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 4 requests relating to the operation of ČD.
d) ČD as an interested party in the appeal proceedings expressed to the Regional Offices in 15 cases.
e) ČD as an interested party in the appeal proceedings expressed to the Ministry of Interior in 3 cases.
f) Since 2013 ČD came as a defendant person in 27 prosecutions at Municipal Court in Prague (further on "court"), of which

- 6 prosecutions filed in years 2016 to 2019 have not yet been settled by the court;

- against 3 court judgments, ČD filed 3 cassation complaints against the Supreme Administrative Court, which have not yet been decided on;

- at 3 complaints brought to court ČD were acting as persons involved in the proceedings;

- 3 complaints in which ČD was involved in the proceedings the court confirmed and returned to further proceedings;

- 2 complaints against ČD as a direct defendant were confirmed by the court and cases returned by the court for further proceedings.

In total for 2 prosecutions, which were confirmed by the court and returned for further proceedings according to law, based on a judgment of the court file no. 8A 80/2017-50-54, have not been settled by ČD because ČD is not a mandatory subject under Section 2 (1) of Act No 106/1999 Coll. On Free Access to Information.

g) List of exclusive licenses, 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

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Information about Persons

Responsible for the ČD Group 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 2019, 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.

Prague, 14 April 2020

Václav Nebeský
Chairman of the Board of Directors
České dráhy, a.s.

Patrik Horný
Member of the Board of Directors
České dráhy, a.s.

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Report on Relations

Between the Controlling Party and the Controlled Party and Parties Controlled by the Same Controlling Party for the Year 2019

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 2019 to 31 December 2019.

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

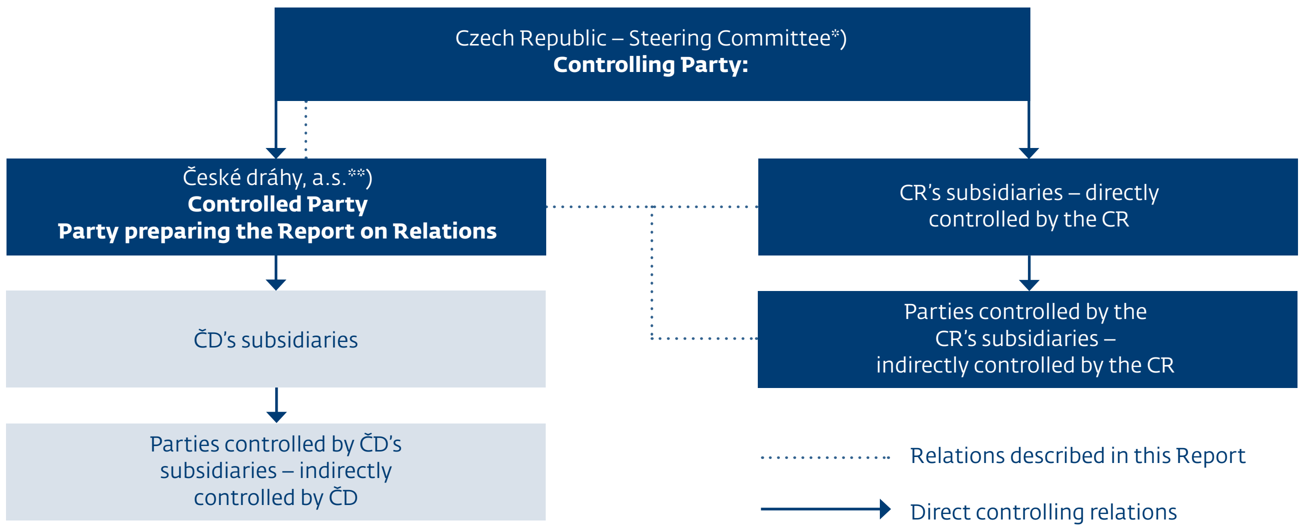
1) A directly controlled related party is a business corporation in which the State has a share of voting rights of at least 40% of all the votes in the given business corporation, unless another party or other parties in concern have the same or bigger share of voting rights in the given business corporation.

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 on Relations.

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 2019.

ČEPRO, a.s.	
Contract reference number	Contract description
4600010961	Extra light heating oil LTO-E
2657020017	Siding - plot of land Zeleneč
2927202209	Equipment siding
2937706306	Plot of land no. 855/20
2967271207	Siding – plot of a land no.12,.Nová Víska
2977408603	Plot of land Veselý nad Lužnicí
2977735207	Plot of land no. 3203/22, cadastral territory no. 722120

ČEZ Distribuce, a. s.	
Contract reference number	Contract description
4500886312	Connection to the electricity network - Česká Lípa
4500924435	Low voltage electrical connection - Děčín západ
2667102516	Under construction
2927402414	1S44 powerhouse Olomouc
2927852807	Plot of land Ostrava
2947003102	Plot of land H. Králové
2947012007	Siding - plot of land Všestary

ČEZ ESCO, a.s.	
Contract reference number	Contract description
4600013566	Electricity supplies - Louny
4500863956	413 189/2019 ČEZ ESCO electricity Osoblaha
4500899189	205 – Electricity Frenštát p./ R. 899
4500899568	Electricity Borová u Poličky
4500908887	244 – Electricity Frenštát no. 899

ČEZ Korporátní služby, s.r.o.	
Contract reference number	Contract description
2657003018	Surface reservation for placement of 2 hydrogeologist wells

ČEZ Prodej, a.s.	
Contract reference number	Contract description
4600008450	Electricity supplies - Ústí nad Labem
4600008487	Dodávka elektřiny Borová u Poličky
4600010444	Contract on joint services of electricity supplies
4600011357	Connection of sampling point
4600013585	Electricity supplies Svojšín 412061
4600013586	Electricity supplies Svojšín 412062
4600013835	Electricity supplies - Hlinsko
4600013836	Contract on joint services of electricity supplies

ČEZ Teplárenská, a.s.	
Contract reference number	Contract description
4600009554	Heat energy - Chomutov
4600009597	Heat energy - Hradiště UNL
4600009767	Heat energy – no. 68141501_1
4600010292	Heat energy – no. 68050003_1
4600013797	Heat energy - Trutnov
E296-OS-0015/12-A	Water and sewerage fees

ČEZ, a. s.	
Contract reference number	Contract description
4600008825	Water and sewerage fees
4600015237	Sales of drinking water ČD Kadaň Prunéřov
4500845356	Demineralized water technical freely
4500906226	Demineralized water technical freely
2937105107	Siding – plot of a land no. 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	Siding – plot of a land

Elektrárna Počerady, a.s.	
Contract reference number	Contract description
2967362307	Siding – Počerady no. 310/14 and 385/2

Letiště Praha, a. s.	
Contract reference number	Contract description
4600012713	Prague Airport - advertising cooperation

MARTIA a.s.	
Contract reference number	Contract description
4600012865	Management and maintenance of the boiler room - Chomutov

Ministry of Transport	
Contract reference number	Contract description
4600011555	Contract for the lease of commercial space
E060-57564/2018	MD - transport service R14A Pardubice - Liberec
E060-59346/2015-O16	SŽDC - transport services Brno-Břeclav-Olomouc
E057-55108/2019-O16	Czech Republic -Ministry of Transport, SVS-Ex2, R18
E057-58507/2019-O16	Czech Republic -Ministry of Transport SVS national transport
E057-58509/2019-O16	Czech Republic -Ministry of Transport SVS R29

SD - Kolejová doprava, a.s.	
Contract reference number	Contract description
E296-OS-0022/13-T	Heat and hot water supply
E296-OS-0026/13-A	Water, sewerage, storm water
2967105113	Building no. 354 Březno
2967346907	Siding – Chotějovice no. 224/6

Severočeské doly a.s.	
Contract reference number	Contract description
2667100215	Siding – Bílina no. 2251/1 and 2386

ENESA a.s.	
Contract reference number	Contract description
2637700119	Rental building 222 Havlíčkův Brod

V. Other relation

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, which is in amount of CZK 3,591 million according to the most recent set of financial statements - as at 31 December 2018.

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.

Prague, 17 March 2020

Václav Nebeský
Chairman of the Board of Directors
České dráhy, a.s.

Patrik Horný
Member of the Board of Directors
České dráhy, a.s.

Attachment 1

List of business corporations controlled by the State from 1 January 2019 to 31 December 2019 with which relations as described in this Report

Related entity	Identification number	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 ESCO, a.s.	3592880	0,00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
ČEZ Korporátní služby, s.r.o.	26206803	0,00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
ČEZ Prodej, a.s.	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.
Letiště Praha, a. s.	28244532	100,00%	Related entity directly controlled by the State.
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.
Ministry of Transport	66003008	100,00%	State organizational unit.
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.
ENESA a.s.	27382052	0,00%	Related entity indirectly controlled by the State through ČEZ ESCO, a.s., which has a 100% share in this entity.

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List of Used Abbreviations

Abbreviation	Meaning
AO	Audit body
API	Application Programming Interface
APS	Automated machine master workplace
CAPEX	Investment (capital) expenditures
CER	Community of European Railways
ČD	České dráhy, a.s.
ČDC	ČD Cargo, a.s.
ČD-IS	ČD – Informační Systémy, a.s.
ČD-T	ČD – Telematika a.s.
ČIA	Czech Accreditation Institute
ČNB	Czech National Bank
ČSN	Czech Technical Norm
ČSN EN	European norm
ČR	Czech Republic
DB	Deutsche Bahn AG
DISOD	Dispatcher Information System for Passenger Transport
DLB	Die Länderbahn
DP	Means of transport
DPH	Value added tax
DPOV	Railway Rolling Stock Repair Works Company (DPOV, a.s.)
DVI	Transport Education Institute (Dopravní vzdělávací institut, a.s.)

Abbreviation	Meaning
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EC	Passenger train category of high quality (EuroCity)
EK	European Commission
ETCS	European Train Control System
EU	European Union
EUROFIMA	European Company for the Financing of rail vehicles
Ex	Long-haul passenger train of the express category
GS	Grandi Stazioni
GSM-R	Global System for Mobile Communication- Railway
HDP	Gross domestic product
HMP	City of Prague
IAS	International Accounting Standards
ICT	Information and Communication Technology
IDS	Integrated transportation system
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISR	International Service Reliability
IS	Information system
ISO	International Organisation for Standardisation
IS OPT	Information system of the Shipping revenue centre

Abbreviation	Meaning
IT	Information technologies
IZS	Integrated Rescue System
IŽP	Environmental engineering
JLV	Sleeping and dining car company (Jídelní a lůžkové vozy, a.s.)
JŘ	Train timetable
KASO	Complex application of rounds
KN	Land register
LV	Title deed
MD	Ministry of Transportation of the Czech Republic
MF	Ministry of Finance of the Czech Republic
MIMO	Incident system of ČD
MISOP	Modernization of passenger transport information systems
MMR	Ministry of Regional Development of the Czech Republic
MPO	Ministry of Industry and Trade of the Czech Republic
MPSV	Ministry of Labour and Social Affairs
NAD	Rail Replacement Bus Service
NNŽ	Žižkov freight railway station
OCÚ	Regional Maintenance Center
OHSAS	Occupational Health and Safety Assessment Series
OPŘ	Commercial and Operational Directorate
OPT	Shipping revenue centre
OSŽD	Organisation for Railway Cooperation
ÖBB	Österreichische Bundesbahnen

Abbreviation	Meaning
PARIS	Sales and reservation information system
PHM	Fuel
POP	Portable personal cash register
PROBIS	Operational business information system
PRIBOR	Prague Inter Bank Offered Rate
ROP	EU Regional Operational Programme
ŘSD	Road and Motorway Directorate
SAP	Bookkeeping system
SC	Passenger train category of highest quality (SuperCity)
SŽ	Railway Transport Route Administration, state organisation (Správa železnic, státní organizace, prior SŽDC, a.s.)
TAČR	Technology Agency of the Czech Republic
TÚDC	Telematics and Diagnostics Center
UIC	International Union of Railways
UNIPOK	Cash register system for ČD personal transport
ÚMNZ	Czech office for standards, metrology and testing
ÚMVŽST	Regulation of property relations in railway stations
ÚOHS	Office for Protection of Competition
Vlkm	Train kilometres (sum of train and distance trains)
VUZ	Railway Research Institute (Výzkumný Ústav Železniční, a.s.)
ZSSK	Železničná spoločnosť Slovensko, a.s.
ŽKV	Railway vehicle
ŽST	Railway station

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Identification and Contact Information

Name of the company: České dráhy, a.s.

Registered office: Prague 1, Nábřeží L. Svobody 1222, postal code 110 15

Corporate ID: 70994226

Tax ID: CZ70994226

Registration court: Prague

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České dráhy, a.s.

2019