Annual Report of the České dráhy Group

2017

České dráhy
National carrier

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

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Foreword of the Chairman
of the Board of Directors

Dear Ladies and Gentlemen,

the condition of the České dráhy Group continued to improve in year 2017 and the total consolidated profit according to International Financial Reporting Standards (IFRS) amounted to CZK 984 million. Year over year improvement is driven by revenue growth recorded in both major segments, in the passenger and the freight transport. However, the foreign exchange gains had also positive impact. Thanks to the stable development during the last year, České dráhy justified the international investment rating of Moody's agency at the Baa2 level.

The passenger transport segment's performance improved year over year and resulted in a modest profit. In 2017, number of passengers and transport performance continued to grow. Our services were used by almost 175 million people. The greatest interest was in traveling by long-distance and suburban connections. The offer of attractive products and their targeted promotion has helped to increase revenue from the sale of train tickets. Significant growth in revenues is evident, for example, on the international routes Prague - Vienna - Graz and Prague - Berlin - Hamburg, where we operate on a long-term basis in cooperation with foreign partners, but also within intranational trains included into integrated transport systems. In addition, the share of revenues from purely commercial transport increases dynamically.

All the subsidiaries were also doing well. Traditionally, the biggest impact on the final result of the ČD Group had the freight transport segment represented by joint-stock company ČD Cargo. The positive information is the year over year increase in revenues. The carrier has invested in the purchase of new locomotives and freight wagons. It has successfully continued its expansion into foreign markets by cooperation with its subsidiaries abroad. For example, transport in Poland has intensified, and the new product trains to Romania and Hungary have the potential to attract more customers.

České dráhy continues its preparations for the liberalization of the European railway passenger transport market, which will be based on the EU's 4th railway package. Thanks to our participation in the Community of European Railways (CER), we are actively involved in its proper interpretation and application of individual measures. Liberalization of the European railway passenger transport market raises the main task of České dráhy Management for the near future – developing of the business model in passenger transport after year 2019, when most of the long-term contracts with the regions and the Ministry of Transport end. We also await to justify the international rating, repay the Czech crowns denominated bonds in summer 2018 and to refinance the euro denominated bonds in 2019.

Our priority is that České dráhy is able to meet its obligations to creditors, shareholder and employees and to preserve the maximum of its current performance in both long-distance and regional transport.

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

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Introduction of the ČD Group

Our Vision

Being the leading employer and the first-choice network carrier in a fully liberalized market for public transport and supporting services.
Maintaining social peace and being a demanding and stable employer in the labour market, who maintains and creates attractive working conditions on the labour market, is our goal in the area of employment. Our goal is also to create quality employment opportunities to effectively address the quality and safety system of employees' work, especially with respect to their training, licensing and certification, and to ensure the career development of our employees.

Continuing to fulfil the role of the national railway transport operator, which provides nationwide transport services and network connectivity to the public passenger transport system, even after beginning of competition, is our goal in the area of transport. Furthermore, we want to be a leader in the quality of service and satisfaction of customers (passengers) with a much wider range of services than just passenger and goods transport, and to ensure a high level of service for passengers, their rights, in particular the right to information and the high-standard services. Last but not least, we also want to ensure the quality of transport for the elderly, passengers with reduced mobility and orientation and to guarantee a high level of transport and railway vehicles safety.

Being a profitable company governed by international principles of corporate governance, which will stand in the long run against the competition
Our goal is to create a profitable company and to ensure the going concern principle in the liberalized environment of the public passenger transport market – to create the company that is transparent, homogeneous and understandable to shareholder and financial institutions / investors.

Being a company that respects the principle of environmental sustainability.
The goal is to create and deliver services and products under the principle of balanced economic and environmental sustainability. We prefer solutions, which are less burden to the environment.

Our Values

Customer Orientation

We provide our services to existing and potential customers in order to maximize their needs while respecting technical, economic and environmental opportunities, utilizing the professional experience and capabilities of all employees.

We respect all the specific needs of both external and internal customers and seek through open communication ways to satisfy these needs.

High Quality of Provided Services

We provide services to our customers based on established standards, and we continually verify these in relation to competition and strive to increase them. All services are provided with maximum professionalism through open communication.

Continuous Improvement in All Areas of Business

While pursuing all our activities, we are looking for innovative solutions that enable us to better understand the needs of our customers in order to meet their needs faster, efficiently, in a more comprehensive way and in a higher quality.

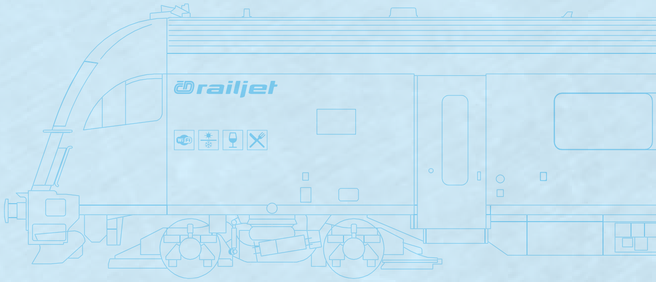
Errors, deficiencies, complaints and criticism are a challenge for us to look for solutions and to implement them quickly and efficiently.

Our Strategy

Our basic goal is to hold market position on the liberalised market of railway transport.

Economic strategic goal is to maintain international credit rating of the group at the same level as in the
year 2015.

Board of Directors
of the Company



Pavel Krtek, M.Sc.

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

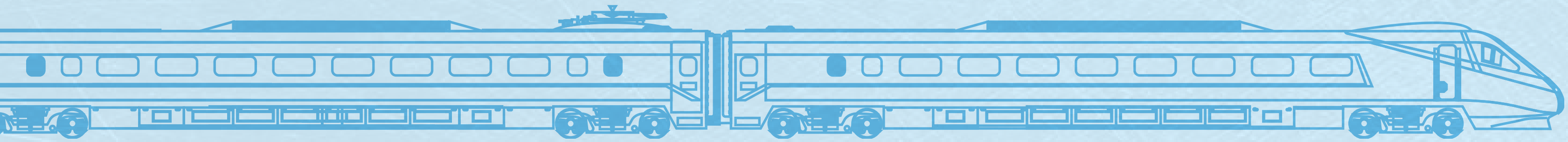
- Chairman of the Board of Directors (since 10 November 2014)
- responsible for the section of the Board of Directors and the management of the Company, 47 years old

5 Members of the Board of Directors

Ludvík Urban

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

- Vice-Chairman of the Board of Directors (since 10 November 2014)
- responsible for the department of investment and cooperation with regions, since 1 March 2017 responsible for the cooperation with the regions, 48 years old



Miroslav Kupec

After graduating from the Faculty of Mechanical Engineering in Prague, he joined Poldi Kladno in 1983, where after two years of practice, he started working as an operations manager. In 1990, he won a tender for the position of CEO of ČKD Slaný, later he worked for F. X. Meiler where since 1994 he became the managing director and the executive director. Since 2001, he held the position of Chairman of the Board and CEO of the Company Škoda Machine Tool in Pilsen and Škoda Vagónka in Ostrava. Since 2009, he worked as a consultant and professed with private business. Four years later, he joined the Company as the director of repairs in ČD Cargo. Since the beginning of 2014 until December of last year, he worked as the head of the Supreme DKV Prague, where he moved to senior management of the Czech national carrier.

- Member of the Board of Directors (since 7 December 2016),
- responsible for section of technology, services and assets, 58 years old

Michal Štěpán

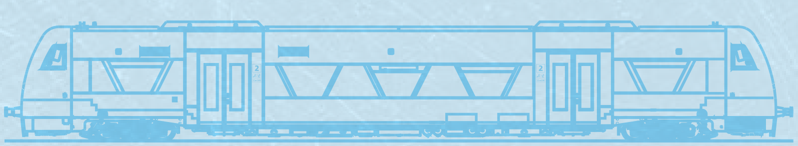
Michal Štěpán studied at the Industrial High School of Railway Transport in Česká Třebová and then the University of Transport and Communications in Žilina. Until 1994, he worked in several different operation positions in passenger and freight railway transport and traffic. He then worked at the regional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

- Member of the Board of Directors (since 21 February 2014),
- responsible for the department of passenger transport, 47 years old

Martin Bělčík

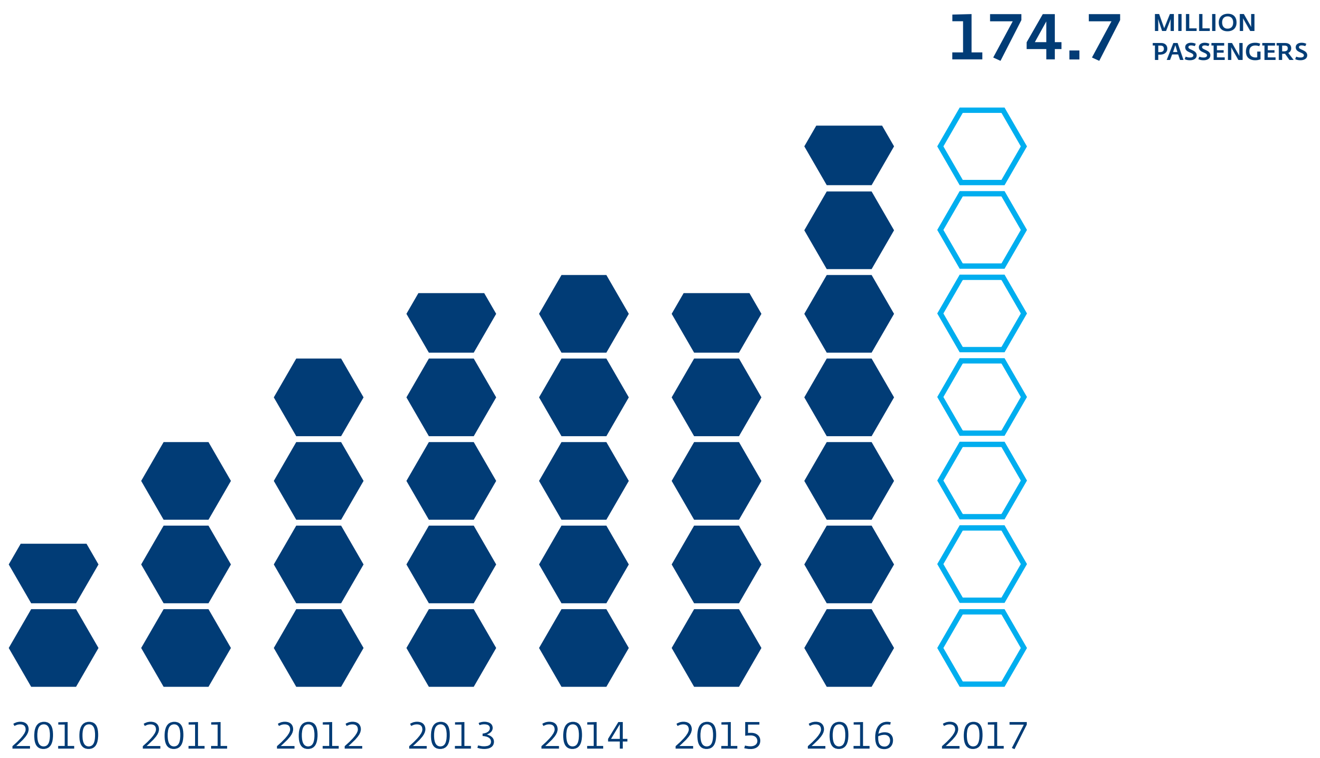
He graduated from the Military University of the Ground Forces in Vyškov and subsequently completed postgraduate studies in management and marketing at the University of Economics in Prague. He started his professional career in 1994 at the Ministry of Defence, where he worked at all levels of leadership positions in the financial and economic sections up to the post of Deputy Minister of Defence. In 2007, he left the Ministry of Defence of the Czech Republic, worked for 2 years as a senior consultant at consulting company M. C. Triton, and engaged in strategic management and change management for both private and public sector. Between 2009 -2012, he worked as a director of the Office of the Association of Regions in the Czech Republic in order to support the promotion of the common interests of the regions. Since 2012, he participated in the restructuralisation of ČD Cargo. Since 2013 he works in the Company ČD, first from the position of expert advisor and subsequently from the position of Director of projects and strategies.

- Member of the Board of Directors (since 7 December 2016),
- responsible for the section of economy and IT, 49 years old



Main Indicators
for ČD Group

Key indicators	2017	2016	Difference	INDEX
EBITDA from continued operations (CZK million)	7,872	8,345	(473)	**94.3**
EBIT from continued operations (CZK million)	1,704	2,257	(553)	**75.5**
Profit for the period (CZK million)	984	882	102	**111.6**
Total assets (CZK million)	86,368	86,938	(570)	**99.3**
CAPEX (CZK million)	5,098	6,817	(1,719)	**74.8**
Depreciation and amortisation (CZK million)	6,168	6,088	80	**101.3**
Leverage (%) (liabilities/total assets)	54.9	57.6	(2.7)	**95.3**
Current liquidity (%) (Current assets/Current liabilities)	94.6	121.9	(27.3)	**77.6**
ROCE (%) (EBIT/(total assets less current liabilities))	2.4	3.0	(0.6)	**80.1**
Average full time employees equivalent	23,542	23,664	(122)	**99.5**
Passenger transport				
Number of passengers (mil.)	174.7	171.5	3.2	**101.9**
Traffic performance (mil. person-kilometres)	7,778	7,380	398	**105.4**
Transport performance (mil. train-kilometres)	122.8	120.3	2.5	**102.1**
Average traffic distance (km)	45	43	2	**104.7**
Occupancy ratio (%)	29	27	2	**107.4**
Freight transport				
Traffic volume (mil. tones)	66.1	65.5	0.6	**100.9**
Traffic performance (mil. tariff ton-kilometres)	11,819	11,282	537	**104.8**
Transport performance (bn. gross ton-kilometres)	23.3	22.7	0.6	**102.6**



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

Passenger transportation in the year 2017

Number of passengers

174.7 million

Traffic performance
(in passenger-kilometers)

7.778 billion

Average transport distance

45 km

Daily average number of trains

7,016

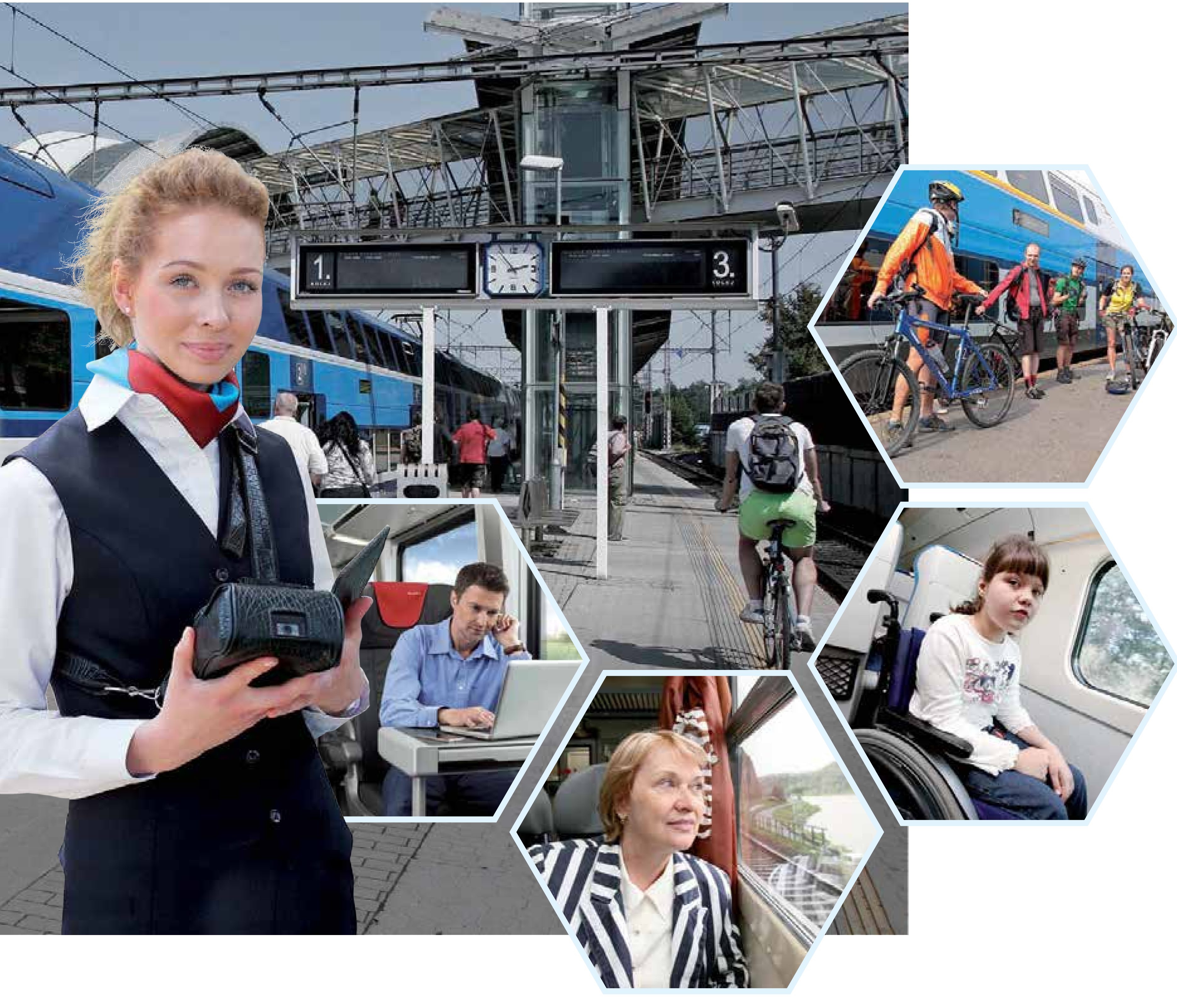
Percentage of trains adapted
for wheelchair passengers

72%

České dráhy
National carrier

3.2

By 3.2 million passengers more than in year 2016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3.

International transportation in the year 2017

Vienna From Prague 8 times per day

Berlin From Prague 7 times per day

Warsaw From Ostrava 7 times per day

Budapest From Prague 7 times per day

Munich From Prague 4 times per day

Košice From Prague 3 times per day

Bratislava From Prague 8 times per day

Zurich From Prague 1 time per day

České dráhy
National carrier

Vehicle fleet of the České dráhy Group

Electric locomotives

762

Electric multiple units

172

Diesel locomotives

724

Diesel multiple units

267

Railcars

437

Passenger cars

2 861

České dráhy
National carrier

10 New locomotives Siemens Vectron


railjet
80-91 004-2
SIEMENS
640 001-4

New check-in technologies

InKarta

Card in mobile version

mobile application Můj vlak (My Train)

eShop

www.cd.cz/eshop

possibility of credit card payment for the ticket directly in the train

travel document in electronic format

České dráhy
National carrier

Zrušit
Nová In Karta 1/2
Foto držitele
Upravit foto
Nabídka e-shopu ČD
Spojení
Odkud
Vyberte stanice
Kam
Vyberte stanice
Odjezd
Nyní
Hledat
Doporučená spojení

Services offered on board

free internet access

restaurant car

sleeping and couchette cars

snack vending machine

kino

children's cinema

ČDMinibar

in-seat refreshment service

automobile-train

České dráhy
National carrier

288

Train connections that offer catering services


ČD Minibar

ČD Cargo freight transportation in 2017

64.8 million tons

Goods transported through SŽDC railways

1.7 million

Wagons carried through SŽDC railways

22.435 million

Transport performance through SŽDC railways (in gross ton- kilometers)

852

Traction vehicles

23,560

Freight wagons

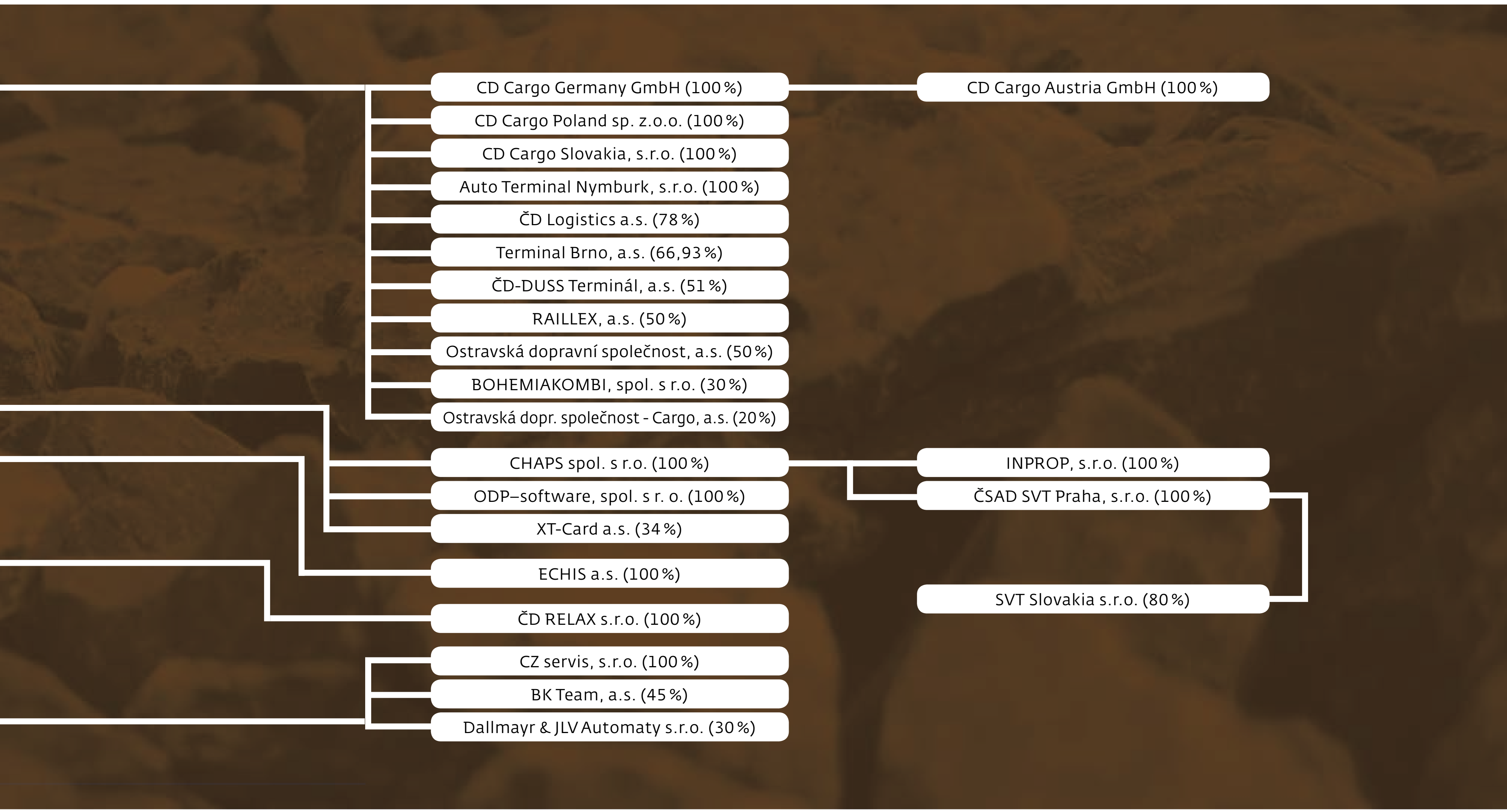
České dráhy
National carrier


innofreight
innofreight
innofreight
Cargo

3

Overview of the Investment Shares Held by the ČD Group

as of 31 December 2017



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Corporate Governance

Legal Relationships of the Company

The legal relationships of the joint stock Company České dráhy (hereinafter „ČD“ or „the Company“) 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
- Act No. 90/2012 Coll., the Act on Business Corporations and Cooperatives.

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

Shareholder 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 is 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 2017 were as follows:

Tomáš Čoček, Ph.D.	Chairman, representative of Transportation Ministry
Kamil Rudolecký	Vice-Chairman, representative of Transportation Ministry
Marek Ondroušek	Member, representative of Industry and Trade Ministry
David Koppitz	Member, representative of Regional Development Ministry
PhDr. Mgr. Jakub Landovsky, Ph.D.	Member, representative of Defence Ministry
Jindřich Kušnír	Member, representative of Transportation Ministry
Pavel Kouřil	Member, representative of Finance Ministry

The authorization for activity in the Steering Committee of České dráhy was terminated for Jiří Havlíček, MBA, according to Government Resolution no. 554 from 24 July 2017 and role in the Steering Committee was passed to Marek Ondroušek.

Kamil Rudolecký was recalled from the role of Vice-Chairman of the Steering Committee effective from 31 December 2017 according to Government Resolution no. 897 from 22 December 2017 and Ladislav Němec was appointed as Vice-Chairman of the Steering Committee with effect from 1 January 2018. In addition, the activity in the Steering Committee was also terminated for Jindřich Kušnír, David Koppitz and Mark Ondroušek with the effective date on 31 December 2017. Roles in the Steering Committee were passed to Luděk Sosna, Ph.D., Václav Nebeský and Eduard Muřický with the effective date on 1 January 2018.

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,
- 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.

The decision-making procedure of the Supervisory Board 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 2017 were as follows:

Milan Feranec	Chairman
Vojtěch Kocourek, Ph.D.	Member
Antonín Tesařík	Member
Jan Hart, LL.M.	Member
Tomáš Révész	Member
Milan Kucharčík	Member
Antonín Leitgeb	Member
Jaroslav Pejša	Member
Vladislav Vokoun	Member

The Supervisory Board of the Company remained unchanged in 2017.

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

Committee for management of real estate discusses 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 shall monitor 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.

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 officeof 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 ČD's internal audit system and ensuring its functional independence,
- monitoring the process of the mandatory audit of the financial statements and the consolidated financial statements,
- assessment of the auditors' and audit company's independence,
- recommending the auditor to the supervisory body.

The activities of the Audit Committee are based on Act No. 93/2009 Coll., on Auditors, as amended, and the Articles of Association of ČD, 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 2017 were as follows:

PhDr. Tomáš Vyhnánek	Chairman
Otakar Hora, CSc.	Vice-Chairman
Lenka Hlubučková	Member

On 4 May 2017, the Steering Committee of the Company recalled Ivana Kubaštová from the Audit Committe and passed this role to Otakar Hora, CSc. with immediate effect. On 7 November 2017, the Steering Committee of the Company recalled PhDr. Iva Šolcová from the Audit Committe and passed this role to Lenka Hlubučková with immediate effect.

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 for the General Meeting, the Supervisory Board or the Audit Committee
- whether to approve the election procedure used to elect the Supervisory Board's members by the Company's employees as negotiated with trade unions
- 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.

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 independence and efficiency of Internal Audit is overseen by the Audit Committee.

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.

To ensure better coordination, Internal Audit also communicates and cooperates with external control bodies, the external auditor and criminal law authorities.

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. Compliance function is performed in accordance with the rules of procedure of the several Company's departments: the Legal Department, the Department of Security and Emergency Planning, the Department of Internal Audit and Control and the Department of Personnel.

Legal Department monitors whether activities of the Company comply with the law, monitors the legislation of the Czech Republic and the EU and it is necessary place for preparing comments in the process of internal legislation. Department of Security and Emergency Planning evaluates risks and proposes measures to eliminate crime and its consequences, and the Department of Internal Audit and Control then checks the entire system of compliance in the Company. These departments, together with the Office of the Member of the Board of Directors for Passenger Transport, are responsible for implementing all requirements in the field of criminal responsibility of legal entities. No any significant cases of breaching laws or regulations, including bribery and fraudulent activities, were noted in 2017.

Risk Management

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 minimise the risks of revenue decrease and costs increase. The ČD risk management system is based on the set framework 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.

Information on Mandatory or Voluntary Codes of Corporate Governance

České dráhy, a.s., voluntarily did not adhere to and are not subject to any specific code of Company management, neither as a whole nor in individual parts. The content common for complex corporate governance codes is governed by respective internal regulations of the Company.

5

Report on the Activities
of the Supervisory Board of the Company České dráhy, a.s., for 2017

In 2017, the Supervisory Board held eleven ordinary 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 of the Supervisory Board. As appropriate, these were also attanded by other members of the Board of Directors.

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

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

At the meetings of the Supervisory Board, required documentation and various applications filed by the Company's Board of Directors were presented 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 2017 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, 19 February 2018

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

6

Social Responsibility

Social responsibility has a long-established tradition in ČD. Despite the adoption of austerity measures, the Company, being a national carrier, continues in this trend not only in the economic and environmental sectors, but in the social area as well. České dráhy is actively involved in partnerships, education and awareness, cooperates with non-profit organizations and foundations, and supports the community in the field of culture and sports. Most of the projects the Company supports on the basis of long-term and proven cooperation. Great care is also devoted to the support of projects and events in individual regions of the Czech Republic. Towards the traveling part of public České dráhy aims to continuously improve passenger transport quality and by this way to build positive perception of the Company.

Barrier-free Travelling

ČD is practically the only carrier in the Czech Republic that enables a comprehensive network-wide traveling for passengers with disabilities, also in relation to neighbouring European countries.

- In timetable for 2017, the number of daily barrier-free connections increased to 5,080 (the long-distance connections - 430, the regional transport connections - 4,650) from the average daily number of 7,016 established connections. Barrier-free rail transport is now offered by České dráhy in over 72% of all trains
- In 2017, the number of barrier-free connections increased by 98.28% (from 2,562 to 5,080) compared to 2010.
- In 2017, the number of barrier-free passenger cars and units increased to 642.

Important is also a cooperation between České dráhy and the National Disability Council, in terms of which, in 2017, the Company again supported the "Euroklíč" project, which aims to ensure fast and dignified access to public social and technical compensation facilities for persons with reduced mobility throughout the Czech Republic.

Barrier-free passenger cars and trains are dedicated also to others with limited mobility, such as elderly people, passengers with temporarily reduced mobility, as well as pregnant women and passengers travelling with kids in strollers. In 2017, there was an introduction of 375 connections with the section for passengers with children and 44 connections with a children's cinema – in total 419 connections. In addition, České dráhy allows the transport of dogs and small domestic animals. Guide and assistance dogs can be transported free of charge.

Education and Awareness

Preventive Railroad Safety Train

Preventive train ("Preventivní vlak") is already a traditional project within the awareness area focused on safe behaviour in railway areas and in railway transport in general, designed for older children and youth. The Preventive train has already welcomed 19,708 visitors and demand from primary and secondary schools is still high. The project is linked to the activities of the Integrated Rescue System and the Police of the Czech Republic.

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 ("Elfíkovy sešity proti nudě") and small themed Elf's workbooks and coloring books received by children on the board of long-distance trains for fun and to make the trip passed faster. Simultaneously, kids receive information on safe behaviour on the railway. The children's tickets on which children can write poems are very popular as well. Children can meet the Elfík mascot on various ČD events, such as "ZOO Trip with Elfík the Elephant", the Children's day or St. Nicholas rides. The Company also supports the Run Czech series of family running events and participates in the "Sport without Prejudice" project.

ČéDés Scholarship Program

The program is designed for pupils of the 9th year of elementary schools who want to study high school in the field of transport. The aim is, among other things, to acquire new potential employees of the company into operating professions, i. e. customer staff and drivers.

České dráhy allows secondary school students to gain professional experience in the Company's operations. University students have the possibility to consult their bachelors or diploma theses on railway transport with the competent staff of the Company.

Other Projects in the Field of Education and Awareness, in Which ČD is Involved

- Lustig's Train ("Vlak Lustig"), which brings period of holocaust closer to the public.
- Revolution Train – a unique drug prevention project.
- Legiovlak, which spreads the awareness of Czechoslovak legions and their merits in the creation of an independent Czechoslovak state.
- European Mobility Week.

Cooperation with Foundations and Non-profit Organizations

Mum, I am breathing („Maminko, dýchám")

Since 2009, in cooperation with foundation Crossroad (Křižovatka), České dráhy have provided breathing monitors Babysence II to the hospitals in the Czech Republic, as a part of the project "Mum, I am breathing" ("Maminko, dýchám"). In 2017, the devices were delivered to hospitals in Prague (Ke Karlovu), Ostrava, Břeclav, Havlíčkův Brod, Přerov, Havířov and Most. During 8 years, ČD has supported handover of two hundreds such devices. The aim and purpose of the project is to provide the Czech hospitals and their obstetric, neonatal and ICU departments with breathing monitors for each bed and to spread awareness of infant sudden death syndrome.

Other Projects Carried Out in Cooperation with Foundations and Non-profit Organizations:

- Support of the Tereza Maxová Foundation, the Fund for Children at Risk, the Golden Hazel or the Association of SOS Children's Villages - transporting children from children's homes and socially disadvantaged families to schools, clubs, performances, sports matches etc
- Support of the Hippokrates Foundation - ensuring the transport of nurses and VFN doctors in Prague for training and seminars beyond the scope of their duties.
- Support for the Andromeda project - ensuring the transport of volunteers who are dedicated to children living in Klokánek.
- Promotion of the Movember project organized by the Cancer Men Foundation with the active involvement of ČD employees.

Community Support in the Area of Leisure Activities, Culture and Sport

ČD Nostalgia

As part of ČD Nostalgia's agenda, České dráhy, as a national carrier, defends the legacy and technical skills of our ancestors and develops it in order to convey the message to future generations. The Agenda consists mainly of nostalgic rides often connected with visiting cultural monuments and important places in the locality. In cooperation with the clients, the activities of deploying historical kits are expanded into regular weekend operations.

ČD Museum

Since 1999, České dráhy Museum in Lužná u Rakovníka has been engaged in the maintenance and operation of historic railway vehicles, which after long years of service have made the joy for the railway enthusiasts and all those interested in the history of transport.

National Day of the Railway

The exhibition of railway history and modernization of ČD fleet is designed for the whole family and takes place every year in another city. The event also includes a rich accompanying program for children and adults. In 2017, the event took place in Bohumín, with more than 20,000 visitors.

In September 2017 the traditional smaller regional railway celebrations took place all over the Czech Republic.

Other Projects in the Field of Leisure Activities, Culture and Sport

- Enable distribution of Bethlehem light.
- Kinematovlak, which, in connection with the Zlín Festival, provides free screening of fairy tales and films for children at selected railway stations.
- Partnership with the National Technical Museum and the Wing Wheel Foundation, where České dráhy supports the reconstruction and preservation of historical railway technology and buildings.
- Days of the European Heritage, during these days unique historical spaces in the railway stations are available for visitors.
- Train Full of Smiles for disabled children and children from orphanages („Vlak plný úsměvů pro postižené děti a děti z dětských domovů") at the International Children's Film Festival in Zlín, which ČD organizes in cooperation with the Union of railway employees and the management of the festival.

7

Report of the Board of Directors on the Company's Business Activities and Assets

Economic Results

Profit/Loss by Principal Activity Segment

[CZK mil.]		Passenger transport	Freight transport	Asset management	Other	Elimination	Total
Revenue from principal operations	2017	22,110	11,923	-	-	(64)	33,969
	2016	21,572	11,760	-	-	(45)	33,287
Purchased consumables and services	2017	(9,411)	(6,026)	(270)	(3,031)	2,187	(16,551)
	2016	(9,020)	(5,879)	(250)	(3,151)	2,034	(16,266)
Staff costs	2017	(7,738)	(4,076)	(137)	(1,556)	283	(13,224)
	2016	(7,331)	(3,869)	(122)	(1,490)	249	(12,563)
EBITDA from continuing operations	2017	5,043	2,285	150	916	(522)	7,872
	2016	5,125	2,447	304	774	(305)	8,345
Depreciation/amortisation	2017	(4,641)	(1,190)	(91)	(333)	87	(6,168)
	2016	(4,691)	(1,076)	(71)	(329)	79	(6,088)
EBIT from continuing operations	2017	402	1,095	59	583	(435)	1,704
	2016	434	1,371	233	445	(226)	2,257
Profit/loss for the period	2017	6	743	74	555	(394)	984
	2016	(646)	935	485	312	(204)	882

The revenue from principal operations growth was driven by revenue growth in passenger and freight transport. Increase in revenue from passenger transport was caused by larger number of passengers and greater transport performance, with sales rising at both international and domestic levels. Within domestic transport, revenue growth reflected in both long-distance and suburban transport.

In the case of international transport, sales increased mainly on long-term cooperation routes, i.e. Prague - Vienna - Graz and Prague - Hamburg. In suburban transport, the increase in revenues is linked to the involvement of České dráhy in expanding integrated transport systems, specifically in the framework of Prague Integrated Transport (PID) or Integrated Transport of the Liberec Region (IDOL).

In addition to the growth of the economy and the increasing purchasing power of the Czech population, measures on the pricing and marketing of individual support projects (Southern Express, Slovak Express, Metropolitan) and products (First Minute Europe for the Euroweekends or Ticket for the summer) are the main reasons for the positive development.

The increase in purchased consumables and services in passenger and freight transport is mainly due to higher costs of railway vehicles repairs. The increase in staff costs is related to higher performance, wage developments in the Czech Republic and labour shortages in some skilled professions.

Despite slightly declining EBIT and EBITDA, the passenger transport segment achieved a significantly better profit for 2017 compared to the loss in 2016. This is due to unrealized exchange gains arising from the translation of EUR denominated bonds after the end of ČNB's monetary intervention.

Structure of Assets and Liabilities

(CZK million)	**2017**	**2016**
Fixed assets	72,617	73,882
Current assets	13,751	13,056
Equity	38,985	36,822
Non-current liabilities	32,842	39,409
Current liabilities	14,541	10,707

Fixed assets of the Group slightly decreased mainly due to lower investment activity in freight transport.

The Group's equity increased, mainly due to the profit of the current period and also due to the increase of cash flow hedging reserve.

Bonds maturing in 2018 in the amount of CZK 4 billion were transferred within the Group's liabilities from non-current to current liabilities. Another reason for the decrease in the Group's liabilities is the repayment of Eurofima's loan of EUR 30 million and the decrease in the book value of EUR-denominated bonds due to the appreciation of the Czech crown exchange rate after the end of the ČNB's intervention regime.

Cash Flow

(CZK million)	2017	2016
Operating activities	6,241	6,080
Investing activities	(4,504)	(2,926)
Financial activities	(1,590)	528

In 2017, cash flow from operating activities was positively affected, in particular by the higher earnings of the Group and by lower interest payments, due to more favourable refinancing of the bonds in 2016 and the decline in debt in 2017.

In 2016, cash flow from investing activities was offset by income from the sale of part of the business (station buildings). In 2017, the costs of the acquisition of fixed assets were lower than in 2016.

The decline in cash flows from financial activities is related to a reduction in the Group's debt, excluding the effect of exchange rate adjustments.

Passenger Transport

Unified Concept of Long-distance Transport

Unified concept of long-distance train management, which ensures shorter travel times, full and widespread services on board trains, by the end of 2017 was extended to selected lines, in particular:

Southern Express

- 8 pairs of trains in the category Ex, line Praha – Tábor – České Budějovice/Český Krumlov/Linec

Western Express

- 7 pairs of trains in the category Ex, line Prague – Pilsen – Munich
- 8 pairs of trains in the category Ex, line Prague – Pilsen – Cheb
- 2 pairs of trains in the category IC, line Prague – Pilsen – Cheb/Františkovy Lázně (direct connection between Ostrava/Bohumín and western part of Czech Republic)

Slovak Express

- 8 pairs of trains in the category Rx, line Prague – Olomouc – Luhačovice/Staré Město u Uherského Hradiště/Veselí nad Moravou

Metropolitan

- 8 pairs of trains in the category EuroCity, line Prague – Brno – Bratislava – Budapest

Supplementary services

In 2017, there was further extension of the number of connections with the ČD Minibar service, that means with the possibility of buying refreshments from so-called „minibar". This service was introduced in the new express segment on the line Ex6 from Prague to Cheb and from Prague to Munich (Prague - Domažlice part), in the fast trains on line R10 from Prague to Hradec Kralove and in the fast trains of Rx category on the line R18, Prague - Přerov - Luhačovice. At the same time, food vending machines, allowing the purchase of cold drinks and snacks, were installed in 8 InterPanter units deployed on the line R19 Prague - Česká Třebová - Brno. This form of refreshment is already offered in all these units. Together with refreshments on trains with sorted restaurant cars, bistros and restaurant sections, some of the forms of refreshment are already available on almost 290 trains, making over 54% of the total number of average daily trains travelled in long distance.

The number of bike rentals by ČD Bike, which enables customers to borrow bicycles, including child and electric bikes, scooters, helmets and other accessories, increased to 100 facilities throughout the Czech Republic in 2017. One of the advantages of ČD Bike's offers is the possibility to return the borrowed bicycle at a different location than it was borrowed.

Within support of ecological travelling, České dráhy also supports projects related to bike towers construction. ČD's cooperation with operators of such bike towers enables its customers with a valid customer application at their In Karta card to park their bicycle for the first 24 hours free of charge. In 2017, two new bike towers in Třinec and Lysá nad Labem were built . Construction of further bike towers is being prepared.

The customer loyalty program ČD Points was extended this year with a number of other interesting benefits. The number of registered customers in the loyalty program reached 183 thousand at the end of the year.

During the year, most of the ČD Lounge waiting rooms were renewed. The travellers are offered a pleasant, air-conditioned environment with free Wi-Fi connection, with the possibility of recharging a mobile phone, with daily newspaper and children's corner.

The offer of preferential and free ČD Parking was extended to 11 railway stations. ČD is preparing the extension of this service to other locations.

In the long-distance trains, ČD offers a children's cinema for the smallest passengers. The service, provided in railjet connections and other selected trains, will be a part of the redesigned Pendolino units.

At the end of the 2016/2017 timetable, the long-term loss-making service of ČD Kurýr was discontinued. This service was not related to the fulfilment of the tasks connected with the transport service provision of the services presented within public service obligation nor with the commercial transport tasks of the Company in the field of commercial transport.

Medium-term Outlook

The key task of ČD will be to contractually ensure maximum performance in the public transport for the period after 2019, in terms of both, regional and long-distance transport.

In 2018, we can expect a series of invitation for tenders to run both regional and long-distance transport. The selection of the carrier for the operation of passenger railway transport in the whole South Moravian Region was already initiated and other tenders are already notified or their notifications are under way. From the side of the Ministry of Transport, it is possible to pursue the efforts to continuously solve the objective problems of ČD to succeed in open tenders, so that the competition oversight authorities can no longer successfully contest these tenders.

The main goal of the long-distance passenger transport strategy is, in particular, to maintain existing and acquire additional passengers and to improve all performance indicators in view of the increasing pressure of competing carriers, whether in rail or bus transport. Extremely competitive pressure can be expected on the line Ex3 Prague - Brno - Břeclav - Vienna (Graz) / Bratislava (Budapest). In the coming period, from the point of view of market segments, the additional target will be to increase sales on key domestic long-distance lines and to use the opportunity for growth of international transport on key backbone lines. České dráhy will also continue to implement long-term contracts with foreign partners DB, ÖBB, ZSSK and DLB. The express segment of the line Ex6 Prague - Pilsen - Cheb / Munich was introduced since the commencement of 2017/18 Timetable. At the beginning, this project has faced a lack of ČD's business partner's vehicles. The business partner is DLB (Die Länderbahn) – carrier selected in the tender procedure. Such situation is a challenge for ČD to be solved quickly and satisfactorily. In 2018, 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.

B2B Trade

In 2017, the goal of business activities was to increase sales of corporate products, which in case of IN Business ticket increased by 45% year to year. The same increase was recorded in the number of registered companies in Corporate e-shop. In Karta card sales to employees of companies for the purpose of private travel increased by 40% because of ČD special offers. A significant increase of 500% has been achieved by the Outbound Train product, thanks to individual customer access and high standard service on trains.

10x Germany and 10x Vienna products were offered via direct mail, including tickets for 10 trips during a specified period for business travelling abroad, notably to Germany and Austria.

There was also provided demand for special trains, traditionally there was the Orient Express journey, but also there were special trains for ŠKODA AUTO, which ran between Prague and Bratislava for two weeks.

Traditionally, business is also focused on young people so there were several events held to support student travel in cooperation with the firm GTS ALIVE. The cooperation with the organizers of music festivals and social events also took place.

Travel agencies and agencies with sales through UNIPOK as well as smaller companies selling the tickets from the ČD e-shop are both important partners for the Company.

Marketing

In 2017, the following main objectives were monitored by marketing communications of ČD:

Getting new passengers:

- focusing on younger generation
- addressing passengers, who use other means of transport

Keeping existing customers:

- communicating further options to travel by train to new destinations
- communication services that make traveling easier and more pleasant

A group of potential travellers under 26 years of age is characterized by high literacy in new technology, active participation in social networks, interest in quality travel, price-sensitivity. Leading positions in their value chain are increasingly filled with the ecological and safety of railway transport. Due to this reason, young people have been approached primarily by online communications and by the non-traditional forms of communication that are close to them. Ambassadors, who were particularly active on social networks and their credibility was based on a good knowledge of the interests of the target group, helped with development and consolidation of the relationship with the brand. The communication of comfortable travel with ČD was extended by the phenomenon of „youtubers"- in the autumn was prepared a unique project „Youtuber Train" („Youtuberský vlak"). Ten well-known celebrities of the dynamically evolving communication channel were on board and took care of an attractive program for direct participants. These, who did not participate directly in the event, could watch via YouTube and social networks a proof of fun traveling.

The knowledge to communicate with the target group of young people was concentrated in the Summer Campaign in the product Summer ticket for unlimited weekly or fortnightly travel throughout the Czech Republic during the holidays. In addition to online communication, the traditional form of customer engagement - such as outdoor advertising or spotting in cinemas - has been successfully applied.

Massive campaign My Train, My Time („Můj vlak, můj čas") from fall 2017, was addressed especially to new travellers, who most frequently travel for long distance in their cars. Besides traditional printed and online media, it included TV spots where the train became the scene of a fateful encounter. The main goal of the campaign was to convince customers that a stressful and limiting experience in the car could easily be exchanged for comfort on board the ČD train, which would allow them to have time for themselves - for relaxation, work and high quality refreshments.

In addition, there were two new products launched by separate campaigns: connections in Eastern Moravia under the name of Slovak Express and Metropolitan connections on the route Prague - Brno - Bratislava - Budapest. Both lines are part of the trend of simplification and unification of the connections designation to facilitate the long distance passengers' orientation.

An attractive price offer has been connected with Communicating Timely Europe Tickets and traveling to popular "Euro Weekends" during the spring months and to Advent markets at the end of the year.

In 2017, the activities addressed to existing customers were focused on online check-in, with an emphasis on easier purchase of driving documents in the ČD e-shop or in My Train application. This application simplifies travel for more than 800,000 customers who have downloaded it for free to their mobile.

The continued activity of ČD on social networks is mainly connected with attractive price offers, but it also presents tips for excursions and introduces new vehicles. The passengers were addressed in an entertaining form, and at the end of the year, the number of fans following the official ČD profile on the social network Facebook exceeded 35,000.

Operating Indicators

Number of trains dispatched in 2017*:	
Long distance passenger transport	192,372
Regional passenger transport	2,374,479
Total	**2,566,851**

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

Timetable implementation	
Long distance passenger transport	80.6 %
Regional passenger transport	91.3 %
Total	**90.5 %**

Performance of the timetable with deduction of causes of delay outside the carrier	
Long distance passenger transport	96.7 %
Regional passenger transport	98.8 %
Total	**98.6 %**

ČD responsibility for train delays	
Long distance passenger transport	17.2 %
Regional passenger transport	14.1 %
Total	**14.8 %**

Similarly, to the previous years, the delay of trains caused by the railways operator was influenced mainly by the closures and construction activity on the railway infrastructure, but there was a significant year-to-year increase in the share of other impacts. Lately, according to 76/2017 Coll., there is a decrease in number of influences that have previously been considered as a responsibility of carriers (i.e. waiting for a connection) or infrastructure manager (crossing of trains, etc.), without distinguishing the root causes.

Extraordinary events were another reason of non-compliance with timetables. The number of emergencies and incidents on the Railway Transport Route Administration infrastructure, which resulted in a shutdown of operations, amounted to 6,020 cases in 2017.

In total, the dispatching apparatus using the MIMO system dealt with 10,099 extraordinary cases (including emergency situations without stopping of traffic or delays in the territory of other states). Extraordinary events and extraordinary operational cases require the adoption of operational measures in passenger transport, except for changes in staff turnover, locomotives and trains, i.e. the introduction of substitute transport and, if necessary, the withdrawal of trains without compensation (rail replacement transport capacities are not available, road freight is not viable, route prospects are earlier than possible substitution vehicles, train replaced by other, later train including extended stopping, etc.).

In 2017, we report the following operational arrangements for emergencies:

Number of trains with operational replacement transport	6,380
- of that long-distance transport	*613*
- of that regional transport	*5,767*
The scope of operational replacement transport [trainkilometres]	100,046.8
- of that long-distance transport [trainkilometres]	*14,673.9*
- of that regional transport [trainkilometres]	*85,372.9*
Number of trains partially or totally cancelled without compensation	10,971
- of that long-distance transport	*1,254*
- of that regional transport	*9,717*
Share of trains that have been operationally cancelled on the total planned number of trains	0.4 %

Total of 3,993 trains have been operationally cancelled, resp. operationally replaced, due to the defects of the locomotives.

Quality Standards Assessment

The quality of service provided to the travelling public forms a substantial part of České dráhy's image as it is visible and monitored by the general public, mass media, competitive carriers and passenger transport orderers of the regional and long haul transport. ČD's quality standards determine a single quality level of provided services to passengers and orderers and are based on the Company's current financial abilities.

The quality management system 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 orderers' inspections, received complaints and suggestions and it is complemented by the measurement of the customer satisfaction in the form of a questionnaire survey, mystery shopping and specific research.

The level of compliance with required quality standards is good and overall there has been an improvement in performance across standards. Failure to comply with the standard concerns the area of Timetable Accuracy in long-distance and regional transport in the following areas:

- the trains arriving within the tolerance limit (0 – 5 min.) for accurate transportation
- the trains arriving within the tolerance limit (6 – 60 min.) for accurate transportation

In 2017, performance of the size of the timetable violation indicator for the individual trains, resp. the amount of their delays, was affected by the increased frequency of occurrences caused by weather conditions (storms and hurricanes). In 2017, the operator of the rail system stopped the operation only once, during the Herwart storm in a restricted area of the Liberec region. In other cases, the operation of the track and thus the rail transport was maintained, such conditions only had an impact on the amount of delayed trains.

The share of ČD's own fault in the above-mentioned facts is, in the long--distance transport at a tolerance of 0 - 5 minutes for punctual operation, 4.77%, resp. 4.6% for a tolerance of 6 - 60 minutes. In regional transport, the share in a tolerance of 0 - 5 minutes for punctual operation is 1.49%, respectively 1.47% for a tolerance of 6 - 60 minutes. From this point of view, the noncompliance of these sub-indicators is crucial.

Where the level of compliance with individual standards for the defined period was lower than the determined minimum value, the individual organisational units are obliged to verify the reasons, adopt measures remedying the situation and implement them immediately.

Conclusions of inspection activities for 2017 comply with the outcome of the quality standard assessment. In 2017, a total of 132,387 inspections were realised, of which 20,610 inspections were carried out at train stations and 111,777 on board of trains. Inspection activities in 2018 will focus on the verification of effectiveness of the measures adopted to meet the quality standards.

Sheet of standards		Level of requirements	2017	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 %	99.4 %	met
	Quality of work of train personnel when selling tickets	99 %	99.97 %	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 %	99.4 %	met
	Alternative ticket sale	99 %	99.98 %	met
1.4.	**Providing information at railway stations**			
	Providing information to passengers in a staffed railway station/stop	90 %	92 %	met
	Quality of work of railway station personnel	99 %	99.8 %	met
1.5.	**Behaviour of the train and railway station personnel**	99 %	99.52 %	met
1.6.	**Information systems in trains**			
	Functionality of providing information	99 %	99.03 %	met
	Quality of work of train and vehicle personnel	99 %	99.95 %	met
1.7.	**Information systems at railway stations**			
	Functionality of providing information	99 %	99.61 %	met
	Quality of work of railway station personnel	99 %	99.99 %	met
2.	**Accuracy of train connections and the general principle for procedures in operational extraordinary events**			
2.1.	**Operational extraordinary events in railway transport**			met
	Reliability of the timetable	98 %	99.9 %	met
	Quality of solutions for extraordinary events	75 %	86.82 %	met

Sheet of standards		Level of requirements	2017	Meeting standards
2.2.	**Compliance with the planned requirements and planned train capacity**	95 %	98.6 %	met
2.3	**Accuracy of compliance with the timetable of the long-haul and regional transport**			not met
	Long-distance transport			
	Trains arriving within the tolerance limit (0 – 5 min.) for accurate transportation	78 %	72.2 %	not met
	Trains arriving within the tolerance limit (6 – 60 min.) for accurate transportation	20 %	27 %	not met
	Trains arriving within the tolerance limit over 60 min. for accurate transportation	2 %	0.8 %	met
	Long-distance transport - responsibility of the carrier			
	Trains arriving within the tolerance limit (0 – 5 min.) for accurate transportation	94 %	95.23 %	met
	Trains arriving within the tolerance limit (6 – 60 min.) for accurate transportation	5.5 %	4.63 %	met
	Trains arriving within the tolerance limit over 60 min. for accurate transportation	0.5 %	0.02 %	met
	Regional transport			
	Trains arriving within the tolerance limit (0 – 5 min.) for accurate transportation	91 %	89.5 %	not met
	Trains arriving within the tolerance limit (6 – 60 min.) for accurate transportation	8 %	10.5 %	not met
	Trains arriving within the tolerance limit over 60 min. for accurate transportation	1 %	0.1 %	met
	Regional transport – responsibility of the carrier			
	Trains arriving within the tolerance limit (0 – 5 min.) for accurate transportation	97 %	98.51 %	met
	Trains arriving within the tolerance limit (6 – 60 min.) for accurate transportation	2.5 %	1.47 %	met
	Trains arriving within the tolerance limit over 60 min. for accurate transportation	0.5 %	0.02 %	met
2.4.	**Connecting trains**			
	Compliance with border of connections planning	95 %	97.85 %	met
	Compliance with procedure to ensure connecting links	99 %	99.14 %	met
3.	**Compliance with the contracted scope of transport and cancellation of transport connections**			
	Compliance with the contracted scope of transport	99 %	99.89 %	met
	Cancellation of transport connections	1 %	0.43 %	met

Sheet of standards		Level of requirements	2017	Meeting standards
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 %	96.81 %	met
5.	**Customer 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
	Filing coefficient per 100 thousand transported passengers	7	6,9	met
	Justified filing coefficient per 100 thousand transported passengers	4	1.53	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 request rejections	none	none	met
	Loss of the request	none	none	met
	Dealing with the request in the determined period	100 %	100 %	met
	Average length of dealing with the request	4 weeks	4 weeks	met
7.	**Assistance provided to disabled people and people with reduced mobility and orientation**			met
	Satisfying a customer's order or requirement	99 %	99,70 %	met
	Sorting requirements by orders	99 %	99,57 %	met
	Functionality and technical capacity of mobile platforms	99 %	99,13 %	met

Repairs and Maintenance of Rail Vehicles in Passenger Transport

The maintenance and repairs of railway vehicles for passenger transport are provided by the ČD Group and by the own capacities of ČD repair centres of railway vehicles in the whole Czech Republic. Own capacities are mainly used for regular repairs, while DPOV performs periodic high-grade repairs, modernisations and reconstructions.

The renewal of railway vehicles for passenger transport that took place in 2017 was in accordance with the management plan and the investment plan.

Major projects include the acquisition of 10 multisystem locomotives with the speed of 200 km/h for international transport, launch the revitalization of the Pendolino 680 series, the completion of modernization prototypes for Bmz229 and Bmz232 passenger cars, the start of production of 9 Regiopanter electric units for the Pilsen region and production of 12 pieces of modern station shunting locomotives. In 2017, weighing repairs of railjet units were carried out as well.

In relation with renewal and modernisation of the railway vehicles, investments in the ČD Group are also directed to the construction and modernisation of the repairment workplaces and to the railway vehicles repair and maintenance technologies. In 2017, construction of the new repairment hall for the railway vehicles in Rakovník took place as well as revitalisation of repair plant Praha Libeň. There was also start of construction of the underground tandem lathe on wheelset in Prague. In the DPOV, subsidiary extension of the repairment hall for motor units' workplace in Veselí nad Moravou was finished.

Freight Transport

Brief Description of Activity

The main activity of ČD Cargo, a.s., is the transport of goods by rail. Customers are offered the transport of almost all kinds of goods - from bulk substrates and dangerous goods to extraordinary and special shipments. ČD Cargo, a.s. is the only railway transporter in the Czech Republic offering transport of goods in complete trains as well as in individual wagon and groups' wagons shipments. The single wagon shipments offer, which distinguishes ČD Cargo from its competitors, was again promoted by advertising campaign www.1vagon.cz and by the new Vectron locomotive sticker. Additional services, such as railway siding operation, customs services, security advisory, storage and maintenance and repairs of traction and towed vehicles, are being offered.

These activities are covered by internal capacities as well as in cooperation with companies in which the Company has equity investments. The potential of subsidiaries is predominantly engaged in expansion abroad, which is one of ČD Cargo's strategic goals. The cooperation with Polish subsidiary, CD Cargo Poland (prev. Koleje Czeskie) has deepened. In 2017, it transported more than 3 million tons of goods and thus ensured purely Polish inland transport. Cooperation with ČD Cargo Slovakia was intensively developed, especially by transport to the Balkans. New product trains 'Dracula' and 'Marie Terezie' are offered to customers in cooperation with this subsidiary. Combined transport, especially the continental combined transport, is permanently a perspective segment, where transport of road semi-trailers and transport in the Innofreight system has been successfully developing.

With the transported volume of 64.8 million tonnes of goods, ČD Cargo, a.s., is the leading domestic railway transporter and it ranks among the major European transporters. It is also an important employer in the Czech Republic.

Railway Vehicles

ČD Cargo, a.s., has an extensive fleet of towed vehicles capable of operating on most of the European railway network and the fleet of locomotives for operating particularly on the SŽDC network. During 2017, ČD Cargo, a.s., operated fleet of 852 traction vehicles, of which 68 locomotives are leased. The locomotive type 383 (Vectron) can be found on regular trains with road semi-trailers from Brno to Rostock or from Bratislava to Braunschweig. Lately, these locomotives also appear with Innofreight containers in Austria. There were132 traction vehicles selected for physical liquidation.

The fleet of freight vehicles consists of nearly 22.6 thousand wagons of various types. The fleet of railway vehicles is expanded by leased vehicle in average number of 2,600 as required. Out of the total of railway vehicles, approximately 17.5 thousand vehicles are operable. During 2017, the physical liquidation of freight wagons continued. Eliminated wagons were considered as irreparable and redundant due to physical wear-and-tear, moral obsolescence and poor technical condition.

Investment Activity

ČD Cargo, a.s. invested primarily in the renewal and modernisation of its railway vehicles, improvement of the technical equipment of its repair workplaces and in improvement of working conditions.

Besides the purchase of Vectron locomotives, mainly the acquisition of 100 Sggrrs type wagons is considered as one of the most important investments of 2017. These wagons are primarily used with Innofreight interchangeable superstructures, enabling the transport of a wide range of commodities. Not to mention the installation of a measure for traction energy and fuel consumption and other investment expenditures on technical improvement of traction vehicles and wagons. A significant financial amount was invested in component repairs of locomotives, wagons and wheelsets. The development of internal information systems and the implementation of the ICT security project (cybersecurity) continued in the IT area. New projects were launched to support ČD Cargo's business activities. The most important actions in the area of construction investments include the complex reconstruction of the repairment hall in Ostrava and the construction of a compressor station in Nymburk. Finally yet importantly, the Company's investment funds were used for the modernization of machinery and handling equipment in PJ and SOKV, i.e. for the renewal of forklifts.

In 2017, in order to support of the Company's foreign expansion and the strengthening of the ČD Cargo brand abroad, the subsidiary CD Generalvertretung GmbH was renamed to CD Cargo Germany GmbH, the subsidiary Koleje Czeskie Sp. z o.o. was renamed to CD Cargo Poland Sp. z o.o. and the subsidiary Generálne zastúpenie ČD Cargo, s.r.o. was renamed to CD Cargo Slovakia, s.r.o.

Asset Management

Number of buildings owned by ČD	3,545
The number of land owned by ČD	13,427
The area of land owned by ČD (m^2)	62,929,701
The number of buildings sold in 2017	111

During 2017, there were no major transfers of real estate from ČD, a.s. compared to 2016, when station buildings were sold to SŽDC. The total number of ČD buildings decreased from 3,545 to 3,434 that is decrease by 111 buildings. Number of buildings decreased by approximately 3%.

Number of apartments in buildings owned by ČD as at 1 January 2017	838
- of those rented	*456*
Number of apartments in buildings owned by ČD as at 31 December 2017	756
- of those rented	*443*
Number of external rental contracts for premises and land owned by ČD	6 050
- of those number of rentals in ČD records	*17 638*
Number of internal rental contracts for premises and land owned by ČD	662
- of those number of rentals in ČD records	*9 315*
Income from external lease contracts for buildings, land and apartments (CZK mil.)	268
Income from internal lease contracts for buildings, land and apartments (CZK mil.)	87
Total external income from rental and operation of buildings (CZK mil.)	303
Income from the sale of property (CZK mil.)	307

In 2017, the most significant sale of assets took place in the Prague districts of Libeň (set of lands), Vysočany (set of lands), Hlubočepy (set of lands), Krč (set of lands), Běchovice and Vršovice (real estate) and further in Česká Lípa, Vrchlabí, Pardubice, Lovosice, Děčín, Ústí nad Labem, Plzeň, Pardubice, Moravská Ostrava, Nymburk, Říčany u Prahy (set of real estate).

In 2017, the goal of České dráhy was to improve the premises in which ČD employees reside, or premises leased to external entities. The investment expenditure were spent on the reconstruction and modification of the administrative buildings in Olomouc, Prague, Rumburk and Pilsen. Other resources were invested in project documentation for reconstruction of buildings in Brno and Ústí nad Labem.

The process of centralizing of asset management began in 2017. During 2018, this activity will be related to one manager in the Company that will make the management of this segment of ČD more effective in the following years. There is also an intense preparation for the transfer of land under the railway infrastructure to the SŽDC. In 2017, the work connected with the division of land and the preparation of geometric plans began. This should prepare the basis for the entire transaction in the following years. The ongoing process of negotiation with developers on further development and construction in the affected localities is obviously a matter of course; however, in this case, implementation and scope of these projects fall into the long-term horizon.

ČD is involved in several development projects within the asset management segment, most often through subsidiaries and affiliates established for such purposes. The most intense development took place in 2017 in the locations of Masarykovo nádraží (Masaryk Station Development a.s.), Prague - Smíchov (Smíchov Station Development, a.s) and Prague Hlavní nádraží (CR-City a.s., CR office a.s., RS residence s.r.o., RS hotel a.s., WHITEWATER a.s.). Development at the Nákladové nádraží Žižkov (Žižkov Station Development, a.s., RailReal a.s.) is complicated by the influence of a cultural monument. In the Nádraží Brno, the updating of unsatisfactory contractual relations takes place. The intention of ČD is to complete all the started development projects in the medium term horizon.

Other Activities

Information and Communication Technology Services

ČD – Informační systémy, a.s. (hereinafter ČDIS) provides comprehensive ICT services for the ČD Group in a long term.

ČDIS was commissioned by the parent company to implement the strategy of ČD Group - the modernization of information systems for passenger clearance. In 2017, a part of the first stage projects was completed (especially the new e-shop environment, changes in the search tools of individual train connections, etc.)

In 2017, ČDIS completed the acquisition of CHAPS spol. s.r.o., which has been providing its services and products for the development and operation of information systems and applications (in ČD Group) in a long term and has a detailed and unique knowledge of the operating environment. This also fulfils one of the goals - minimizing the dependence of the ČD group on external suppliers of services.

The ČD Group also operates on the external market of ICT services through its subsidiary ČD - Telematika a.s. (hereinafter referred to as ČDT).

ČDT is an important provider of telecommunication services and services in the administration, maintenance and construction of telecommunication infrastructure. ČDT owns the second largest optical infrastructure in the Czech Republic and provides housing services in highly secured data centres. ČDT provides its services to demanding clients from state administration, the railway transportation segment, large companies and local internet connectivity providers.

In 2017, ČDT covered another 9 railway stations with Wi-Fi technologies for providing public network internet access to the travelling public. Wi-Fi coverage was also realized at the metro stations in Prague, where the Prague Public Transport Company was the contracting authority. A contract for the construction another backbone fibre optic routes for Vodafone was also signed and the work on the Integration Bus for the Ministry of Labour and Social Affairs was continued.

ČDT also succeeded in the competition in the field of system integration, by requiring a new technology passport for SŽDC's infrastructure, also to which supplied the server farm this year. It also continued with GSM-R projects. In the area of roads, ČDT succeeded in realization of the project Bezpečný Stredočeský kraj (Safe Central Bohemian Region) and received a contract for four-year service maintenance of technology and software equipment of tunnels in Brno. ČDT has also developed business efforts in the IoT market with smart services that are primarily designed for cities, municipalities and businesses.

The exchange of active elements on the L2 access network, which will bring broadening and improving the quality of customer service, is an important investment that was launched in 2017. This follows modern trends in Ethernet networks and increases the capacity of ČDT transmission network.

The Company's strategy for the next period is the development of business opportunities in the České dráhy Group, the strengthening of the strategic partnership with SŽDC, the strengthening of telematics projects and the growth in revenues outside the railway infrastructure and transport sector. In 2018, major growth opportunities will be driven by growing demand for telematics services. ČDT invests in this area for strengthening its competencies.

ČDT 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 specialised professional services of railway research and development. Main customers are global manufacturers of railway machinery and equipment. In this field VUZ is recognized as renowned institution specialised in the provision of professional services and comprehensive solutions in specialised assessment, assessing compliance with the requirements of the interoperability and expert activities for railway systems and railway transportation, not only in EU countries, but also globally.

VUZ provides these services as follows:

- authorised entity no. AO 258
- notified entity no. 1714 for assessing compliance with the requirements for the interoperability of the European railway system
- accredited testing laboratory no. 1462
- an accredited certification body for products no. 3149
- accredited inspection body no. 4056
- a certified entity for assessing safety under CSM (security method for evaluating and assessing risks).

In Testing Centre in Cerhenice VUZ operates two railway testing circuits (ŽZO) equipped with modern infrastructure with newly built ETCS European Train Control System, making the Testing Centre one of the most important and renowned testing centres for railway machinery and equipment within Europe. In terms of railway research, VUZ participates in the solution of national and international projects (TAČR, Shift2Rail). For this purpose, VUZ builds close relationships with the academic sphere, offering practical programs of theoretical knowledge.

Employment Policy

Company's priority is to work with trade unions and to maintain social peace. The collective agreement for 2017 was implemented during the year and its evaluation was carried out on a continuous basis with the social partners.

Because of the boom in the labor market, the Company launched incentive programs that motivate, both, existing and new employees in the deficient professions.

Another priority is the continuous improvement of staff qualification. Dopravní vzdělávací institut, a.s. (DVI) provides the railway experts training area for the ČD Group. DVI holds the accreditation for the training of key occupations in the field of rail transport and for the implementation of psychological examinations. DVI operates in the Czech Republic through the regional centers of education and training centers. It 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 language training, soft skills training, production of electronic lessons for presentation and e-learning.

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. Part of its offer includes domestic and international tours, wellness stays and fitness--healing stays. Its services are mainly provided to employees of the Group, who may for these services draw a contribution from the Social Fund in the cases defined in the collective agreement.

The Group implements active gender policy including women in leading positions.

International Relations

In 2017, České dráhy, a. s., focused mainly on the effective implementation of the fourth railway package of the European Union. Within the framework of the European Railways Community (CER), where the Chairman of the Board of Directors is in the Management Committee, as well as in separate negotiations with representatives of the Brussels institutions, the Company sought to interpret correctly the provisions of the political pillar of the package. In the various forums it was stated, that the fourth railway package brought clear rules for the European railway community. České dráhy, a.s., recognize the importance of competition, but the aim of the effort must always be the benefit to the customer. The aim of ČD, a.s., is to convince the European Commission and other institutions that the launching of a competition for public service performances with the only criterion - the price - can lead to a sharp decline in the quality of the services provided. According to ČD, a.s., the package must be applied in all its complexity, incl. assessing impacts on economic equilibrium.

České dráhy, a.s. is interested in a continuous dialogue with partners in Brussels – especially with CER, the European Commission (DG MOVE, DG COMP etc.), Members of the European Parliament and many others.

Among others, the chairman of the Board of Directors presented in Brussels the achievements of Company in the field of gender policy - participation in the Equilibrium program of the British Embassy in Prague.

In July 2017, České dráhy, a.s., held the "Summit of the Top Representatives of European Railways". All key players in the European railways (this was the highest representation forum in all railway community events) arrived in Prague to discuss the most important themes of the EU transport agenda and the strategy of the railway business development.

České dráhy, a.s., were also active in other railway organizations (UIC, OSŽD, CIT, etc.)

In 2017, most important subsidiary - ČD Cargo, a.s. - also actively presented itself abroad, for example at the biggest European trade fair in Munich and at the Polish TRAKO trade fair. Last year, ČD Cargo also participated in the international OPTIYARD project (optimal utilization of railway capacity) within the European Union's Shift2Rail program.

Environmental Protection

National carrier České dráhy, in the framework of its main activity, monitors all operational impacts on the area of environmental protection. With a view to secure the competitiveness of ČD, a.s., the fleet is being continuously modernized, ensuring not only the increase of the travel culture, but also minimizing the operational impacts on the environment.

In 2017 ČD, a.s., ensured the fulfillment of legislative obligations, mediated the required training by a competent person and updated the related internal regulations in all areas of the environment.

In the area of water management, the contract for monitoring drinking and waste water was signed on 31 December 2015. Based on the contract the quality of drinking and waste water and adhering to the limits set by the state authorities are monitored by competent person. Water consumption and the amount of waste water released is also monitored by organizational units in compliance with the water management permits. Eventually, they negotiate with water management authorities the change or prolongation of permission. In areas of usage of hazardous substances, the emergency plans are continuously updated.

In the area of chemical substances and chemical preparations, legislative obligations are met in compliance with Act no. 258/2000 Sb., on public health protection and regular training on correct manipulation with such chemicals was provided (storage, handling - responsibilities arising from safety data sheets).

In the area of nature and landscape protection, the main attention is paid to the maintenance of accompanying green areas of ČD, a.s. in order to ensure the safety and fluency of the railway operation. In view of the above stated the various organizational units of ČD, a.s. are performing stock count of these plants and monitoring their operational safety.

In the area of rehabilitation of soil and underground water ČD, a.s. focuses on compliance with the decisions of state administration bodies (water management authorities, the Czech Environmental Inspectorate) stipulating remedial measures. Other remediation actions are discussed with state administration authorities during semi-annual inspections.

In the area of air protection, the measurement of emissions, efficiency of boilers and control and purification of flue gas path in connection with the provision of legislative obligations was managed.

The fulfillment of legislative obligations in connection with the disposal of hazardous waste and other waste, including the provision of take-back, is monitored in the area of waste management. Production of hazardous waste and other waste is continuously guided and monitored. Waste is only handed over to the company authorized for it.

Further, ČD, a.s. manages the Register of legal and other requirements. Any changes in legislative are immediately announced to all organizational units of the Company.

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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 2017, of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

- The accompanying separate financial statements give a true and fair view of the financial position of the Company standing alone as at 31 December 2017, of its financial performance and its cash flows-for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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 Regulation (EU) No. 537/2014 of the European Parliament and of the Council ("the EU Regulation").

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

- The consolidated statement of profit or loss for the year then ended;
- The consolidated statement of comprehensive income for the year then ended;
- The consolidated statement of financial position (Balance Sheet) as at 31 December 2017;
- The consolidated statement of changes in equity for the year then ended;
- The consolidated cash-flows statement for the year then ended; and
- The notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

The Company's separate financial statements comprise:

- The statement of profit or loss for the year then ended;
- The statement of comprehensive income for the year then ended;
- The statement of financial position (Balance Sheet) as at 31 December 2017;
- The statement of changes in equity for the year then ended;
- The cash-flows statement for the year then ended; and
- The notes to the separate financial statements, which include significant accounting policies and other explanatory information.

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

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Independence
We are independent of the Group and 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, and we have not provided any non-audit services that are prohibited under Article 5 of the EU Regulation and fulfilled our other ethical responsibilities in accordance with these regulations.

Our audit approach

Overview

Overall materiality for the Group: CZK 300 million

Overall materiality for the Company: CZK 240 million

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

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

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

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

- Assessment of allowance for spare parts
- Assessment of provision for onerous contracts
- Assessment of provision for restructuring

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

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance 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 the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group materiality	CZK 300 million
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 the performance measurement method implemented by the Group, which is, except for revenue, also oriented towards profit before tax and EBITDA . In order to take into account all these performance indicators, we set the base for determining materiality at 0.8% of total revenues
Overall materiality for the separate financial statements	CZK 240 million
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 the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Assessment of allowance for spare parts The Company and the Group account for the allowance for spare parts, which is calculated based on the spare parts' turnover and individual assessment of the items identified during the physical inventory count. In 2017, the Company newly introduced a calculation of allowance based on spare parts' turnover. The reason for this was to unify the allowance calculation for all of the Company's regional departments. The spare parts' turnover is calculated based on information about their movements in SAP. Then, based on the calculated turnover, spare parts are divided into four categories and a predefined impairment rate is applied for each of the categories. In the last step, the calculated impairment rate is compared on an item-by-item basis with the impairment rate as assessed by the inventory count commissions, and the larger of the rates is used. The introduction of the allowance calculation for spare parts led to a CZK 95 million increase in assets under construction impairment in 2017 in the Company's separate and consolidated financial statements. Refer to Note 16 of the consolidated financial statements and Note 15 of the separate financial statement for more information regarding the described allowance.	We performed the following procedures in respect of the allowance for spare parts. We analysed the manual, which determines the allowance calculation process for spare parts. The manual includes all information necessary for the allowance calculation. In particular, it defines types of ERP reports, which should be used, spare parts' movement types, which need to be included in the calculation, and impairment rates, which need to be applied to each category of spare parts. We assessed whether the assumptions used for the allowance calculation are reasonable in light of the measurement objectives. Based on our understanding of the Company's specifics, applied impairment rates correspond to the nature of spare part usage. We verified the mathematical accuracy of the allowance calculation. In particular, we checked the accuracy of the spare parts turnover rate used on the sample of individual items. Furthermore, we verified that the allowance calculation was performed in accordance with the respective manual. We also controlled the completeness of individual allowances by examining the protocols of inventory count commissions. Finally, we compared the amount of allowance for spare parts as of 31 December 2017 with respective amount as of 31 December 2016 on an item-by-item basis. We did not note a decrease in allowance for individual spare parts. Based on above procedures, we did not identify any significant findings, which could have impacted on the amount of allowance for spare parts as at 31 December 2017.
Assessment of provision for onerous contracts The Group accounts for the material provision for onerous contracts, which arise from non-cancelable agreements. The Group calculates this provision based on discounted cash flows that are expected in relation to such contracts. Within the expected cash flows associated with the contracts, cash flows arising directly from related non-cancellable contracts, as well as other cash flows, such as related revenues or other associated costs, are taken into account. The calculation also takes into account the fact that some cash flows are made in foreign currencies (especially in EUR), and therefore emphasis is placed on the correct application of the exchange rates in the calculation as a whole.	In connection with the onerous contracts provision, we performed the following procedures: We checked the contracts, which are the basis for the provision calculation, in particular with regard to the possibilities of their cancelation. The relevant contracts are irrevocable for a given period and in all their parameters are appropriately taken into account in the provision calculation, in particular in terms of costs directly arising from the contracts. In the context of related revenues and costs that do not flow directly from non-cancelable contracts, we performed a series of substantive tests in order to verify the completeness and accuracy of those revenues and costs, in particular as to the correctness of their assignment to the particular business case. In connection with cash flows in foreign currencies, we checked whether the appropriate exchange rates were used in the calculation, in particular in con-

Key audit matter	How our audit addressed the key audit matter
The discount rates used in the calculation are determined based on an expert estimate of the Group's employees. This estimate is based on the Group's financing costs as well as on other factors that are relevant to the provision. The calculation of the reserve itself is then performed manually based on expected cash flows and discount rates for an irrevocable contract period. For more information on this reserve, see Note 27 of the consolidated financial statements. This provision does not affect the Company's separate financial statements.	nection with the strengthening of the domestic currency exchange rate during 2017. The CZK/EUR exchange rate plays a key role in the calculation. We verified the discount rates used in the model by tracing them to the supporting documentation submitted by the Group. This documentation contained a justification of the discount rates used that we consider appropriate in the given situation. We also reviewed the consistency of the inputs used and the calculation methodology with the previous year, focusing on key inputs and their changes. We also performed a check on the mathematical accuracy of the manual calculation and assessed the retrospective accuracy of the reserve calculation with respect to its use in the year ending 31 December 2017. From above procedures, we did not identify any significant findings, which could have an impact on the number of onerous contract provisions as at 31 December 2017.
Assessment of provision for restructuring The Group accounts for a provision for restructuring based on the long-term business plan of the ČD Cargo subgroup. As at 31 December 2016, this reserve amounted to CZK 110 million and the Group's financial statements indicated that the provision would be fully used in 2017. However, in the year ending 31 December 2017, CZK 42 million of the provision was used, CZK 18 million released as unused and the remaining amount of CZK 50 million remained to be used in 2018. The Group justified the transfer of the provision to the year 2018 by noting the increased business activity in 2017 as compared to the assumptions, and said that the restructuring plan is still valid and it was simply extended by one year. The completion of the restructuring plan is seen as necessary from the point of view of the ČD Cargo sub-group. The reserve is calculated based on the internal estimate of the costs associated with the restructuring. In particular, it includes the number of positions and related employee benefit costs. The number of positions is determined based on the approved internal plan for 2018, and the related employee benefit costs are based on both the relevant statutory requirements and the conditions of the „Corporate Collective Agreement". The provision calculation is manual and does not contain any significant variables other than those mentioned above. For more information on this reserve, see Note 27 of the consolidated financial statements. This provision does not affect the Company's separate financial statements.	In connection with the restructuring provision, we performed the following procedures: We assessed whether the recognition criteria of a provision under IAS 37 are met, with regard to the specifics of restructuring provisions. In particular, we determined whether there was sufficient communication of the restructuring plan and specification of the positions in question. We checked that the number of positions affected is in line with the official communications within the ČD Cargo subgroup and in line with the 2018 plan. Based on available data and using the detailed testing, we verified that the expected restructuring costs per individual positions correspond to the actual employee benefit costs, in terms of both gross wages and the number of monthly salaries that the ČD Cargo subgroup pays on average to employees as severance. This number of monthly wages is linked to the relevant statutory requirements and to the provisions of the „Corporate Collective Agreement". We also focused on the accuracy and completeness of the supplementary information included in the notes to the consolidated financial statements. We also reviewed the consistency of the inputs used and the calculation methodology with the previous year, focusing on key inputs and their changes. We also performed a check on the mathematical accuracy of the manual calculation and assessed the retrospective accuracy of the reserve calculation with respect to its use in the year ending 31 December 2017. Based on above procedures, we did not identify any significant findings, which could have an impact on the amount of the provision for restructuring as at 31 December 2017.

How we tailored our audit scope

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

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

In our audit, we determined the scope of work that 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 set especially as 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 the 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 with 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, 98% of the Group's profit before tax and 99% of the Group's assets. We consider the remaining entities to not be significant to the Group.

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

Other Information

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 30 August 2016 and our uninterrupted engagement has lasted for 2 years.

Provided Non-audit Services

The non-audit services are disclosed in the Note 7 of notes to the separate financial statements and in the Note 8 of notes to the consolidated financial statements.

Non-financial information

In accordance with § 32i of the Act on Accounting, we hereby report that the Company has prepared the non-financial information for the year ended 31 December 2017 and disclosed it in this Annual Report.

10 April 2018

Pricewaterhouse Coopers Audit, s.r.o.

represented by

Václav Prýmek

Milan Zelený
Statutory Auditor, Evidence No. 2319

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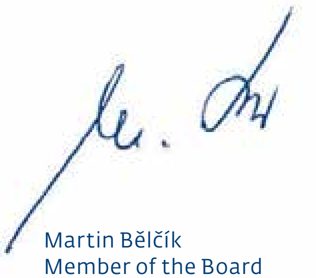
Consolidated Financial Statements
for the Year Ended 31 December 2017 Prepared under IFRS as Adopted by the EU

Company name: **České dráhy, a.s.**
Registered office: **Nábřeží L. Svobody 1222, 110 15 Praha 1**
Legal form: **Joint Stock Company**
Corporate ID: **70994226**

Components of Consolidated Financial Statements prepared for the year 2017 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

The Consolidate Financial Statements were prepared on 10th of April 2018.
Statutory Body of the Entity

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



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

Statement of profit or loss for the year ended 31 december 2017

		Year ended 31 Dec 2017 in CZK million	Year ended 31 Dec 2016 in CZK million
CONTINUING OPERATIONS			
Revenue from principal operations *)	6	33,969	33,287
Other operating income *)	7	4,589	4,646
Purchased consumables and services *)	8	(16,551)	(16,266)
Employee benefit costs *)	9	(13,224)	(12,563)
Depreciation and amortisation	10	(6,168)	(6,088)
Other operating expenses *)	11	(911)	(759)
Profit on operating activities before tax *)		**1,704**	**2,257**
Financial expense *)	12	(1,346)	(1,515)
Financial income	13	887	161
Share of income of joint ventures and associates	20	18	24
Profit before tax		**1,263**	**927**
Income tax expense	14	(279)	(269)
Profit for the period from continuing operations		**984**	**658**
DISCONTINUED OPERATIONS			
Profit from discontinued operations	15	-	224
Profit for the period		**984**	**882**
Attributable to equity holders of the parent Group		964	863
Attributable to non-controlling interests		20	19

Statement of comprehensive income for the year ended 31 december 2017

	Year ended 31 Dec 2017 in CZK million	**Year ended 31 Dec 2016** in CZK million
Profit for the Period	984	882
Actuarial gains / losses on liabilities related to employee benefits	20	13
Other comprehensive income for the period (items that are subsequently reclassified to profit or loss)	**20**	**13**
Exchange differences of foreign units translation	-	(6)
Cash flow hedges	1,172	223
Related income tax	(13)	(14)
Other comprehensive income for the period (items that may be reclassified to profit or loss)	**1,159**	**203**
Other comprehensive income for the period after tax	**1,179**	**216**
Total of comprehensive income for the period	**2,163**	**1,098**
Attributable to equity holders of the parent Group	2,143	1,079
Attributable to non-controlling interests	20	19

*) After adjusting data for the year ended 31 December 2016, see note 2.2.1.

Statement of financial position (balance sheet) as of 31 december 2017

		31 Dec 2017 In CZK million	31 Dec 2016 In CZK million
Property, plant and equipment	16	69,720	71,322
Investment property	17	666	715
Goodwill	18	141	-
Intangible assets	18	917	547
Investments in joint ventures and associates	20	194	197
Deferred tax asset	14	26	28
Other financial assets	23	945	1,068
Other assets	24	8	5
Total non-current assets		**72,617**	**73,882**
Inventories	21	1,538	1,353
Trade receivables	22	3,270	3,189
Tax receivables		17	27
Other financial assets	23	226	143
Other assets	24	899	690
Cash and cash equivalents	33	7,801	7,654
Assets held for sale		-	-
Total current assets		**13,751**	**13,056**
TOTAL ASSETS		**86,368**	**86,938**
Share capital	25	20,000	20,000
Reserve and other funds	25	16,862	16,809
Cash flow hedges reserve	25	338	(821)
Retained earnings		1,121	190
Equity attributable to equity holders of the parent Group		**38,321**	**36,178**
Non-controlling interests	19	664	644
Total equity		**38,985**	**36,822**
Loans and borrowings	26	29,672	35,745
Deferred tax liability	14	1,581	1,384
Provisions	27	660	708
Other financial liabilities	29	534	1,198
Other liabilities	30	395	374
Total non-current liabilities		**32,842**	**39,409**
Trade payables	28	4,835	4,265
Loans and borrowings	26	5,332	2,078
Tax payables		27	17
Provisions	27	1,082	1,096
Other financial liabilities	29	433	473
Other liabilities	30	2,832	2,778
Total current liabilities		**14,541**	**10,707**
TOTAL LIABILITIES		**86,368**	**86,938**

Statement of changes in equity for the year ended 31 december 2017

	Share capitall CZK million	Reserve and other funds CZK million	Cash flow hedges reserve CZK million	Retained earnings CZK million	Equity attribu-table to equity holders of the parent Group CZK million	Non-controlling interests CZK million	Total equity CZK million
Balance at 1 Jan 2016	**20,000**	**16,790**	**(1,030)**	**(661)**	**35,099**	**625**	**35,724**
Comprehensive income							
Profit for the year	-	-	-	863	863	19	882
Other comprehensive income for the year	-	(6)	209	13	216	-	216
Total of comprehensive income for the year	-	**(6)**	**209**	**876**	**1 079**	**19**	**1,098**
Transactions with owners							
Allocation to the reserve fund	-	25	-	(25)	-	-	-
Total of transactions with owners for the year	**-**	**25**	**-**	**(25)**	**-**	**-**	**-**
Balance at 31 December 2016	**20,000**	**16,809**	**(821)**	**190**	**36,178**	**644**	**36,822**
Comprehensive income							
Profit for the year	-	-	-	964	964	20	984
Other comprehensive income for the year	-	-	1,159	20	1,179	-	1,179
Total of comprehensive income for the year	**-**	**-**	**1,159**	**984**	**2,143**	**20**	**2,163**
Transactions with owners							
Allocation to the reserve fund	-	53	-	(53)	-	-	-
Total transactions with owners for the year	**-**	**53**	**-**	**(53)**	**-**	**-**	**-**
Balance at 31 December 2017	**20,000**	**16,862**	**338**	**1,121**	**38,321**	**664**	**38,985**

Cash flow statement for the year ended 31 december 2017

		Year ended 31 Dec 2017 CZK million	Year ended 31 Dec 2016 CZK million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) for the year before tax		**1,263**	**1,151**
Dividend income	13	(6)	(2)
Financial expenses - interests *)	12	1,168	1,319
Profit from the sale and disposal of non-current assets	7	(421)	(413)
Profit from the sale of part of the business	15	-	(302)
Profit from sale of joint venture		(40)	-
Depreciation and amortisation of non-current assets	10	6,168	6,088
Impairment of property, plant and equipment, investments property and assets held for sale *)	11	170	115
Impairment of trade receivables *)	11	13	99
Change in provisions *)	27	(51)	(152)
Foreign exchange rate gains (losses)		(703)	(9)
Other *)		(116)	91
Cash flow from operating activities before changes in working capital		**7,445**	**7,985**
Decrease (increase) in trade receivables	22	(61)	160
Decrease (increase) in inventories	21	(148)	(206)
Decrease (increase) in other assets	23, 24	(257)	1,423
Increase (decrease) in trade payables	28	506	(1,996)
Increase (decrease) in other liabilities	29,30	(5)	184
Total changes in working capital		**35**	**(435)**
Cash flows from operating activities		**7,480**	**7,550**
Interest paid	12	(1,130)	(1,356)
Income tax paid	14	(115)	(114)
Dividends received	7	6	-
Net cash flows from operating activities		**6,241**	**6,080**

CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment	16	(4,416)	(6,572)
Proceeds from disposal of property, plant and equipment	7	513	486
Payments for investment property	17	(2)	(36)
Payments for intangible assets	18	(332)	(209)
Net cash flows from the sale of part of the business	15	-	3,389
Acquisition of subsidiaries and joint ventures, net of purchased cash **)		(348)	-
Net cash flows from the sale of joint venture		59	-
Received interest	13	22	16
Net cash flows used in investment activities		**(4,504)**	**(2,926)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		70	11,738
Repayments of loans and borrowings		(824)	(10,261)
Payment of financial leasing instalments		(836)	(949)
Net cash flows from financing activities	**26**	**(1,590)**	**528**
Net increase in cash and cash equivalents		**147**	**3,682**
Cash and cash equivalents at the beginning of the year		7,654	3,972
Cash and cash equivalents at the end of the year	**33**	**7,801**	**7,654**

*) After adjusting the data for the year ending 31 December 2016, see note 2.2.1.
**) The amount consists of: Net cash flow of acquisition of subsidiaries in 2017 in the amount of CZK 333 million (Note 1.3.2.) and expenditure regarding the increase of share of ČD Cargo, a.s. in the company Ostravská dopravní společnost, a.s. in the amount of CZK 15 million.

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Notes to the Consolidated Financial Statement for the Year Ended 31 December 2017

1. General Information

1.1. Foundation of the Group

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

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

The Group is the Parent Group of the České dráhy Group (the 'Group'). The consolidated financial Statements have been prepared as of and for the year ended 31 December 2017. The reporting period is the calendar year, i.e. from 1 January 2017 to 31 December 2017.

1.2. Principal Operations

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

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

1.3. Definition of the Consolidation Group

1.3.1. Entities Included in the Consolidation

Name of the entity	Registered office	Corporate ID	Ownership percentage *)	Degree of influence
České dráhy, a. s.	Prague 1, Nábřeží L.Svobody 12/1222	70994226		
ČD - Telematika a. s.	Prague 3, Pernerova 2819/2a	61459445	69.18	Control
Výzkumný Ústav Železniční, a. s.	Prague 4, Novodvorská 1698	27257258	100	Control
DPOV, a. s.	Přerov, Husova 635/1b	27786331	100	Control
ČD Cargo, a. s.	Prague 7, Jankovcova 1569/2c	28196678	100	Control
ČD - Informační Systémy, a.s.	Prague 3, Pernerova 2819/2a	24829871	100	Control
Dopravní vzdělávací institut, a.s.	Prague 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, Kaiserstrasse 60	DE814191687	100	Control
CD Cargo Austria GmbH	Austria – Wien, Rotenturmstraße 22/24	FN 291407s	100	Control
CD Cargo Poland Sp. z o.o.	Poland – Warszawa Ul. Grzybowska nr. 4, lok. 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 Logistics, a.s.	Prague 1, Opletalova 1284/37	27906931	78	Control
Terminal Brno, a.s.	Brno, K terminálu 614/11	28295374	66.94	Control
ČD-DUSS Terminál, a.s.	Lovosice, Lukavecká 1189	27316106	51	Control
Smíchov Station Development, a. s.	Prague 8, U Sluncové 666/12a	27244164	51 **)	Joint control
Žižkov Station Development, a. s.	Prague 8, U Sluncové 666/12a	28209915	51 **)	Joint control
Masaryk Station Development, a. s.	Prague 1, Na Florenci 2116/15	27185842	34.00	Significant
JLV, a. s.	Prague 4, Chodovská 228/3	45272298	38.79	Significant
RAILLEX, a.s.	Prague 5, Trnkovo náměstí 3, čp. 1112	27560589	50	Significant
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6	45270589	30	Significant
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9	60793171	50	Joint control
ODP-software, spol.s r.o.	Prague 3, Pernerova 2819/2a, Žižkov, 130 00 Prague 3	61683809	100	Control
ČD Relax s.r.o.	Prague 1, 28. října 372/5	05783623	51.72	Control
Ostravská dopravní společnost - Cargo, a.s.	Ostrava, U Tiskárny 616/9	05663041	20	Control Significant
CHAPS spol. s r.o.	Brno, Bráfova 1617/21	47547022	100	Control
ČSAD SVT Prague , 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 cest 12	31609066	100	Control

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

Name of the entity	Principal activities
ČD - Telematika a. s.	Provision of telecommunication services, software and advisory services.
Výzkumný Ústav Železniční, a. s.	Research, development and testing of rail vehicles and infrastructure facilities.
DPOV, a. s.	Inspections, repairs, modernisation and renovation of railway vehicles
ČD Cargo, a. s.	Freight railway transportation.
ČD - Informační Systémy, a.s.	Provision of telecommunication services, software and advisory.
Dopravní vzdělávací institut, a.s.	Organisation of professional courses, training and other educational events, language courses.
ČD travel, s.r.o.	Travel agency and provision of travel services.
CD Cargo Germany GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s.
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.
ČD Cargo Slovakia, s.r.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping.
ČD Logistics, a.s.	Shipping.
Terminal Brno, a.s.	Operations of the combined transport terminal in Brno.
ČD-DUSS Terminál, a.s.	Operations of the container terminal in Lovosice.
Auto Terminal Nymburk, s.r.o.	Shipping and technical services in transportation.
Smíchov Station Development, a. s.	Design, renovations, modernisation and development in the Smíchovské train station locality.
Žižkov Station Development, a. s.	Design, renovations, modernisation and development in the Žižkov train station locality.
Masaryk Station Development, a. s.	Development of the Masaryk railway station locality
JLV, a. s.	Provision of accommodation and catering services
RAILLEX, a.s.	Handling of cargo and technical services in transportation
BOHEMIAKOMBI, spol. s r.o.	Mediation of services in transportation except for the transportation by own vehicles
Ostravská dopravní společnost, a.s.	Operations of railway transportation and lease of locomotives
ODP-software, spol.s r.o.	Development and support of mobile POS systems for passenger of railand 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 the ČD Group
Ostravská dopravní společnost - Cargo, a.s.	Operation of rail transport and rental of locomotives
CHAPS spol. s r.o.	Development of IT applications and systems, their maintenance and operation
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.	Inventory management information system designs and solutions

The consolidation Group is hereinafter referred to as the “Group”.

1.3.2. Changes in the Composition of the Group

On 6 February 2017, ČD Relax s.r.o. was founded by the sole founder - ČD travel s.r.o. The basis of the business activities of ČD Relax s.r.o. is the activity of a travel agency with a specific focus only on fitness and recovery stays for employees of the ČD Group.

On 1 January 2017, a new company called Ostravská dopravní společnost - Cargo, a.s. was founded, where ČD Cargo, a.s. gained a share of 20% and the NH Trans gained a share of share 80%. This new company was formed by separation from the company Ostravská dopravní společnost, a.s. As a result, ČD Cargo increased its share within the company Ostravská dopravní společnost, a.s., from 20% to 50% (shareholding structure ČDC 50%, NH TRANS 50%). The reason for the separation was a business-strategic decision that made it possible to use the 3-year option at the key customer.

In the course of the year, the Parent Company increased its share in DPOV, a.s. by CZK 68 million. The value of its share did not change.

On 21 December 2017, the Parent Company sold a 51% share in RAILREKLAM, spol. Ltd. The profit from the sale amounted to CZK 59 million.

Acquisition of subsidiaries in 2017

On 24 October 2017 ČD - Informační systémy acquired a 100% share in CHAPS spol. s r.o., which deals with the development, maintenance and operation of IT applications and systems in the field of passenger transport. Thanks to this acquisition ČD - Informační systémy gained shares in the companies owed by CHAPS. In particular, 100% share in ČSAD SVT Praha, s.r.o., 100% share in INPROP, s.r.o. (Slovakia) and 80% share in SVT Slovakia s.r.o. (Slovakia).

This acquistion is a strategic step for ČD - Informační systémy and the Group as a whole. CHAPS has long been operating and developing key customer check-in systems for the Group. As such, the Group has acquired the strategic know-how, licenses and source codes of all customer check-in applications in the passenger transport segment of the national carrier.

The fair values of acquired identifiable assets and liabilities at the acquisition date were as follows:

(in CZK million)	**CHAPS**
Share of the Group	100 %
Tangible fixed assets	7
Intangible assets	224
Other fixed assets	2
Material inventories	
Trade receivables	33
Cash and cash equivalents	68
Other current assets	12
Deffered tax liability	(42)
Trade liabilities	(18)
Short-term provisions	(6)
Other short-term loans	(20)
Total Net Assets	**260**
Share of purchased net assets	100%
Goodwill	141
Total cost of share	**401**
Less:	
Cash and cash equivalents in purchased subsidiaries	(68)
Cash Outflow of Acquisition of Subsidiaries in 2017	333

Costs relating to the acquisition amount to CZK 1 million and are included to Other operating expenses.

If this acquisition took place at the beginning of 2017, the after-tax profit of the ČD Group as at 31 December 2017 would be CZK 11 million higher and the proceeds from the continuing operations would be higher by CZK 123 million.

The value of non-controlling interests reported as at acquisition date is CZK 92 thousand. Non-controlling interests were measured as part of fair value of assets and liabilities of the acquired companies.

The newly acquired companies contributed the following values from the acquisition date to the group results (in CZK million):

(in CZK million)	CHAPS	ČSAD SVT Praha	INPROP	SVT Slovakia	Total
Operating income	53	8	5	2	68
Profit (loss) after tax	37	(1)	3	0	39

Receivables amount as at aquisition date (CZK mil.):

(in CZK million)	Fair value	Contrtact brutto amount
Trade receivables	33	34
Other assets	11	11

The Group will applicate the exemption in IFRS 3 par. 45 and IAS 36 par. 84 to specify the amounts associated with the business combination and for the goodwill allocation that are recognized in the Consolidated Financial Statements for the year 2017. The reason is that no final expert's report was available at the date of the preparation of these consolidated financial statements. During the completion period, the interim valuation recognized at the acquisition date will be retrospectively adjusted to reflect actual information.

The provisional valuation relates primarily to newly identified intangible assets and goodwill, including its allocation to related cash-generating unit. The amount of the provisional goodwill valuation is influenced primarily by the value of acquired qualified workforce and synergies, which fulfill the described above purpose of the acquisition.

2. Significant Accounting Policies

2.1. Statement of Compliance

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

2.2. Basis of preparation of the consolidated financial statements

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

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

The preparation of consolidated financial Statements in accordance with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying accounting policies. Areas with a high degree of judgment or complexity, or areas where they are in terms of these financial Statements, the significant assumptions and estimates are published in the note no. 4.

2.2.1. Changes in accounting policies and methods of reporting

Reclassification of items in the financial statements

In the consolidated financial statements for the year 2017, the Company changed its presentation of the change in the provisions. The unused portion of the provision that was released during the reference period and for which there is no actual related expenditure is recognized in Other operating income instead of Other operating expenses. Creation and usage of provisions is allocated to the specific types of costs for which the provisions have actually been created. A comparable period ended 31 December 2016 was also adjusted.

In the consolidated financial statements for the year 2017, the presentation of employee benefits was changed. Employee benefits will be newly presented under the headings: Payroll costs, Statutory social and health insurance and other social expenses, instead of the original item Benefits arising from a collective agreement. The comparable period ended 31 December 2016 was also adjusted.

In the financial statements for the year 2017, the Group changed the way of presentation of dividends received. Dividends received are newly presented in Other operating income. A comparable period ended 31.12.2016 was also adjusted.

The following table presents the summary of the hereinabove mentioned modification:

31.12.2016		Previously presented In CZK million	Reclassification In CZK million	Adjusted In CZK million
Revenue from principal operations	6	33,292	(5)	33,287
Other operating income	7	4,432	214	4,646
Purchased consumables and services	8	(16,210)	(56)	(16,266)
Employee benefits costs	9	(12,549)	(14)	(12,563)
Other operating expenses	11	(642)	(117)	(759)
Financial expenses	12	(1,495)	(20)	(1,515)
Financial income	13	163	(2)	161

In the financial statements for the year 2017, the Group changed the method of presentation of deposits paid in installments for assets acquired through finance leases (these are items related to the subsidiary CD Cargo Poland). Due to the better disclosure and nature of the item, these deposits are newly presented as Other financial assets instead of line "Property, Plant and Equipment". Comparative period was also adjusted as at 31.12.2016. As at 31 December 2017, the amount of CZK 123 million was transferred to Other financial assets (long-term) and CZK 13 million to Other financial assets (short-term), as at 31 December 2016 the amount of CZK 118 million was transferred to the line Other financial assets (long-term).

2.3. Basis of consolidation

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

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

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

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

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

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

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

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

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

2.4. Business combinations

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

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

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

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

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

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

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

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

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

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

2.5. Revenue recognition

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

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

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

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

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

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

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

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

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

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

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

2.6. Lease

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

2.6.1. The Group as a Lessor

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

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

2.6.2. The Group as a Lessee

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

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

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

2.6.3. Sale and leaseback

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

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

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

2.7. Foreign Currencies

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

The Czech crown is also the functional currency of the Parent Group.

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

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

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

2.8. Borrowing Costs

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

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

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

2.9. Government Grants

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

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

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

2.10. Employee Benefit Costs

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

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

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

2.11. Taxation

The income tax includes current tax payable and deferred tax.

2.11.1. Current Tax Payable

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 because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax payable is calculated using tax rates that have been enacted by low 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 in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilise.

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

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

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

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

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

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

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

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

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

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

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

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

2.15. Goodwill
Goodwill is initially measured at the amount corresponding to the difference between the consideration paid plus any non-controlling interest and net amount of identifiable assets acquired and the liabilities assumed. Goodwill, which has arised from the acquisition of subsidiaries is included in intangible assets. Goodwill relating to associates and joint ventures is recognized in the balance sheet as part of Equity securities. After initial recognition, goodwill is stated at its cost less accumulated impairment losses. Recognized 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 receipts that are substantially independent of cash receipts 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 a cash-generating unit is lower than its carrying amount, an impairment is recognized. Goodwill impairment losses, which were postedcannot 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 companyis included in profit or loss on disposal. The amount of derecognized goodwill is determined on the basis of the value proportion of the cash-generating unit portion being sold and the value of 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 its tangible and intangible assets to determine whether there is any indication that there is worth reduced for assets. If any such indication exists, to determine the extent of any losses of the impairment, the amount of the asset is recoverable. If it is not possible to determine the recoverable amount of an individual asset, estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are also allocated to individual cash-generating unit, if it can determine a reasonable and consistent basis of allocation. Otherwise, corporate assets are allocated to the smallest cash-generating units for which it is possible to determine a reasonable and consistent basis of allocation.

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

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

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

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

2.17. Investments in Joint Ventures and Associates

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

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy, where were invested, but is not control or joint control over those policies.

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

The Group will stop using the equity method from the date when the investment ceases to be associate or joint venture, or when the investment is classified as held for sale. If the Group retains an interest in the former associates and joint ventures and the left share is a financial asset, Group appreciates all the retained interests at fair value at that date and the fair value is considered fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date of termination of the use of the equity method and fair value of all shares and retained earnings from the sale of the interest in the associate or joint venture is included in determining the gain or loss on sale of associate or joint venture. The Group also captures all amounts recognized in other comprehensive income in relation to that associate or joint venture in the same way as if the associate or joint venture directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by an associate or joint venture have been reclassified to profit or loss upon disposal of the related assets or liabilities, Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it comes to end application of the equity method.

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

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

2.18. Investments in Subsidiaries and associates Excluded from The Consolidation

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

2.19. Assets Held for Sale

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

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

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

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

2.20. Inventories

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

2.21. Provisions

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

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

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

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

A provision can be used only for those expenditures for which it was originally created. The change in the provision is recognized in the income statement for the specific expense, the unused portion of the reserves is recognized in Other operating income.

2.22. Financial Instruments

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

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

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

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

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

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

2.22.1. Effective Interest Method

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

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

2.22.2. Financial assets at FVTPL

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

In this category the Group reports financial derivatives

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

2.22.3. Realisable financial assets

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

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

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

2.22.4. Loans and Receivables

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

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

2.22.5 Impairment of Financial Assets

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

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

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

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

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

2.22.6. Derecognition of Financial Assets

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

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

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

2.22.7. Equity Instruments

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

2.22.8. Financial liabilities at FVTPL

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

In this category, the Group reports financial derivatives.

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

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

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

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

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

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

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

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

2.22.13. 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 under the heading of the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

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

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

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

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

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

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

3. Adoption of New and Revised International Financial Reporting Standards

3.1. Standards and Interpretations Effective for Annual Periods Ended 31 December 2017

During the year ended 31 December 2017 the following standards, amendments and interpretations came into force:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IAS 7 – Modifications IAS 7 – Disclosure initiative	1 January 2017
IAS 12 – Modifications IAS 12 – Reporting of deferred tax receivables from unrealized losses	1 January 2017
IFRS 12 – Modifications IFRS 12 (included in the Annual Improvement IFRS – cycle 2014 – 2016)	1 January 2017*)

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

Mentioned improvements and interpretations have no impact on the reporting or disclosure. As required by IAS 7, a table of changes in financing commitments was added to Note 31

3.2. Standards and Interpretations Used before their Effective Dates

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

3.3. Standards and Interpretations in Issue not yet Adopted

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

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 9 – Financial instruments	1 January 2018
IFRS 15 – Revenue from Contracts with Customers	1 January 2018
IFRS 16 – Leases	1 January 2019
IFRS 17 – Insurance contracts	1 January 2021*)
IFRS 2 – Modification of IRFS 2 Share-based Payment	1 January 2018*)
IFRS 4 – Modification of IFRS 4 using IFRS 9 Financial instruments together with IFRS 4 Insurance Contracts	1 January 2018
IFRS 9 – Modifications of IFRS 9 – Early repayment with negative compensation	1 January 2019*)
IFRS 10, IAS 28 – Modification of IFRS 10 and IAS 28 – Investments in Associates and Joint Ventures	Date yet to be released *)
IAS 28 – Modification of IAS 28 – Long-term interests in Associates and Joint Ventures	1 January 2019*)
IAS 40 – Modification of IAS 40 – Investment Property	1 January 2018*)
Annual improvements to the IFRS – cycle 2014 – 2016	1 January 2017/ 1 January 2018*)
Annual improvements to the IFRS – cycle 2015 – 2017	1 January 2019*)
IFRIC 22 – Foreign Currency Transactions and Advance Consideration	1 January 2018*)
IFRIC 23 – Accounting for uncertainty about income taxes	1 January 2019*)

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

According to IFRS 15, the Group will disclose contractual penalties related to customer contracts as a reduction of the consideration. Reclassification in amount of CZK 41 million from Other operating expenses to Revenues from principal operations is expected. The Company did not identify any other significant area for adjustments under IFRS 15.

According to IFRS 9, the Group will recognize equity financial instruments at fair value, in particular its share in Eurofima. The impact of this transaction will be approximately CZK 93 million, as increase of Financial assets available-for-sale and an increase in Other comprehensive income. The application will be retrospective.

According to IFRS 9, the Group will create allowances for receivables before due date, according to the expected default rate. Creation of allowance will be approximately in amount of CZK 54 million. The application will be retrospective.

The impact of IFRS 9 on hedge accounting was assessed as insignificant. During 2018 will happen: hedge documentation and methodology of efficiency valuation will be amended as well booking of derivatives in fair value will be changed.

For both standards, IFRS 9 and IFRS 15, the Group expects a wider range of disclosures.

For IFRS 16, the Group expects a need of recognition a significant number of lease agreements in the Balance sheet. IFRS 16 will be adopted by the Group as at its manadatory date, i.e. 1 January 2019. The current analysis of the effects shows that the value of the group's assets and liabilities will increase by several hundred million CZK as a result of implementation of IFRS 16. The group's financial results are expected to be affected by tens of millions. Information about operating lease contracts is disclosed in the Note 34.

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

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

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

4.1. Time of applicability of fixed assets

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

4.2. Impairment of Assets

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

4.3. Provisions for Legal Disputes and Business Risks

The Group is involved in a number of court and out-of-court commercial disputes. Where the criteria for the recognition of provisions are met, the Group creates provisions for these disputes on the basis of the best available information and estimates. However, the actual outcome of the disputes may differ from these estimates. Information for Legal Disputes are disclosed litigations are disclosed in Note 36.

5. Segment Information

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

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

- Passenger transportation – other information on passenger railway transportation is disclosed in Note 6;
- Freight transportation – other information on freight railway transportation is disclosed in Note 6;
- 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

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

2017

(CZK million)	Passenger transportation	Freight transportation	Property management	Total of segments	Others	Elimination *)	Total
Revenue from principal operations							
Revenue from passenger transportation	8,066	-	-	8,066	-	(17)	8,049
Revenue from orderers	14,044	-	-	14,044	-	-	14,044
Other	-	11,923	-	11,923	-	(47)	11,876
	22,110	**11,923**	**-**	**34,033**	**-**	**(64)**	**33,969**
Purchased consumables and services							
Traction costs	(2,299)	(1,257)	-	(3,556)	-	15	(3,541)
Payment for the use of the railway route	(1,864)	(1,322)	-	(3,186)	-	(1)	(3,187)
Other purchased consumables and services	(5,248)	(3,447)	(270)	(8,965)	(3,031)	2,173	(9,823)
	(9,411)	**(6,026)**	**(270)**	**(15,707)**	**(3,031)**	**2,187**	**(16,551)**
Personnel costs							
Payroll costs	(5,615)	(2,911)	(99)	(8,625)	(1,137)	191	(9,571)
Social security and health insurance	(1,858)	(965)	(33)	(2,856)	(368)	62	(3,162)
Other social costs	(265)	(200)	(5)	(470)	(51)	30	(491)
Benefits arising from the collective agreement	-	-	-	-	-	-	-
	(7,738)	**(4,076)**	**(137)**	**(11,951)**	**(1,556)**	**283**	**(13,224)**
Impairment **)	(53)	(24)	33	(44)	22	(59)	(81)
Other operating income and expenses	902	488	545	1,935	4,693	(2,869)	3,759
IntraGroup income and expenses	(22)	-	27	5	(5)	-	-
Overhead costs – operating	(745)	-	(48)	(793)	793	-	-
Depreciation	(4,641)	(1,190)	(91)	(5,922)	(333)	87	(6,168)
Interest income	7	-	17	24	8	(10)	22
Interest expenses	(1,023)	(148)	-	(1,171)	(8)	11	(1,168)
Tax expense	-	(203)	-	(203)	(86)	10	(279)
Other income and expenses	651	(1)	-	650	25	30	705
Overhead costs – financial and other	(31)	-	(2)	(33)	33	-	-
Profit (loss) for the period from continuing operations	**6**	**743**	**74**	**823**	**555**	**(394)**	**984**
Profit for the period from discontinued operations	-	-	-	-	-	-	-
Profit (loss) for the period	**6**	**743**	**74**	**823**	**555**	**(394)**	**984**

*) 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

2016

(CZK million)	Passenger transportation	Freight Transport	Property management	Total of segments	Others	Elimination *)	Total
Revenue from principal operations							
Revenue from passenger transportation	7,820	-	-	7,820	-	(10)	7,810
Revenue from orderers	13,752	-	-	13,752	-	-	13,752
Other ***)	-	11,760	-	11,760	-	(35)	11,725
	21,572	**11,760**	**-**	**33,332**	**-**	**(45)**	**33,287**
Purchased consumables and services							
Traction costs	(2,303)	(1,212)	-	(3,515)	-	31	(3,484)
Payment for the use of the railway route	(1,842)	(1,271)	-	(3,113)	-	(1)	(3,114)
Other purchased consumables and services ***)	(4,875)	(3,396)	(250)	(8,521)	(3,151)	2,004	(9,668)
	(9,020)	**(5,879)**	**(250)**	**(15,149)**	**(3,151)**	**2,034**	**(16,266)**
Personnel costs							
Payroll costs ***)	(5,304)	(2,751)	(89)	(8,144)	(1,092)	159	(9,077)
Social security and health insurance ***)	(1,755)	(914)	(28)	(2,697)	(352)	55	(2,994)
Other social costs ***)	(272)	(204)	(5)	(481)	(46)	35	(492)
Benefits arising from the collective agreement ***)	-	-	-	-	-	-	-
	(7,331)	**(3,869)**	**(122)**	**(11,322)**	**(1,490)**	**249**	**(12,563)**
Impairment **) ***)	(155)	3	(12)	(164)	(38)	-	(202)
Other operating income and expenses ***)	1,028	432	696	2,156	4,476	(2,543)	4,089
IntraGroup income and expenses	(54)	-	59	5	(5)	-	-
Overhead costs – operating	(915)	-	(67)	(982)	982	-	-
Depreciation	(4,691)	(1,076)	(71)	(5,838)	(329)	79	(6,088)
Interest income	2	1	14	17	1	(2)	16
Interest expenses ***)	(1,119)	(200)	-	(1,319)	-	-	(1,319)
Tax expense	-	(218)	-	(218)	(61)	10	(269)
Other income and expenses ***)	(19)	(19)	2	(36)	(5)	14	(27)
Overhead costs – financial and other	56	-	12	68	(68)	-	-
Profit (loss) for the period from continuing operations *)**	**(646)**	**935**	**261**	**550**	**312**	**(204)**	**658**
Profit for the period from discontinued operations	-	-	224	224	-	-	224
Profit (loss) for the period *)**	**(646)**	**935**	**485**	**774**	**312**	**(204)**	**882**

*) The 'Elimination' column includes eliminations of intra Group 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.
***) After data adjustment for the year ended 31 December 2016, see note 2.2.1.

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

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

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

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

Upon the compilation of financial Statements for year 2017 Intensive discussions are being held regarding the addendums to the long-term contracts for year 2018. There are 3 enclosed addendums for the regional transport for the year 2018. Other addendums are in the process of discussions in the relevant bodies of the regions. Closing all addendums in the opinion of management of the Group is highly probable.
In relation to the provision of public passenger transport services, this fact does not imply any restrictions - due to long-term contracts service interruption or discontinuation of funding is not threatened. Advances for payments from regional budgets are being sent - in the case of yet unsigned addendums for the year 2018 - in the corresponding amount.

Services of the ČD Cargo, a.s. are being used by several thousands of business partners. Based on the volume of sales the most significant customers are MORAVIA STEEL a.s., ČEZ, a.s., CARBOSPED, spol. s r.o., NH TRANS SE, METRANS, a.s. and Rail Cargo Logistics – Czech Republic, s.r.o. Within the foreign purchasers the most known are Maersk Line Maersk Line A/S, STVA S.A, CD Cargo Germany GmbH, DB Cargo Logistics GmbH, LKW WALTER INTERNATIONAL, BLG Auto Rail GmbH and within foreign railway undertakings DB Cargo AG, Železničná spoločnosť Cargo Slovakia, a.s., Rail Cargo Austria AG.

Significant transactions with major customers with state participation are set out in Note 32.3.

6. Revenues from Principal Operations

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

(CZK million)	**2017**	**2016**
Revenue from passenger transport - fare	8,049	7,810
Domestic passenger transport	*5,340*	*5,142*
International passenger transport	*2,709*	*2,668*
Revenue from passenger transportation - payments from public service orderers	14,044	13,752
Payments from the state budget	4,599	4,486
Payments from the regional budgets	9,445	9,266
Revenues from freight transportation *)	11,233	11,060
Revenues from domestic freight	*3,942*	*4,154*
*Revenues from international cargo transportation *)*	*7,291*	*6,906*
Other revenue from freight *) **)	497	502
*Other sales of domestic freight transportation *)*	*312*	*326*
*Other revenue from international freight *)*	*185*	*176*
Other revenues from principal activities	146	163
Total of revenue from principal activities *)	**33,969**	**33,287**

*) After change in reporting data for the year ended 31 December 2016, see Note 2.2.1.
**) The remaining part of revenues from freight transport are particularly revenues from services performed in railway stations, ancillary services Agenda of Services siding.

7. Other Operating Income

(CZK million)	**2017**	**2016**
Gain from disposal of property, plant and equipment and investment property	279	413
Commission for mediation of the purchase of diesel and spare parts	228	156
Sales of other services	2,295	2,509
Rental income *)	727	659
Compensations for deficits and damage	127	84
Contractual penalties and default interest	76	63
Payments for rail replacement bus service	392	293
Dividends received *)	6	2
Commission from ticket sales and other transactions at cash desks	55	52
Foreign exchange gains - operational	79	53
Release of provisions *)	59	209
Release of allowance for accounts receivable	19	3
Reversal of writ-off of inventory to net realisable value	70	0
Other	177	150
Total other operating income *)	**4,589**	**4,646**

*) After change in reporting data for the year ended 31 December 2016, see Note 2.2.1.

8. Purchased Consumables and Services

(CZK million)	**2017**	**2016**
Traction costs	(3,541)	(3,484)
Traction fuel (diesel)	*(1,545)*	*(1,473)*
Traction electricity	*(1,996)*	*(2,011)*
Payment for the use of railway route	(3,187)	(3,114)
Other purchased consumables and services *)	(9,823)	(9,668)
Consumed material	*(1,477)*	*(1,468)*
Consumed other energy	*(392)*	*(436)*
Consumed fuel	*(79)*	*(72)*
*Repairs and maintenance *)*	*(904)*	*(694)*
Travel costs	*(167)*	*(162)*
Telecommunication, data and postal services	*(273)*	*(273)*
*Other rental *)*	*(314)*	*(261)*
Rental for rail vehicles	*(1,114)*	*(1,100)*
Transportation charges	*(1,379)*	*(1,424)*
Rail replacement bus service	*(512)*	*(480)*
Services of dining and sleeping carriages	*(175)*	*(143)*
Services associated with the use of buildings	*(267)*	*(298)*
Operational cleaning of rail vehicles	*(329)*	*(335)*
Border area services	*(625)*	*(611)*
Advertising and promotion costs	*(199)*	*(168)*
Commission for the sale fares paid by other carriers, resellers	*(151)*	*(144)*
Infrastructure capacity allocation	*(81)*	*(125)*
*Operation, maintenance and other services related to IT *)*	*(142)*	*(129)*
Performances of fire brigade service	*(40)*	*(40)*
Services in the field of ecology	*(43)*	*(45)*
*Other services *)*	*(1,160)*	*(1,260)*
Total purchased consumables and services	**(16,551)**	**(16,266)**

*) After data reporting change for the year ended 31 December 2016, see Note 2.2.1.

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

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

(CZK million)	2017	2016
PwC Audit - compulsory audit of annual financial statements	5	1
PwC ČR – economic and organisational advisory	11	9
Total	**16**	**10**

9. Employee Benefit Costs

(CZK million)	2017	2016
Payroll costs *)	(9,442)	(8,947)
Severance pay *)	(48)	(48)
Statutory social security and health insurance *)	(941)	(881)
Pension insurance	(2,221)	(2,113)
Other social costs	(446)	(451)
Remuneration to the members of statutory bodies	(81)	(13)
Other employee benefit costs *)	(45)	(110)
Total employee benefit costs *)	**(13,224)**	**(12,563)**

*) After data reporting change for the year ended 31 December 2016, see Note 2.2.1.

10. Depreciation and Amortisation

(CZK million)	2017	2016
Depreciation of property, plant and equipment	(5,944)	(5,845)
Depreciation of investment property	(24)	(26)
Amortisation of intangible assets	(200)	(217)
Total depreciation and amortisation	**(6,168)**	**(6,088)**

11. Other Operating Expenses

(CZK million)	2017	2016
Reversal of losses (loss) from impaired receivables *)	-	(32)
Impairment of property, plant and equipment, investment property and assets held for sale *)	(170)	(115)
Write-off of inventories to net realizable value	-	(59)
Costs of contractual fines and default interest	(55)	(80)
Taxes and fees	(31)	(30)
Insurance	(178)	(159)
Foreign exchange losses - operational	(140)	(46)
Shortages and damages *)	(44)	(64)
Expenses for uniforms and personal protective equipment	(47)	(44)
Provision for legal disputes related to other operating expenses	(77)	-
Lump sum payments to employees	(23)	(23)
Other operating expenses *)	(146)	(107)
Total other operating expenses *)	**(911)**	**(759)**

*) After change in reporting data for the year ended 31 December 2016, see Note 2.2.1.

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

12. Financial Expenses

(CZK million)	**2017**	**2016**
Interest on issued bonds	(897)	(1,020)
Interest on finance lease payables	(153)	(197)
Other interest *)	(125)	(133)
Less: amounts capitalised as part of the costs of an eligible asset	13	33
Unfolding of reserves discount	(6)	(2)
Foreign exchange losses - financial	(131)	(139)
Bank charges	(11)	(12)
Other financial costs *)	(36)	(45)
Total financial expenses *)	**(1,346)**	**(1,515)**

*) After adjusting the data for the year ended 31 December 2016, see Note 2.2.1.

The capitalization rate of interest costs in 2017 is 2.77 % p. a. (2016: 2.72 % p. a.).

13. Financial Income

(CZK million)	**2017**	**2016**
Foreign exchange gains – financial	818	134
Profit from sale of securities and shares	40	-
Received interest	22	16
Other financial gains	7	11
Total financial gains *)	**887**	**161**

*) After adjusting the data for the year ended 31 December 2016, see Note 2.2.1.

14. Income Taxation

14.1. Income Tax Reported in Profit or Loss

(CZK million)	**2017**	**2016**
Tax for the current year recognized in the income statements	(133)	(120)
Deferred tax recognized in the profit and loss account	(145)	(148)
Other *)	(1)	(1)
Total income tax expense related to continuing operations	**(279)**	**(269)**

*) Alterations settled in the current year in relation to the current tax of previous years.

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

(CZK million)	**2017**	**2016**
Profit for the period from continuing operations before tax	1,263	926
Profit from discontinued operations before tax	-	224
Profit (loss) for the period before tax	1,263	1,151
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected income tax expense	(240)	(219)
Adjustments:		
Effect of the unrecognised deferred tax asset	62	73
Income tax related to prior periods – arbitral award Škoda Transportation	-	-
Non-deductible expenses - cancellation of provision for a fine from the Office for Protection of Competition	12	-
Tax allowance for research and development not included in the accounting for deferred taxes	(3)	(4)
Non-deductible expenses – Creation (-) / cancellation (+) of provision for the fine by the Office for Protection of Competition.	(38)	(72)
Tax non-deductible expenses - deficits and damage	(4)	(7)
Tax non-deductible payroll expenses	(29)	(23)
Other tax non-deductible items, net	(39)	(17)
Income Tax Reported in Profit or Loss	**(279)**	**(269)**

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

14.2. Income tax recognized in other comprehensive income

(CZK million)	2017	2016
Revaluation of financial instruments recognized as cash flow hedges	(13)	(14)
Total income tax recognized in other comprehensive income	**(13)**	**(14)**

14.3. Deferred Tax

(CZK million)	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Derivatives	Other	Total
Balance at 1 Jan 2016 – calculated	**98**	**(1,252)**	**191**	**(368)**	**36**	**10**	**92**	**(1,193)**
- of which liability	*98*	*(1,259)*	*187*	*(384)*	*33*	*10*	*95*	*(1,220)*
- of which receivable	*-*	*7*	*4*	*16*	*3*	*-*	*(3)*	*27*
Deferred tax reported in Profit or Loss:	(71)	2	(11)	(74)	(13)	-	19	(148)
- of which current changes	*(200)*	*281*	*(222)*	*(114)*	*(8)*	*-*	*42*	*(221)*
*- of which impairment *)*	*129*	*(279)*	*211*	*40*	*(5)*	*-*	*(23)*	*73*
Deferred tax recognised in other comprehensive income	-	-	-	-	-	(14)	-	(14)
- of which current changes	*-*	*-*	*2*	*-*	*-*	*(45)*	*-*	*(43)*
*- of which impairment *)*	*-*	*-*	*(2)*	*-*	*-*	*31*	*-*	*29*
Overestimation	-	-	-	-	-	-	(1)	(1)
Balance at 31 Dec 2016 - calculated	**27**	**(1,250)**	**180**	**(442)**	**23**	**(4)**	**110**	**(1,356)**
- of which liability	*27*	*(1,262)*	*173*	*(456)*	*21*	*(4)*	*117*	*(1,384)*
- of which receivable	*-*	*12*	*7*	*14*	*2*	*-*	*(7)*	*28*
Deferred tax reported in Profit or Loss:	(27)	(28)	(21)	(68)	(1)	-	-	(145)
- of which current changes	*(39)*	*23*	*(60)*	*(105)*	*(11)*	*-*	*(15)*	*(207)*
*- of which impairment *)*	*12*	*(51)*	*39*	*37*	*10*	*-*	*15*	*62*
Deferred tax recognised in other comprehensive income	-	-	-	-	-	(13)	-	(13)
- of which current changes	*-*	*-*	*2*	*-*	*-*	*(223)*	*-*	*(221)*
*- of which impairment *)*	*-*	*-*	*(2)*	*-*	*-*	*210*	*-*	*208*
Overestimation	-	-	-	-	-	-	1	1
Deffered tax related to business combination	-	(42)	-	-	-	-	-	(42)
Balance at 31 Dec 2017 - calculated	**-**	**(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*

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

Unrecognized deferred tax assets for 31 December 2017 in amount CZK 908 million, for 31 December 2016 in amount CZK 1,182 million and for 1 January 2016 in amount CZK 1,284 million.

According to preliminary corporate income tax return for 2017 the parent Company records an exercisable tax loss for the tax year 2013, in total amount of CZK 1,030 million. Tax loss is applicable, in 5 taxation periods immediately following a period in which the relevant loss was assessed, i.e. in the period 2014-2018. Regarding to the low expected future taxable profits of the parent Company, the realization of deferred tax assets is uncertain. Therefore, when the calculated net position of the deferred tax as at balance sheet date results in deferred tax asset, the parent Company discloses this asset in zero value.

15. Discontinued Operations and Assets Held for Sale

Sale of part of the business

On 24 June 2016 the contract regarding the sale of a part of the business between České dráhy, a.s. and SŽDC, s.r.o was signed. The sale took place on 1 July 2016. Part of the business held for sale was recognised as an organizational unit of ČD "Railway station" (CZ: "Železniční stanice") along with its material, technological and human resources.

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

(CZK million)	2017	2016
Income from principal operations	-	-
Other operating income	-	200
Purchased consumables and services	-	(123)
Employee benefit costs	-	(79)
Depreciation and amortisation	-	(65)
Other operating expenses	-	(11)
Loss from operating activities before tax	**-**	**(78)**
Profit or loss from sale of the part of the factory	**-**	**(78)**
Consideration received – purchase price	-	3 310
Consideration received – working capital matching	-	79
Net assets transferred to Railway Infrastructure Administration	-	(3 087)
Profit from sale of discontinued operations	-	302
Profit from discontinued operations	**-**	**224**

(CZK million)	2017	2016
Cash flows from operating activities	-	(12)
Cash flows from investment activities	-	3 361
– Net cash flows from sale of part of the business	-	*3 389*
– Payments for property, plant and equipment	-	*(28)*
Cash flow from financing activities	-	-
Net cash flows from discontinued operations	**-**	**3 349**

Other information on the sale of part of the business was disclosed in the financial statements for the year 2016, see Note 14.1.

16. Property, Plant and Equipment

(CZK million)

Cost	Balance at 1 Jan 2016	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2016	Additions	Disposals	Acquisition	Reclassi-fication	Balance at 31 Dec 2017
Land	6,077	-	299	-	5,778	10	28	-	1	5,761
Constructions	18,234	249	4,245	129	14,367	225	95	4	30	14,531
Individual movable assets	124,106	7,028	2,970	79	128,243	3,626	3,684	4	191	128,380
- Machinery, equipment, and furniture and fixtures	*4,150*	*157*	*258*	*5*	*4,054*	*145*	*163*	*3*	*97*	*4,136*
*- Vehicles *)*	*118,422*	*6,830*	*2,669*	*119*	*122,702*	*3,407*	*3,480*	*1*	*858*	*123,488*
- Vehicles acquired under finance leases	*1,417*	*30*	*33*	*(45)*	*1,369*	*62*	*32*	*-*	*(764)*	*635*
- Other	*117*	*11*	*10*	*-*	*118*	*12*	*9*	*-*	*-*	*121*
Other assets	78	12	2	-	88	25	10	-	45	148
Assets under construction	2,161	1,030	1,185	(505)	1,501	806	42	-	(446)	1,819
Prepayments	1	344	332	(3)	10	431	316	-	-	125
Total	**150,657**	**8,663**	**9,033**	**(300)**	**149,987**	**5,123**	**4,175**	**8**	**(179)**	**150,764**

(CZK million)

Accumulated depreciation	Balance at 1 Jan 2016	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2016	Additions	Disposals	Acquisition	Reclassi-fication	Balance at 31 Dec 2017
Constructions	9,150	383	2,088	(2)	7,443	393	89	-	(29)	7,718
Individual movable assets	66,388	5,404	2,643	1	69,150	5,498	3,578	-	4	71,074
- Machinery, equipment, and furniture and fixtures	*3,099*	*172*	*209*	*1*	*3,063*	*181*	*151*	*-*	*5*	*3,098*
*- Vehicles *)*	*62,431*	*5,166*	*2,393*	*18*	*65,222*	*5,274*	*3,381*	*-*	*303*	*67,418*
- Vehicles acquired under finance leases	*758*	*58*	*32*	*(18)*	*766*	*33*	*37*	*-*	*(304)*	*458*
- Other	*100*	*8*	*9*	*-*	*99*	*10*	*9*	*-*	*-*	*100*
Other assets	*44*	*11*	*2*	-	53	*16*	*10*	-	-	59
Total	**75,582**	**5,798**	**4,733**	**(1)**	**76,646**	**5,907**	**3,677**	**-**	**(25)**	**78,851**

(CZK million)

Impairment	Balance at 1 Jan 2016	Additions	Disposals	Reclassi-fication	Balance at 31 Dec 2016	Additions	Release	Acquisition	Reclassi-fication	Balance at 31 Dec 2017
Land	103	68	103	-	68	-	-	-	-	68
Constructions	424	64	424	4	68	-	1	-	-	67
Individual movable assets	1,143	725	180	-	1,688	416	530	-	-	1,574
- Machinery, equipment, and furniture and fixtures	-	-	-	-	-	-	-	-	-	-
*- Vehicles *)*	*1,143*	*725*	*180*	-	*1,688*	*416*	*530*	-	-	*1,574*
- ehicles acquired under finance leases	-	-	-	-	-	-	-	-	-	-
Other assets	2	-	-	-	2	5	2	-	-	5
Assets under construction	4	190	1	-	193	287	1	-	-	479
Total	**1,676**	**1,047**	**708**	**4**	**2,019**	**708**	**534**	**-**	**-**	**2,193**

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

*) Vehicles purchased under leasback agreements are disclosed within „Vehicles". Their net book value is CZK 3,613 million as at 31 December 2015, CZK 3,525 million as at 31 December 2016, CZK 3,471 million as at 31 December 2017. Outstanding liability related to these leaseback agreements is disclosed in the Note 26.2. Group's obligations related to leasback 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.

(CZK million)

Net book value	Balance at 1 Jan 2016	Balance at 31 Dec 2016	Balance at 31 Dec 2017
Land	5,974	5,710	5,693
Constructions	8,660	6,856	6,746
Individual movable assets	56,575	57,405	55,732
- Machinery, equipment, and furniture and fixtures	*1,051*	*991*	*1,038*
- Vehicles	*54,848*	*55,792*	*54,496*
- Vehicles acquired under finance leases	*659*	*603*	*177*
- Other	*17*	*19*	*21*
Other assets	32	33	84
Assets under construction	2,157	1,308	1,340
Prepayments	1	10	125
Total	**73,399**	**71,322**	**69,720**

For calculation of depreciation following lifetimes were used:

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

Among the most significant additions from 1 January 2016 to 31 December 2017 include the acquisition of railway vehicles in the renewal of the fleet of the parent Group. According to the long term nature of this type of asset acquisition significant are balances recorded in accounts assets under construction. In 2017 the Parent Company provided an advance payment of CZK 214 million for modernisation of 79 passenger cars, in 2016 the Parent Company did not provide any significant advances.

In 2017, increase of separate movable tangible assets at ČD Cargo, a.s. was mainly caused by purchase of freight wagons Series Sggrrs - innowagon 80 ft of CZK 312 million, major repairs and berthing (components) of the traction vehicles in the amount of CZK 300 million, revision repairs (components) trucks in the amount of CZK 271 million, acquisition traction vehicles Series 383 (Vectron) of CZK 104 million, technical inspection of traction vehicles of CZK 83 million and acquisition wheelset (components) freight wagons of CZK 67 million. In 2017 the company ČD Cargo, a.s. sold its subsidiary CD Cargo Slovakia 4 traction vehicles which were repaired by it and sold to leasing company and sold on lease of CZK 83 million. In 2017, the Company CD Cargo Poland on leaseback 88 freight wagons in total of CZK 80 million, in March 2016 in the same way it purchased 29 freight wagons of CZK 20 million.

In 2017 the Parent Company did not receive any subsidies for long-term assets. In 2016 the Parent Company has received subsidies worth CZK 1,343.5 million for fixed assets that were purchased in 2015 („Fleet renewal of line R13 Brno - Breclav - Olomouc" - CZK 1,109.7 million. „Transport connection to Leos Janacek Airport"- CZK 223.9 million, „Trinec transfer terminal „- CZK 9.9 million).

In 2016 ČD Cargo, a.s. received an advance in the amount of CZK 292 million in the grant project to equip vehicles driving on-board part of the European safety system ETCS, which will be implemented in 2018. Funds received are recorded as restricted cash in item other financial assets. In 2017, ČD Cargo, a.s. did not receive grant for the whole amount of CZK 276 million is presented as long-term, for details see Note 23 Other Financial Assets.

16.1. Impairment Loses Recognised in the Reporting Period

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

The principal impairment loss is the loss on the 680 series tilting trains (Pendolino) amounting to CZK 572 million (as at 31 December 2017), CZK 709 million (as at 31 December 2016), CZK 764 million (as at 1 January 2016). 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 does not indicate any decline in the value. In 2015, the level of the allowance was significantly affected by the inoperability of train no. 3 due to an accident. Other significant impairment loss are locomotives Series 380. As at 31 December 2017 the impairment amounted CZK 589 million, as at 31 December 2016 CZK 612 million. The impairment was created in amount of CZK 628 million, as at 31 December 2016.

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

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

16.2. Pledged assets

As at 31 December 2017 the Parent Company does not hold any assets to which a lien would be created.

Pledge of the property is granted in the case of CD Cargo Poland, for 3 traction vehicles acquired on loan in the value of CZK 38 million as at 31 December 2017, CZK 45 million as at 31 December 2016, respectively.

16.3. Unused Immovable Assets

In the property, plant and equipment class, the Group reports assets of CZK 168 million which are currently not used. These are primarily vacant buildings. The Group anticipates selling the assets in the future but it did not report these assets as assets held for sale, as they have not yet complied with the criteria set out in IFRS 5.

17. Investment Property

The value of investments in real estate:

(CZK million)	**2017**	**2016**
Balance at the beginning of the year	715	1,958
Additions from subsequent capitalised expenses	1	10
Disposals	(19)	(1,256)
Disposals, annual depreciation	(24)	(50)
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	11	77
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	(21)	(121)
Impairment	3	97
Balance at the end of the year	**666**	**715**

(CZK million)	**Balance at 31 Dec 2017**	**Balance at 31 Dec2016**	**Balance at 1 Jan 2016**
Cost	1,287	1,324	3,699
Accumulated depreciation and impairment	(621)	(609)	(1,741)
Net book value	**666**	**715**	**1,958**

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

The property is located around the railway route, in train stations and depots of rail vehicles. The Company applied the valuation model in the SAP application to determine the fair value of property investment. The application works in several stages, according to the type of property. Application will use the revenue method to determine the value of building. The method is based on the size of a specific building, occupancy by the particular type of premises, external annual rent in accordance to individual type of premises. The costs incurred for a given building and the capitalization rate for a given location (yield) will be taken into account to determine the final cost of the building. Yield is calculated as a sum of earned revenues divided by the sum of sale prices. Yield is updated annually based on the expert's opinion and then attached to the application. To determine the fair value of real estates as at 31 December 2017, taking into account the type of real estate and its location, yield used was in the range of 6-10%. The calculation for land is the multiple of market value for m^2, for the locality, and area of the land.

In respect of land, the calculation includes the product of the market price for m^2 for the specific locality and the area of the land. In respect of buildings, the calculation is based on the yield method from market rental. The estimate of the fair value as of 31 December 2017, 31 December 2016 and 1 January 2016 is CZK 4,353 million, CZK 3,926 million and CZK 7,851 million, respectively. In terms of the method used to arrive at the fair value, investment property has been included in level 3.

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

18. Intangible Assets

(CZK million)

Cost	Balance at 1 Jan 2016	Additions	Disposals	Reclassifi--cation	Balance at 31 Dec 2016	Additions	Disposals	Acquisition	Reclassifi--cation	Balance at 31 Dec 2017
Development costs	2	-	-	-	2	-	-	-	-	2
Software	1,833	222	7	(2)	2,046	161	1	14	61	2,281
Software licences	703	26	-	2	731	9	7	-	(2)	731
Other property	2	1	-	-	3	-	-	-	-	3
Assets under development	89	211	244	-	56	193	4	-	(65)	180
Advances	-	-	-	-	-	3	-	-	-	3
Customer contracts	-	-	-	-	-	-	-	146	-	146
Customer relationship	-	-	-	-	-	-	-	40	-	40
Know-how	-	-	-	-	-	-	-	7	-	7
Trademarks	-	-	-	-	-	-	-	10	-	10
Total	**2,629**	**460**	**251**	**-**	**2,838**	**366**	**12**	**217**	**(6)**	**3,403**

(CZK million)

Accumulated amortisation	Balance at 1 Jan 2016	Additions	Disposals	Reclassifi--cation	Balance at 31 Dec 2016	Additions	Disposals	Acquisition	Reclassifi--cation	Balance at 31 Dec 2017
Development costs	2	-	-	-	2	-	-	-	-	2
Software	1,429	200	-	2	1,631	172	1	-	-	1,802
Software licences	628	28	-	1	657	31	7	-	-	681
Other property	1	-	-	-	1	-	-	-	-	1
Customer contracts	-	-	-	-	-	-	-	-	-	-
Customer relationship	-	-	-	-	-	-	-	-	-	-
Total	**2 060**	**228**	**-**	**3**	**2 291**	**203**	**8**	**-**	**-**	**2,486**

(CZK million)

Net book value	Balance at 1 Jan 2016	Balance at 31 Dec 2016	Balance at 31 Dec 2017
Development costs	-	-	-
Software	404	415	479
Software licences	75	74	50
Other property	1	2	2
Assets under construction	89	56	180
Advances	-	-	3
Customer contracts	-	-	146
Customer relationship	-	-	40
Know-how	-	-	7
Trademarks	-	-	10
Total	**569**	**547**	**917**

(CZK million)

	Balance at 1 Jan 2016	Additions	Disposals	Reclassifi--cation	Balance at 31 Dec 2016	Additions	Disposals	Acquisition	Reclassifi--cation	Balance at 31 Dec 2017
Goodwill	-	-	-	-	-	-	-	141	-	141
Provision	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	**141**	-	**141**

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

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

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

Intangible assets of ČD Cargo, a.s. include the SAP system and operational business information system - PROBIS. Furthermore, intangible assets creating the information system supporting the activities of freight carrier, the development of SAP, Microsoft Enterprise Agreement license, information system OPT systems to support the agendas of office and other systems used in the Group ČD Cargo, a.s.

Software licences of ČD Cargo, a.s. include licences from a total net book value of CZK 12 million as at 31 December 2016. The most significant items are SAP licences in the amount of CZK 4 million, Altworx licence of CZK 4 million, Microsoft EA licence, Exchange, Sharepoint in the amount of CZK 1 million and the Intermodal logistics centre Brno licence in the amount of CZK 1 million. In 2017, licences were capitalized in the total amount of CZK 1 million.

In 2017, ČD Cargo, a.s. continued the development of systems under the project calculations of freight trains, whose acquisition was CZK 33 million, the development of BI solutions in the amount of CZK 20 million, operational information systems in the amount of CZK 16 million, IS SAP modification in the amount of CZK 14 million and IT security program in the amount of CZK 12 million, the rest of the total amount are accounted for the other economic or operational tasks.

ČD Cargo, a.s. software additions in the 2017 year are made mostly by alterations and upgrades of current Company's systems. Dispatching information system under the computerized train calculation project in the amount of CZK 40 million, Central conduction of wagons in the amount of CZK 12 million, software Altworx made for wagons and using of basic company capacity (operating staff, traction vehicles and freight wagons) in the amount of CZK 11 million.

19. Subsidiaries

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

Subsidiary	Equity investment held by non-controlling interests*)		Profit attributable to non-controlling interests in CZK million		Accumulated non-controlling interests in CZK million	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
ČD – Telematika a. s.	30.82 %	30.82 %	15	16	609	595

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

(CZK million)

ČD – Telematika a. s.	31.12.2017	31.12.2016
Fixed assets	1,624	1,696
Current assets	1,327	1,296
Long-term payables	129	134
Short-term payables	845	929
Total of equity	1,977	1,929
Equity attributable to owners of the Parent Company	1,368	1,334
Non-controlling interests	609	595

(CZK million)	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Income	1,391	1,678
Expenses	(1,342)	(1,625)
Profit for the period	**49**	**53**
Profit attributable to owners of the Parent Company	34	37
Profit attributable to non-controlling interests	15	16
Total profit	**49**	**53**
Total comprehensive income attributable to owners of the Parent Company	34	37
Total comprehensive income attributable to non-controlling interests	15	16
Total comprehensive income	**49**	**53**
Net cash flows from operating activities	63	(90)
Net cash flows from investments activities	(49)	(150)
Net cash flows from financing	(10)	(10)
Total cash flow	**4**	**(250)**

20. Investments in Joint Ventures and Associates

(CZK million)

Entity		**Value of investment at 31 Dec 2017**	**Ownership percentage at 31 Dec 2017**	**Value of investment at 31 Dec 2016**	**Ownership percentage at 31 Dec 2016**
RAILLEX, a.s.	Associate	12	50%	12	50%
BOHEMIAKOMBI, spol. s r.o.	Associate	3	30%	4	30%
Ostravská dopravní společnost, a.s.	Associate	21	50%	24	20%
Ostravská dopravní společnost - Cargo, a.s.	Associate	22	20%	-	-
JLV, a. s.	Associate	134	38.79%	128	38.79%
Masaryk Station Development, a. s.	Associate	2	34%	2	34%
Total – associates		**194**		**170**	
Smíchov Station Development, a. s.	Joint venture	-	51%	-	51%
Žižkov Station Development, a. s.	Joint venture	-	51%	1	51%
RAILREKLAM, spol. s r.o.	Joint venture	-	-	26	51%
Total – joint ventures		**-**		**27**	
Total – investments in joint ventures and associates		**194**		**197**	

Summary of financial information on associates

(CZK million)	**31 Dec 2017**	**31 Dec 2016**
Total assets	928	1,007
Of which: long-term assets	*376*	*418*
short-term assets	*552*	*589*
Total liabilities	388	512
Of which: long-term liabilities	*97*	*108*
short-term liabilities	*291*	*404*
Net assets	540	495
Share of the Parent Company in associates' net assets	**194**	**171**

(CZK million)	**2017**	**2016**
Total income	1,819	2,114
Profit for the period	62	57
Share of the Parent Company in associates' profit for the period	**20**	**19**

Summary of financial information on joint ventures:

(CZK million)	**31 Dec 2017**	**31 Dec 2016**
Total assets	106	161
Of which: long-term assets	103	87
short-term assets	*3*	*74*
Total liabilities	*131*	*131*
Of which: long-term liabilities	120	92
short-term liabilities	*11*	*39*
Net assets	*(25)*	*30*
The Group's share of net assets	(13)	15
The Parent Company's share of net assets	**(13)**	**15**

(CZK million)	**2017**	**2016**
Total income	0	118
Profit (loss) for the period	(5)	11
The Parent Company's share of profit (loss)	**(2)**	**5**

21. Inventories

(CZK million)	**31.12.2017**	**31.12.2016**
Spare parts for machinery and equipment	79	82
Spare parts and other components for rail vehicles and locomotives	1,127	981
Other machinery, tools and equipment and their spare parts	152	187
Fuels, lubricants and other oil products	32	27
Work clothes, work shoes, protective devices	96	76
Other	141	159
Total cost	**1,627**	**1,512**
Write-down of inventories to their net realisable value	(89)	(159)
Total net book value	**1,538**	**1,353**

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

22. Trade Receivables

22.1. Aging of Trade Receivables

(CZK million)	Category	Not due	1 - 30 days	31 - 90 days	Past due date (days) 91–180 days	181-365 days	365 and more	Total past due date	Total
31 Dec 2017	Gross	2,867	250	149	48	19	225	691	3 558
	Allowances	(38)	-	(4)	(5)	(16)	(225)	(250)	(288)
	Net	**2,829**	**250**	**145**	**43**	**3**	**-**	**441**	**3,270**
31 Dec 2016	Gross	3,067	106	32	10	7	277	432	3,499
	Allowances	(17)	(1)	(12)	(5)	(4)	(271)	(293)	(310)
	Net	**3,050**	**105**	**20**	**5**	**3**	**6**	**139**	**3,189**

Information on receivables are disclosed in Note 37.9. credit risk management.

22.2. Movements in allowances for Doubtful Receivables

(CZK million)	2017	2016
Balance at the beginning of the year	368	298
Recognition of allowances	58	60
Use of allowances	(138)	(48)
Balance at the end of the year	**288**	**310**

23. Other Financial Assets

(CZK million)	31 Dec 2017	31 Dec 2016
Financial assets available for sale	336	336
Receivables from finance leases	77	77
Hedging derivatives *)	91	275
Restricted cash	315	258
Other	126	122
Total non-current financial assets	**945**	**1,068**
Receivables from finance leases	-	1
Hedging derivatives *)	78	43
Other financial derivatives	-	-
Claims for damages and losses	55	52
Restricted cash	45	34
Other	48	13
Total current financial assets	**226**	**143**
Total	**1,171**	**1,211**

*) Hedging derivatives are measured at fair value, other financial assets are measured at amortized cost.

The item „Restricted cash" is an advance granted in 2016 under the grant project to equip vehicles driving on-board part of the European safety system ETCS totaling CZK 292 million from Parent Company. This item was divided as at 31 December 2016 into long-term portion of CZK 258 million and the current portion of CZK 34 million. The deposit is held in the subsidy account with Komerční banka. In 2017, the subsidy value amounted to CZK 276 million. In 2017, the subsidy was not drawn and the decrease in the amount is due to the revaluation of the amount denominated in Euros. As at 31 December 2017, the subsidy is classified as long-term. Funds received within the accepted deposit from European grant program CEF for implementation of ETCS (European train control system) according to current assumptions, will be used to supply prototypes of selected locomotives in 2019. There is a time shift, because during the 2017 year ČD Cargo a.s. within the tender for supply and installation mobile part ETCS for selected traction vehicles did not receive any offer and the tender has been cancelled. A new tender is currently prepared.

23.1. Reivables from Finance Leases

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

	Minimum lease payments		**Present value of minimum lease payments**	
(CZK million)	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Up to 1 year	18	17	-	1
1 to 5 years	73	64	-	-
Over 5 years	473	427	77	77
Total	**564**	**508**	**77**	**78**
Less: unrealised financial income	(488)	(430)	-	-
Present value of receivables of minimum lease payments	**76**	**78**	**77**	**78**
In the statement of financial position as:				
Other current financial assets			-	*1*
Other non-current financial assets			77	77
Total			**77**	**78**

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

24. Other Assets

(CZK million)	31 Dec 2017	31 Dec 2016
Prepayments	6	4
Other	2	1
Total non-current assets	**8**	**5**
Prepayments	173	153
Tax receivables – VAT	501	378
Tax receivables – other (except for taxes on corporate income)	18	8
Prepaid expenses	144	137
Subsidies	8	-
Other	55	14
Total current assets	**899**	**690**
Total	**907**	**695**

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 Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government.

25.2. Reserve and other funds

(CZK million)	31 Dec 2017	31 Dec 2016	1 Jan 2016
Share premium	16,440	16,440	16,440
Statutory reserve fund	380	337	310
Foreign currency translation fund	2	2	8
Other	40	30	32
Total	**16,862**	**16,809**	**16,790**

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

25.2.1. Cash Flow Hedging Reserve

(CZK million)	31 Dec 2017	31 Dec 2016
Balance at the beginning of the year	(821)	(1,030)
Profit (loss) from revaluation	1,140	4
Settled deferred derivatives	34	21
Reclassifications to profit or loss upon settlement	(2)	198
Total change in the cash flow hedging reserve	**1,172**	**223**
Relating income tax	(13)	(14)
Balance at the year-end	**338**	**(821)**

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

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

25.2.2. Foreign Currency Translation Fund

(CZK million)	31 Dec 2017	31 Dec 2016
Balance at the beginning of the year	2	8
Foreign exchange rate gains or losses arising from translation of foreign operations	-	(6)
Balance at the year-end	**2**	**2**

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

26. Loans and Borrowings

(CZK million)	31 Dec 2017	31 Dec 2016
Payables from finance leases	907	867
Payable to EUROFIMA	-	811
Issued bonds	4,355	381
Other received short-term loans and borrowings	70	19
Total short-term	**5,332**	**2,078**
Payables from finance leases	2,387	3,030
Payable to EUROFIMA	-	-
Issued bonds	27,254	32 689
Other received short-term loans and borrowings	31	26
Total long-term	**29,672**	**35,745**
Total	**35,004**	**37,823**

In 2017, ČD Cargo, a.s. concluded a new lease agreement with the company SG Equipment Finance Czech Republic, s.r.o. for financing a new traction vehicles Siemens Vectron. In connection with the planned investments, it is assumed that ČD Cargo, a.s. will continue to use it, in case of the lease will be advantageous. In 2017, the subsidiary CD Cargo Poland financed on leaseback 88 freight wagons in total of CZK 80 million to subsidiary CD Cargo Slovakia 4 traction vehicles which were repaired by it and sold to leasing company and sold on lease of CZK 83 million.

Portions of long-term loans and borrowings that are repayable in a period shorter than one year from the financial statements date are recognized 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 2017 in CZK million	Book value at 31 December 2016 in CZK million
24 June 2011	EUR 300 million	5	Yes	4.50%	-	-
23 July 2012	EUR 300 million	7	Yes	4.125%	7,787	8,241
25 July 2013	CZK 4,000 million	5	Yes	6M PRIBOR + 1.7%	4,034	4,028
5 November 2014	EUR 30 million	10	No	2.875%	763	806
5 November 2014	EUR 150 million	15	No	3.50%	3,820	4,041
3 June 2015	EUR 37.7 million	7	No	1.89%	974	1,030
3 June 2015	EUR 77.5 million	20	No	3.00%	2,006	2,122
25 May 2016	EUR 400 million	7	Yes	1.875%	10,224	10,804
20 June 2011	CZK 1,000 million (CZK 658 million after options' assertion)	5	No	3.183 % (1-3 year), 5%p.a. (4-5 year)	-	-
22 December 2011	CZK 500 million	4	No	movable 6M PRIBOR	-	-
21 December 2011	CZK 500 million	5	No	3.8 %	-	-
26 November 2015	CZK 1,000 million	5	No	1.40%	1,000	996
17 June 2016	CZK 500 million	5	No	1.28%	501	502
29 December 2016	CZK 500 million	7	No	1.26%	500	500
Total					**31,609**	**33,070**
- of which short-term					*4,355*	*381*
- of which long-term					*27,254*	*32,689*

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

26.2. Finance Lease Payables

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

(CZK million)	Minimum lease payments 31 Dec 2017	31 Dec 2016	Present value of minimum lease payments 31 Dec 2017	31 Dec 2016
Less than 1 year	1,030	1,015	907	867
From 1 to 5 years	2,348	2,950	2,164	2,681
5 years and more	228	367	222	349
Total	**3,606**	**4,332**	**3,293**	**3,897**
Less future finance expenses	(313)	(435)		
Present value of minimum lease payments	**3,293**	**3,897**	**3,293**	**3,897**
In the statement of financial position as:				
short-term loans			*907*	*867*
long-term loans			*2,387*	*3,030*
Total			**3,294**	**3,897**

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

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

27. Provisions

(CZK million)

	Balance at 1 Jan 2016	Creation	Use	Release of unused parts	Balance at 31 Dec 2016	Creation	Use	Acquisition	Release of unused parts	Balance at 31 Dec 2017
Provision for discounts and refunds	16	24	16	-	24	27	19	-	8	24
of which: long-term part	-				-					-
Provision for legal disputes	1,353	417	631	574	565	213	4	1	129	646
of which: long-term part	-				-					-
Provisions for employees benefits	399	91	101	4	385	166	137	-	1	413
of which: long-term part	255				242					250
Provisions for business risks	24	-	-	-	24	-	-	-	24	-
of which: long-term part	-				-					-
Provisions for restructuring	139	-	17	13	109	-	42	-	18	49
of which: long-term part	73				-					-
Provisions for loss-making transactions	579	-	55	-	524	25	69	-	-	480
of which: long-term part	525				465					409
Other provisions	66	209	70	32	173	25	56	5	17	130
of which: long-term part	-				1					1
Total provisions	**2,576**	**741**	**890**	**623**	**1,804**	**456**	**327**	**6**	**197**	**1,742**
long-term	853				708					660
short-term	1,723				1,096					1,082

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

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

The Group's management after careful consideration of all existing legal analyses and the results of negotiations in existing litigation and after evaluating all potential risks, present developments and disputes in accordance with the natural rate of prudence, decided to keep till 31 December 2016 accounting reserves to cover any expenses related to potential risks to business transactions at the same level as at the end of 2015 in the amount of CZK 24 million. This transaction was resolved during 2017 and the provision released as unnecessary. Similarly, it is also in litigation in which the Group's management estimated the amount of the capital reserves to cover potential expenses for the amount of CZK 38 million (2016: CZK 42 million).

In 2012, the management of ČD Cargo, a.s. decided to implement organizational changes drawn up on the basis of a restructuring plan whose main features were communicated within the Group. The essence of the plan adopted by the Company management. On 2012 was the series of measures designed to strengthen corporate liquidity in the short term and to create medium-term conditions for more favorable economic results and ensure the stability of the company in the coming years. The measures taken became an assumption for the preparation of the Company's medium-term business plan. Future monetary expenditure associated with the restructuring was initially estimated at the amount of CZK 535 million. In the period from 2012 to 2017, the provision was used in the amount of CZK 485 million for reimbursement of the costs associated with the restructuring and optimalization process. There were mainly the costs associated with the severance or severance pay. According with the original plan, the optimalization process should be completed as at 31 December 2017, which was also stated in the last financial statements. The process of optimalization and streamlining of internal processes has been prolonged for a year and will be completed as at 31 December 2018 based on decision made by the Company management. In accordance with this decision unused part of the restructuring provision as at 31 December 2017 will be used to cover the costs related to the completion of the optimalization process in 2018 in the amount of CZK 50 million. Again, this will be mainly the costs associated with the severance or severance pay The most important reason for not using the provision or not completing the optimization process in 2017 was focusing primarily on strengthening business activities not only for the Company ČD Cargo, a.s., but mainly for its foreign subsidiaries.

ČD Cargo, a.s. creates a provision for onerous contracts The reserve amount is determined by a qualified estimate of the amount of the estimated future liability arising from loss. The value is the difference between the expected discounted net revenue and discounted expected expense. The 7% yield rate was used in the calculation. When discounting costs, the company used the discounted rate for the cost of long-term foreign capital. The total amount of the provision as of 31 December 2016 was amounted to CZK 525 million. At the end of 2017 is worth CZK 462 million. The provision will be gradually used against costs by 2025.

28. Trade Payables

(CZK million)				Past due date (days)					
Year	Category	Before due date	1 – 30 days	31 - 90 days	91–180 days	181-365 days	365 and more	Total past due date	Total
31 December 2017	Short-term	4,710	87	7	3	22	6	125	**4,835**
31 December 2016	Short-term	4,150	76	23	1	9	6	115	**4,265**

29. Other Financial Liabilities

(CZK million)	31 Dec 2017	31 Dec 2016
Hedging derivatives *)	350	853
Other financial derivatives	-	1
Liability arising from supplier loans	24	128
Other	160	216
Total long-term	**534**	**1,198**
Hedging derivatives	99	115
Other financial derivatives	1	4
Liability arising from supplier loans	121	173
Other	212	181
Total short-term	**433**	**473**
Total	**967**	**1,671**

*) Finance derivatives are stated at fair value, other financial assets are stated at amortized cost.

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 SŽDC and relating to the settlement of the damage due to SŽDC's traffic closures pursuant to a court judgment

30. Other Liabilities

(CZK million)	31 Dec 2017	31 Dec 2016
Other	395	374
Total long-term	**395**	**374**
Prepayments received	65	183
Payables to employees	1,213	1,112
Liabilities for social security and health insurance	434	384
Tax liabilities - tax withheld employees	137	116
Tax liabilities - VAT	106	24
Accrual of revenues from passenger transport in national transportation	195	168
Repayment of the subsidies under ROP projects	7	379
Other	675	412
Total short-term	**2,832**	**2,778**
Total	**3,227**	**3,152**

ČD Cargo, a.s. received the advance granted in 2016, in the amount of CZK 292 million under the grant project equipment powered board part vehicles of European safety system ETCS. The subsidy for acquisition long-term assets is presented as item "Other". In 2017 its long-term part amounted to CZK 276 million (2016: CZK 258 million – long-term part; CZK 34 million – short-term part).

Other current liabilities are represented mainly by rent received in advance, deferred revenue, consisting of security and other liabilities.

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

31. 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)	Liability to Eurofima – short-term	Liability to Eurofima – long-term	Liabilities from financial lease – short-term	Liabilities from financial lease –long-term	Issued bonds – short-term	Issued bonds – long-terms	Other	Total
Chapter	26	26	26	26	26	26	26	26
Liabilities from financing as at 1 January 2016	**811**	**811**	**947**	**3 856**	**9,727**	**20,998**	**41**	**37,191**
Cash-flows from financing	(811)	-	(949)	-	(9,458)	11,721	25	528
Non-monetary flows:								
Consequences of changes in exchange rates	-	-	1	-	-	(12)	-	(11)
Loans and borrowings classified as at 1 January 2016 as long-term, which became short-term during the 2016	811	(811)	826	(826)	-	-	-	-
Other non-monetary movements	-	-	42	-	112	(18)	(21)	115
Liabilities from financing as at 31 December 2016	**811**	**-**	**867**	**3,030**	**381**	**32,689**	**45**	**37,823**
Cash-flows from financing	(811)	-	(836)	-	-	-	57	(1,590)
Non-monetary flows:								
Consequences of changes in exchange rates	-	-	-	-	(25)	(1,473)	-	(1,498)
Loans and borrowings classified as at 1 January 2017 as long-term, which became short-term during the 2017	-	-	876	(876)	4,000	(4,000)	-	-
Other non-monetary movements	-	-	-	233	(1)	38	(1)	269
Liabilities from financing as at 31 December 2017	**-**	**-**	**907**	**2,387**	**4,355**	**27,254**	**101**	**35,004**

32. Related Party Transactions

32.1. Loans to Related Parties

The Group provided no loans to related parties as of 31 December 2017, 31 December 2016 and 1 January 2016.

32.2. Sales to related parties

(CZK million)

2017	Sale of services	Total
JLV, a. s.	2	2
RAILLEX, a.s.	22	22
BOHEMIAKOMBI, spol. s r.o.	10	10
Ostravská dopravní společnost, a.s.	54	54
Ostravská dopravní společnost - Cargo, a.s	74	74
Total	**162**	**162**

*) including finance income

(CZK million)

2016	Sale of services	Total
JLV, a. s.	5	5
RAILLEX, a.s.	31	31
BOHEMIAKOMBI, spol. s r.o.	17	17
Ostravská dopravní společnost, a.s.	201	201
Total	**254**	**254**

*) including finance income

32.3. Purchases from related parties

(CZK million)

2017	Services	Other expenses	Total
JLV, a. s.	187	0	187
RAILLEX, a.s.	1	0	1
Ostravská dopravní společnost - Cargo, a.s	58	0	58
Total	**246**	**0**	**246**

(CZK million)

2016	Services	Other expenses	Total
JLV, a. s.	160	0	160
RAILLEX, a.s.	1	1	2
Ostravská dopravní společnost, a.s.	55	0	55
Total	**216**	**1**	**217**

32.4. Unsettled balances at the end of the period with related parties

(CZK million)

31 December 2017	Receivables	Payables
JLV, a. s.	0	54
RAILLEX, a.s.	4	0
BOHEMIAKOMBI, spol. s r.o.	1	0
Ostravská dopravní společnost, a.s.	17	0
Ostravská dopravní společnost - Cargo, a.s	9	11
Total	**31**	**65**

(CZK million)

31 December 2016	Receivables	Payables
JLV, a. s.	0	35
RAILLEX, a.s.	3	0
BOHEMIAKOMBI, spol. s r.o.	1	0
Ostravská dopravní společnost, a.s.	44	12
Total	**48**	**47**

(CZK million)

1 January 2016	Receivables	Payables
JLV, a. s.	0	38
RAILLEX, a.s.	4	0
BOHEMIAKOMBI, spol. s r.o.	2	0
Ostravská dopravní společnost, a.s.	35	11
Total	**41**	**49**

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

32.5. Key Management Members Compensation

Employee benefits during the year 2017 were paid to the members of the key management as follows:

(CZK million)	Board of Directors	Supervisory Board	Steering Committee
Remuneration of members of statutory bodies	71	18	-
Other short-term employee benefits	43	15	-
Total	**114**	**33**	-
Number of key management members	**40**	**78**	**3**

The members of the Parent Company's statutory and supervisory bodies had the possibility of taking advantage of reduced fares. Management of the Group is provided with a benefit-in-kind taking the form of the use of Group cars for private purposes.

32.6. Relationships with companies owned by the state

The Group České dráhy is wholly owned and controlled by the State of Czech Republic. Accordingly, except as specified in the IAS 24 Related Party Disclosures, 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 purchasers in the public service obligation (Region and the Ministry of Transport), the state organization SŽDC and group CEZ.

(CZK million)

Income	Counterparty	2017	2016
Income from rental property	SŽDC	24	62
Payment for rail replacement bus service	SŽDC	392	299
Payments from ordering the service – payments from the state budget	state – MD	4,599	4,485
Payments from ordering the service – payment from the regional budgets	regions	9,445	9,266
Revenues from Telecommunication Services	SŽDC	742	520
Revenues from freight transportation	ČEZ	308	388

(CZK million)

Expense	Counterparty	2017	2016
Use of railway route and allocated capacity of the railway – passenger transport	SŽDC	1,911	1,895
Use of railway route and allocated capacity of the railway – freight transport	SŽDC	1,244	1,295
Consumption of electric traction energy	SŽDC	621	623
Consumption of electric traction energy	ČEZ	543	579
Telecommunication services	SŽDC	79	-
Real Estate rental	SŽDC	48	24

(CZK million)

Receivables	Counterparty	31 December 2017	31 December 2016
Payment for replacement bus service	SŽDC	32	43
Public service obligation	state – MD	7	17
Public service obligation	regions	112	9
Telecommunications services	SŽDC	350	193
Revenues from freight transportation	ČEZ	30	68

(CZK million)

Liabilities	Counterparty	31 December 2017	31 December 2016
Use of railway route and allocated capacity of the railway – passenger transport	SŽDC	183	244
Use of railway route and allocated capacity of the railway – freight transport	SŽDC	240	153
Telecommunication services	SŽDC	72	-
Consumption of electric traction energy – passenger transport	SŽDC	71	76
Consumption of electric traction energy – passenger transport	ČEZ	69	80

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

33. Cash and Cash Equivalents

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

(CZK million)	31 Dec 2017	31 Dec 2016
Cash on hand and cash in transit	90	70
Cash at bank *)	7,707	7,584
Depository promissory notes *)	4	-
Total	**7,801**	**7,654**

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

34. Contracts for Operating Leases

34.1. The Group as a Lessee

Assets under operating leases which are reported off balance sheet include a number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognized in expenses in the year 2017 amounted to CZK 230 million (in 2016: CZK 107 million).

Group's payments accounted among expenses arising from the leasing of railway cars on the basis of an agreement on the use of cars in international traffic amounted in 2017 the amount of CZK 720 million (in 2016: CZK 781 million). Other payments for operating leases of railway cars in 2017 were CZK 394 million (in 2016 CZK 319 million).

Group as lessee paid for the rental of buildings and land in the Logistics Center in Lovosice in 2017 and in 2016 the amount of CZK 84 million.

34.2. The Group as a Lessor

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

The revenue from the lease of property that the Group acquired in 2017 from investment property based on the operating leases amounts to CZK 256 million (in 2016: CZK 381 million).

Direct operating expenses relating to investment property for the period amounted to CZK 92 million (in 2016: CZK 97 million).

Income from operating leases of movable assets in 2017 amounts to CZ 442 million (in 2016: CZK 475 million).

Future minimal lease payments from irrevocable operating leasing contracts as at 31.12.2017:

- up to one year in amount of CZK 36 million
- from one to five years in amount of CZK 144 million
- more than five years in amount of CZK 180 million

Future minimal lease payments from irrevocable operating leasing contracts as at 31.12.2016:

- up to one year in amount of CZK 36 million
- from one to five years in amount of CZK 144 million
- more than five years in amount of CZK 216 million

35. Contractual Obligations Relating to Expenses

As of the balance sheet date, the Group concluded contracts for the purchase of property, plant and equipment in the amount of CZK 4,008 million.

(CZK million)	31 Dec 2017
Supplies agreed for 2018	1,307
Supplies agreed for the following years	1,451
As of 31 Dec 2017 was paid	1,250
Total	**4,008**

A substantial part of the commitment of expenditure (CZK 2,636 million), shows investments in railway vehicles.

Another item is a Contractual Obligation of ČD Cargo, a.s. for renting in total amount of CZK 715 million from the contract of renting the buildings and lands in the Logistics Center in Lovosice. The commitment will be repaid annually on an ongoing basis until the 2025.

36. 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 2017 was CHF 20.8 million (CZK 454 million). The likelihood that the Group will be asked to pay the nominal value of the unpaid portion of the equity investment is considered to be low by the Group's management.

The aggregate costs of clean-ups in 2017 was CZK 25 million and in 2016 CZK 27 million respectively. The Group is not aware of any environmental burdens that would exceed legislative limits and represent harm to human health or property of third parties. The provisions for clean-ups of other environmental burdens are not recognized as the Group is unable to estimate the scope of these burdens and its potential involvement in their removal. The Group has not prepared an overall strategy and plan of clean-ups according to which it could recognize the provisions.

In 2017, bank guarantee for the fulfilment of the contract regarding public service obligations in passenger rail transport in the public interest in order to meet the transport needs of the state in relation Pardubice-Liberec in amount of CZK 5 million was renewed and bank guarantee for the fulfilment of the contract regarding public rail passenger transport services in order to provide the transport service on the line R13 Brno - Břeclav – Olomouc in amount of CZK 10 million, the beneficiary of which is the Czech Republic - the Ministry of Transport. The bank guarantee for the fulfilment of the contract regarding public service obligations in passenger rail transport in the public interest in order to provide the basic transport service of a part of Liberec Region for a specified performances Jizera Mountains Railway ("Jizerskohorská železnice") amounted to CZK 52 million, the beneficiary of which is the Liberec Region. All three above guarantees were issued with the effective date of 8 December 2018.

List of active bank guarantees issued by ČD Cargo, a. s., as at 31 December 2017

In behalf of	Type of insurance	Amount	Currency	Date of ending	Reason for a bank guarantee
West Invest Waterfront Towers s.r.o., Jankovcova 1569/2c, 170 00 Praha 7, Holešovice, ID 26178338	Warranty for rent	227,267.17	EUR	30 September 2018	Bank guarantee to meet all liabilities and obligations of tenant-based rental agreement with West Invest Waterfront Towers Ltd. - Lighthouse.
HYPARKOS, s.r.o., Rohanské nábřeží 678/25, 186 00 Praha 8, ID 27626130	Warranty for rent	16,517,056	CZK	30 June 2018	Bank guarantee in the event that ČD Cargo, a.s., does not comply with the obligations laid down in the agreement on the rental of buildings and land in the Logistics Center in Lovosice.
Celní úřad pro Jihočeský kraj, Kasárenská 6, 370 21 České Budějovice	Customs guarantee	2,000,000	CZK	No limits	Warranty Deed - operations other than transit (comprehensive guarantee), Reg. No. 1401798029 to ensure customs and tax debt, which means the obligation to pay duties, taxes and charges levied on imports, including their accessories, with the exception of fines.

List of active bank guarantees received by ČD Cargo, a.s., as at 31 December 2017

In behalf of	Type of insurance	Amount	Currency	Date of ending	Reason for a bank guarantee
AVE sběrné suroviny, a.s., Cvokařská 164/3, 301 00 Plzeň, ID 006 71 151	Unicredit Bank Czech Republik and Slovakia, a.s.	20,274,000	CZK	30 June 2018	In accordance with the contract 05893-2017-O01 for the purchase parts of 1000 pieces of wagons
Siemens, s.r.o., Praha 13, Siemensova 1, zip code 155 00, ID 002 68 577,	Unicredit Bank Czech Republik and Slovakia, a.s.	1,997,500	EUR	28 February 2019	In accordance with the contract no. 05012-2016-O01 dated 13 April 2016 providing supplies interoperable driving railway vehicles for the needs of ČD Cargo, Inc. and operability under warranty
Siemens, s.r.o., Praha 13, Siemensova 1, zip code 155 00, ID 002 68 577,	Unicredit Bank Czech Republik and Slovakia, a.s.	1,191,000	EUR	31 July 2020	In accordance with amendment no. 2 (providing additional supplies of 3 pc. interoperable traction vehicles) dated 28 April 2017 to the contract 05012-2016-O01 dated 13 April 2016 providing supplies interoperable traction vehicles for the needs of ČD Cargo, Inc. and operability under warranty
ESTATE & INVESTMENT a.s.	Raiffaisenbank, a.s.	2,500,000	CZK	31 October 2018	In accordance with the invitation to tender for the tender contract „Supply of brake blocks"

Bank guarantees received by ČD – Telematika a. s.

Bank	Amount	Currency	Type	Validity to
Raiffaisenbank, a.s.	39,488.00	EUR	payment	31 December 2018
Raiffaisenbank, a.s.	892,510.84	CZK	for fulfilling the obligations during the warranty period (releasing the restraint)	31 July 2021
Raiffaisenbank, a.s.	19,755,104.58	CZK	for fulfilling the obligations during the warranty period (releasing the restraint)	15 July 2022
Raiffaisenbank, a.s.	869,997.45	CZK	for fulfilling the obligations during the warranty period (releasing the restraint)	31 October 2022
Raiffaisenbank, a.s.	1,098,978.26	CZK	for fulfilling the obligations during the warranty period (releasing the restraint)	31 October 2021
Raiffaisenbank, a.s.	479,803.05	CZK	for return of the restraint	30 April 2022
Raiffaisenbank, a.s.	200,000.00	CZK	for offer	30 May 2018
Raiffaisenbank, a.s.	1,800,000.00	CZK	for offer	31 May 2018
ČSOB	964,750.00	CZK	for the execution of the contract	07 December 2022
Raiffaisenbank, a.s.	360,000.00	CZK	for offer	11 January 2018

36.1. Legal Disputes

36.1.1 Railway Freight Transportation Market

Office for the Protection of Competition imposed a fine on ČD, a.s. for abusing its position on the market in the area of railway transportation of enormous amounts of natural resources and raw materials of approximately CZK 250 million. Based on ČD defence the court case went to Administrative Court. The Supreme Administrative Court dismissed the Office for the Protection of Competition appeal in December 2017. The case is finally resolved at the level of the administrative courts in favour of ČD and returned to the Office for the Protection of Competition back to the first instance, where it will be resolved again in accordance to the binding legal opinion of the Supreme Administrative Court or the District Court in Brno.

36.1.2. Legal Action by LEO Express against ČD, a.s. for the compensation of damage amounting to CZK 434 million

In July 2014 LEO Express filed a legal action for the compensation of damage amounting to approximately CZK 419 million which was allegedly caused to LEO Express by ČD, a.s. and its pricing policy. The first-instance court rejected LEO Express's legal action. LEO Express partially withdrawed the legal action, against which ČD applied the legal remedy, but the court accepted such partial withdrawal, while Leo Express appealed against the decision of Court of first instance of dismissing the application to the extent of which there was no withdrawal. In March 2018, the court accepted the appeal from LEO Express and based on processing reasons set aside the decision of the First instance court and returned the case to the Municipal Court. At the end of December 2016 Leo Express filed a new legal action against ČD for approximate amount of CZK 434 million with accessories and for similar reason. The second legal action is mostly overlapped with part of legal action which was withdrawn by Leo Express after failure in first instance in Municipal Court in Prague. The proceeding is not ongoing, because the LEO Express insists on exemption from court fees, and the courts must first address this issue.

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

In April 2015, RegioJet filed a legal action for the return of approximately CZK 7 billion and default interest due to allegedly prohibited public support. The assets involving the 'assets required to maintain rails and their operability' ("mrtvá dopravní cesta" in Czech), which were transferred by ČD to SŽDC in 2008 for CZK 12 billion, were allegedly overstated by this amount. ČD provided its statement to the legal action indicating that it does not agree with the assertions made in the legal action and considers it to lack merit. In April 2017, the ČD appealed to the Supreme Court against the accession of the Student Agency to the proceedings. The Supreme Court has dismissed the ČD's appeal and will continue proceedings on the merits.

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

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

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

The Company Grandi Stazioni Česká republika, s.r.o. (GS) filed three legal actions against state organization Railway Infrastructure Administration (SŽDC) and against ČD. GS is seeking the payment of compensation of CZK 777 million, increased by fine for delayed payment and default interests from SŽDC or ČD, depending on the court decision as to who the owner of Prague Main Station – Praha Hlavní nádraží (Fanta's building and passenger terminal) is. SŽDC and ČD agree that the owner of Prague Main Station is SŽDC, and for this reason ČD should not be the party in the payment dispute. In accordance to this ČD has the same position in legal procedures. In the matter of determining the ownership of the Fanta's building, GS's action was dismissed, the applicant GS filed an appeal. Ownership of the passenger terminal has not yet been decided. SŽDC commissioned the expert opinion to assess whether the amounts claimed by GS in the application for payment by available documents and based on the expert opinion SŽDC paid the amount of CZK 556 million to GS. The court ordered the parties to mediate regarding the payment application.

36.1.6. Legal Action by Grandi Stazioni Česká republika, s.r.o. against SŽDC and ČD compensation of pre-contractual liability

In August 2017, Grandi Stazioni Czech Republic, s.r.o. (GS) filled the lawsuit to the District Court in Prague 1, in which seeks the payment of CZK 1,256 million from Railway Infrastructure Administration (SŽDC) and ČD for the payment of the compensation of pre-contractual liability. The alleged damage was caused by failure to apply the Amendment No.5 to the lease agreement regarding the lease and revitalization of Prague - Main Railway Station. The claim has not been formally served on the defendant.

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

Since early 2014, the Audit Body of the Czech Ministry of Finance (the "Audit Body") has been conducting a due audit of operation at ČD, a.s. in terms of Section 7 (2) and Section 13a of Act No. 320/2001 Coll., on Financial Auditing in Public Administration and Changes to Certain Acts (the "Financial Auditing Act"), as amended, and Article 62 (1) (b) of Council Regulation (EC) No. 1083/2006. Quantified corrections presents repayment of part of subsidy in anticipated amount of CZK 588 million. ČD CARGO does not agree with the abovementioned corrections and appealed against them to the Ministry of Finance. The appeal proceedings are still ongoing. Repayments are therefore not yet valid and there is no obligation to pay them.

36.1.8. Proceedings in the matter of alleged abuse of a dominant position on the Prague – Ostrava line

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

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

In Autumn 2016, the Office for the Protection of Competition initiated proceedings with ČD and ČD Cargo, a.s. in the matter of a possible violation of the Law on the Protection of Competition and the Treaty of the European Union ČD a ČD Cargo have allegedly committed a violation by providing transport and mail services with the help of railway vehicles including related transport and forwarding services for the moving of goods to the loading station and moving goods to the destination. This violation occurred in a period longer than ten years ago according to the OPC. By the decision taken on 19 June 2017 by OPC, proceedings against ČD Cargo have been discontinued, but ČD, as a Parent Company, is still a party to the administrative proceeding, reasoning with the fact that from the point of view of the competition law the companies form one competitor, it is appropriate that only one company takes part in the proceedings. Administrative proceedings are still ongoing.

36.1.10. Proceedings in the matter of a possible abuse of the dominant position on the routes Pardubice - Liberec and Plzeň – Most

In April 2016 the Office for the Protection of Competition (OPC) initiated administrative proceedings. Alleged violation of competition rules were charged to ČD for the reason that during the tender held in 2005 concerning the railway transport and provision of public services on the routes Pardubice-Liberec and Plzeň-Most for the duration of the 2006/2007 timetable they have presented a price offer which did not cover the costs of service provision on the routes in question. Such an agree upon commitment was to be performed by ČD on the stated routes until the end of the 2013/2014 timetable. OPC imposed a fine of CZK 368 million on 14 December 2017. ČD applied a legal remedy as the decision is not final.

36.1.11. Dispute regarding the amount of payment for 'easements' relating to plots of land underneath the backbone optical network owned by ČD - Telematika a.s.

SŽDC action with the arbitration court seeks payment of the contract price for the use of land and facilities under the backbone optical network owned by ČD - Telematica a.s. (The same things apply with regard to ČD - Telematica a.s and its claim ČD. The scope of claim ČD is considerably lower, although factually identical entitled to SŽDC. The dispute is very complicated and the plaintiff nor the defendant cannot currently quantify the exact amount of the claim. On the basis of the interim arbitral findings from 17 November 2016 a discussion between all participants was started regarding the possibility of resolving the dispute out of court when after mutual agreement an expertise on the valuation of the amount of unjust enrichment was entered. Based on interim arbitration decision the negotiations on the possibility of out-of-court settlement of the dispute were initiated between all participants. Currently, the findings of the expert's report are reviewed by other independent experts invited by the complainant and a settlement agreement has been concluded between the parties.

37. Financial Instruments

37.1. Capital Risk Management

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

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

(CZK million)		31 Dec 2017	31 Dec 2016
Net debt			
Loans and receivables	26	35,004	37,823
Cash and cash equivalent	33	7,801	7,654
Total net debt		**27,203**	**30,169**
Equity			
Share capital	25	20,000	20,000
Provision and other fund	25	16,862	16,809
Cash flow hedge fund	25	338	(821)
Retained earnings / Unallocated loss	25	1,121	190
Total Equity		**38,321**	**36,178**
Total Managed equity		**65,524**	**66,347**

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.

37.2. Significant Accounting Policies

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

37.3. Financial Instruments Classification

(CZK million)

Category of financial assets	Class of financial assets		31 Dec 2017	31 Dec 2016
Loans and receivables	Trade receivables	22	3,270	3,189
	Cash and cash equivalents	33	7,801	7,654
	Receivables from financial leases	23	77	78
	Other	23	589	479
Financial assets at fair value reported in profit or loss	Financial derivatives used in hedge accounting	23	169	318
	Other financial derivatives	23	-	-
Realizable financial assets	Realizable financial assets	23	336	336
	Total		**12,242**	**12,054**

(CZK million)

Financial liabilities category	Class of financial obligations		31 Dec 2017	31 Dec 2016
Financial liabilities at fair value reported in profit or loss	Financial derivatives used in hedge accounting	29	449	968
	Other financial derivatives	29	1	5
Financial liabilities at amortized cost	Loans and borrowings	26	35,004	37,823
	Trade payables	28	4,835	4,265
	Liabilities arising from supplier loans	29	145	301
	Liabilities from settlement agreements	29	169	280
	Other	29	203	117
	Total		**40,806**	**43,759**

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

Available-for-sale financial assets include investments in equity investments that do not have listed market values on an active market and are measured at cost as their fair value cannot be reliably determined.

Income from individual categories of financial assets is as follows:

(CZK million)

Category of financial assets	2017	2016	Reported in the statements of profit or loss line
Interest on cash in bank accounts	5	2	Financial income
Interest on cash pooling	17	14	Financial income
Dividends from available-for-sale financial assets	-	2	Financial income
Total	**22**	**18**	

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

37.4. Fair Value of Financial Instruments

Financial assets (CZK million)	Level	Fair value as of 31 Dec 2017	Carrying value as of 31 Dec 2017	Fair value as of 31 Dec 2016	Carrying value as of 31 Dec 2016
Derivative instruments in designated hedge accounting relationships	Level 2	169	169	318	318
Other financial derivatives	Level 2	-	-	-	-
Financial lease receivables	Level 2	77	77	78	78
Available-for-sale financial assets	Level 2	*)	336	*)	336
Other financial derivatives – long term	Level 2	441	441	380	380
Total		**687**	**1,023**	**776**	**1,112**

*) The fair value is not reliably determinable.

Financial liabilities (CZK million)	**Level**	**Fair value as of 31 Dec 2017**	**Carrying value as of 31 Dec 2017**	**Fair value as of 31 Dec 2016**	**Carrying value as of 31 Dec 2016**
Derivative instruments in designated hedge accounting relationships	Level 2	449	449	968	968
Other financial derivatives	Level 2	1	1	5	5
Measured at amortised cost	**Level 2**	**36,209**	**35,118**	**39,791**	**38,148**
Liability to EUROFIMA	Level 2	-	-	*811*	*811*
Liabilities from financial lease	Level 2	*3,419*	*3,294*	*4,175*	*3,897*
Issued bonds	Level 2	*9,748*	*9,564*	*10,265*	*9,997*
Issued bonds (traded)	Level 1	*22,827*	*22,045*	*24,170*	*23,073*
Other financial liabilities	Level 2	*215*	*215*	*370*	*370*
Total		**36,659**	**35,568**	**40,764**	**39,121**

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

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

37.4.1. 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 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. Optional valuation model is used for derivative options.

37.4.2. 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 (ie, prices) or indirectly (ie 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 2017 and 31 December 2016 are included in level 2.

37.5. Financial Risk Management Objectives

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

37.6. Currency Risk Management

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. These transactions predominantly include income from international transportation, received loans and issued bonds. In line with the approved Risk Management Strategy, the Parent Company hedges anticipated payments in a foreign currency such that the size of the open risk position does not exceed the limit defined for the period by the Risk Management Committee and approved by the 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 2017	EUR	USD	Other	Total
Financial assets	2,216	30	34	2,280
Financial liabilities	(27,768)	(10)	(40)	(27,818)
Total	**(25,552)**	**20**	**(6)**	**(25,538)**

(CZK million)

31 Dec 2016	EUR	USD	Other	Total
Financial assets	3,030	6	3	3,039
Financial liabilities	(30,243)	(14)	(14)	(30,271)
Total	**(27,213)**	**(8)**	**(11)**	**(27,232)**

37.6.1. Foreign Currency Sensitivity Analysis

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

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

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

(CZK million)	2017	2016
Translation of items denominated in foreign currencies at the end of the period	1,000	1,007
Change in the fair value of derivatives at the end of the period	(558)	(590)
Total impact on the profit for the period	**442**	**417**
Change in the fair value of derivatives at the end of the period	4	6
Total impact on other comprehensive income	**4**	**6**

37.6.2. Currency Forwards and Options

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

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

Sale	Average currency exchange rate	Foreign currency	Nominal value	Fair value (CZK million)
31 Dec 2017	26.641	EUR	EUR 84 mil.	85
31 Dec 2016	26.868	EUR	EUR 96 mil.	6
	26.65 – 27.05	EUR	EUR 12 mil.	-

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

Purchase	Average currency exchange rate	Foreign currency	Nominal value	Fair value (CZK million)
31 Dec 2017	-	-	-	-
31 Dec 2016	27.08	EUR	EUR 43 mil.	(2)

Parent Company concluded currency swap in 2016 in order to secure the euro instalment loan, payable in the first half of 2017. This derivative was designated as a fair value.

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

The expected realization of currency derivatives hedged items

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

(CZK million)

31 Dec 2017	Less than 1 month	1 - 3 months	3 months - 1 year	1 year - 5 years	5 years and more	Total
Secured future sales in EUR	128	255	1,149	613	-	2,145

(CZK million)

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

37.6.3. Cross currency Interest Rate Swaps

In accordance with the currency risk management requirements, the Group has entered into a cross-currency interest rate swap which reduces the risk of the bond funding in EUR.

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

31 Dec 2017	Nominal value (EUR million)	Collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK million
Up to 1 year	542	3.45%	(14,412)	3.63%	(50)
1 to 5 years	542	3.09%	(14,412)	3.20%	189
Over 5 years	255	3.01%	(7,027)	3.11%	(469)
Total					**(330)**

31 Dec 2016	Nominal value (EUR million)	Collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK million
Up to 1 year	542	3.45%	(14,412)	3.63%	(24)
1 to 5 years	542	3.24%	(14,412)	3.38%	58
Over 5 years	292	2.87%	(8,062)	2.95%	(571)
Total					**(537)**

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

Expected realization of hedged items by cross currency interest rate swaps

Expected cash flows of hedged foreign currency bonds are listed in the Note 37.10.1 in tables with remaining contractual maturities of financial liabilities in line fixed interest rate Instruments

37.7. Interest Rate Risk Management

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

37.7.1. Interest Rate Sensitivity Analysis

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

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

The following table shows the impact that an increase in interest rates of 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)	2017	2016
Interest from loans and lease with variable rate for the period	(66)	(81)
Change in the fair value of derivatives at the end of the period	1	3
Total impact on the profit for the period	**(65)**	**(78)**
Change in the fair value of derivatives at the end of the period	50	153
Total impact on other comprehensive income	**50**	**153**

37.7.2. Interest Rate Swap Contracts

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

31 Dec 2017	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value in CZK million
Up to 1 year	Float interest bonds	1.61%	CZK 4,000 million	(40)
	Leases	1.52%	CZK 785 million	(8)
				(48)
1 to 5 years	Leases	1.72%	CZK 398 million	1
				1
Total				**(47)**

31 Dec 2016	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value in CZK million
Up to 1 year	Loans from Eurofima	2.58%	EUR 30 million	(11)
	Float interest bonds	1.61%	CZK 4,000 million	(51)
	Leases	1.47%	CZK 952 million	(14)
				(76)
1 to 5 years	Float interest bonds	1.61%	CZK 4,000 million	(60)
	Leases	1.47%	CZK 602 million	(20)
				(80)
Total				**(156)**

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

37.7.3. Interest Rate Options

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

	Hedged range	Principal in CZK million	Fair value of assets (liabilities) in CZK million at 31 Dec 2017
Up to 1 year	1.13% - 3.13%	107	(1)
1 to 5 years	1.13% - 3.13%	178	-
Over 5 years	0.00%	-	-
Total			**(1)**

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

37.7.4. Expected realizations of hedged items interest rate swaps and interest rate options

The expected hedged cash flows from interest on variable-rate loans are listed in Note 37.10.1 in tables with remaining contractual maturities of financial liabilities in rows Finance lease liabilities and instruments with a variable interest rate.

37.8. Commodity Risk Management

The Group is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically oil and electricity, is a significant cost item of the Group. The Group manages this risk so that the size of the open risk position does not exceed the limit defined for the period by the Risk Management Committee and approved by the Group's Board of Directors. The risk is managed by the Group using the combination of several instruments as follows:

- Conclusion of hedging derivatives for oil purchase and traction electricity; and
- Negotiating a fixed price of electricity always for the following calendar year

Besides above stated instruments, in case of price increase of above stated commodities the Group can ask regions and state for increased payments per transport.

37.8.1. 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 an increase in the oil price of 10% would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates a decrease in the profit and other comprehensive income:

(CZK million)	2017	2016
Change in the fair value of derivatives at the end of the period	6	6
Total impact on the profit for the period	**6**	**6**
Change in the fair value of derivatives at the end of the period	13	32
Total impact on other comprehensive income	**13**	**32**

37.8.2. Commodity Derivatives

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

Purchase of oil	Hedged value	Volume of contracts (mt)	Fair value (CZK million)
31 Dec 2017	11,118 CZK/mt	9,600	11
	7,260 – 16,000 CZK/mt	14,400	1
31 Dec 2016	11,272 CZK/mt	15,300	26
	7,200 – 16,000 CZK/mt	16,800	(3)

Purchase of electricity	Hedged value	Volume of contracts (MWh)	Fair value (CZK million)
31 Dec 2017	-	-	-
31 Dec 2016	29 EUR/MWh	122,640	16

Expected realizations of hedged items of commodity derivatives
The following table shows the expected cash flows of the hedged purchases of fuel and electricity:

(CZK million)

31 Dec 2017	Less than 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	5 years and more	Total
Secured future purchases of oil	23	47	208	31	-	309
Secured future purchases of electricity	10	20	92	-	-	122

(CZK million)

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

37.9. Credit Risk Management

The concentration of the Parent Company's credit risk is low as a significant portion of the Parent Company's revenues (passenger transportation fare) is collected in cash. In case of payments from public services orderers from state budget or regional budget the risk is low due to high rating of state. (see Note 32.3). In other transactions, the Group seeks to deal only with creditworthy counterparties whom the Group reviews on an ongoing basis using publicly available information. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

(CZK million)

Financial assets: 31 Dec 2017		Due, not impaired	Overdue, not impaired	Overdue, impaired	Impairment	Total
Trade receivables *)	22	2,834	436	288	(288)	3,270
Cash and cash equivalents	33	7,801	-	-	-	7,801
Receivables from finance leases	23	77	-	-	-	77
Restricted cash	23	360	-	-	-	360
Other	23	229	-	50	(50)	229
Financial derivatives used in hedge accounting	23	169	-	-	-	169
Other financial derivatives	23	-	-	-	-	-
Realisable financial assets **)	23	341	-	-	(5)	336
Total		**11,811**	**436**	**338**	**(343)**	**12,242**

(CZK million)

Financial assets: 31 Dec 2016		Due, not impaired	Overdue, not impaired	Overdue, impaired	Impairment	Total
Trade receivables *)	22	3,050	139	310	(310)	3,189
Cash and cash equivalents	33	7,654	-	-	-	7,654
Receivables from finance leases	23	78	-	-	-	78
Restricted cash	23	292	-	-	-	292
Other	23	187	-	48	(48)	187
Financial derivatives used in hedge accounting	23	318	-	-	-	318
Other financial derivatives	23	-	-	-	-	-
Realisable financial assets **)	23	341	-	-	(5)	336
Total		**11,920**	**139**	**358**	**(363)**	**12,054**

*) The age structure of trade receivables is described in the chapter 22.1.

To ensure that any additional risk receivables from ČD Cargo, a.s. they are used in various combinations of standard instruments (deposits, payment terms, customer tracking, internal tools etc.). To improve the Group's liquidity policy is used actively the policy of offsetting receivables and payables. At the same time the Group ČD Cargo, Inc. applied continuous monitoring of receivables by individual companies and default periods with special attention to receivables more than 15 days overdue. Past due receivables are continuously dealing with individual responsibility and senior staff of the Commission claims.

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

(CZK million)

Bank	Bank balances at 31 Dec 2017	Bank balances at 31 Dec 2016
Komerční banka	1,690	2,080
ČSOB	3,585	2,466
Citibank	668	1,003
ING bank	439	253
Česká spořitelna	603	1,004
Equa bank	4	4
UniCredit Bank	234	373
GE Money Bank	-	-
Raiffeisenbank, a.s.	251	312
Sberbank CZ, a.s.	103	2
J&T Banka, a.s.	5	-
Všeobecná úvěrová banka a.s.	46	45
Allior	-	1
Millenium bank	7	24
Deutsche Bank	11	8
Frankfurter Sparkasse	4	4
Bank Austria	8	5
Slovenská sporiteľňa	80	-
Tatra banka	4	-
Total	**7,742**	**7,584**

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

The Group does not recognise any pledged financial assets as at 31 December 2017.

37.10. Liquidity Risk Management

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

37.10.1. Liquidity and Interest Rate Risk Tables

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

(CZK million)

31 Dec 2017	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	2,553	1,916	645	194	22	5,330
Derivatives	27	2	45	170	692	936
Incoming cash flows	-	-	214	1,819	7,672	9,705
Outgoing cash flows	27	2	259	1,989	8,364	10,641
Finance lease liabilities	99	174	757	2,348	228	3,606
Float interest rate instruments	85	16	4,111	7	-	4,219
Fixed interest rate instruments	-	-	773	12,213	19,245	32,231
Total	**2,764**	**2,108**	**6,331**	**14,932**	**20,187**	**46,322**

(CZK million)

31 Dec 2016	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	2,580	1,343	702	326	29	4,980
Derivatives	32	6	74	151	282	545
Incoming cash flows	-	-	475	1,341	9,300	11,116
Outgoing cash flows	32	6	549	1,492	9,582	11,661
Finance lease liabilities	94	185	736	2,950	367	4,332
Float interest rate instruments	43	3	875	4,126	1	5,048
Fixed interest rate instruments	-	-	814	12,166	21,806	34,786
Total	**2,749**	**1,537**	**3,201**	**19,719**	**22,485**	**49,691**

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

(CZK million)

31 Dec 2017	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	9,576	1,090	545	442	336	11,995
Derivatives	7	13	36	38	-	94
Incoming cash flows	7	13	320	6,672	-	7,012
Outgoing cash flows	-	-	284	6,634	-	6,918
Finance lease liabilities	4	-	14	73	473	564
Total	**9,587**	**1,109**	**595**	**553**	**809**	**12,653**

(CZK million)

31 Dec 2016	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	9,395	996	505	304	337	11,537
Derivatives	2	3	39	428	5	477
Incoming cash flows	2	3	67	6,890	61	7,023
Outgoing cash flows	-	-	28	6,462	56	6,546
Finance lease liabilities	5	-	12	64	427	508
Total	**9,402**	**999**	**556**	**796**	**769**	**12,522**

37.10.2. Financing facilities

The Group has access to the following credit lines:

(CZK million)

Overdraft loan facilities	ČSOB	Citibank	ING	VUB	KB	Total
Amount of the loan facility as at 1 January 2016	**1,110**	**200**	**200**	**400**	**1,500**	**3,410**
Amount unused as at 1 January 2016	**1,110**	**200**	**200**	**400**	**1,500**	**3,410**
Change of loan facility amount in 2016	-	-	-	-	100	100
Amount of the loan facility as at 31 December 2016	**1,110**	**200**	**200**	**400**	**1,600**	**3,510**
Amount unused as at 31 December 2016	**1,110**	**200**	**200**	**400**	**1,600**	**3,510**
Change of loan facility amount in 2017	-	-	-	-	-	-
Amount of the loan facility as at 31 December 2017	**1,110**	**200**	**200**	**400**	**1,600**	**3,510**
Amount unused as at 31 December 2017	**1,110**	**200**	**200**	**400**	**1,600**	**3,510**

(CZK million)

Promissory notes program	ČSOB	Citibank	ING	KB	Deutsche Bank	Česká spořitelna	Total
Amount of the loan facility as at 1 January 2016	**1,500**	**2,000**	**2,000**	**1,300**	**700**	**2,000**	**9,500**
Amount unused as at 1 January 2016	**1,500**	**2,000**	**2,000**	**1,300**	**700**	**2,000**	**9,500**
Change of loan facility amount in 2016	(1,000)	(1,000)	-	(300)	(700)	(1,000)	(4,000)
Amount of the loan facility as at 31 December 2016	**500**	**1,000**	**2,000**	**1,000**	**-**	**1,000**	**5,500**
Amount unused as at 31 December 2016	**500**	**1,000**	**2,000**	**1,000**	**-**	**1,000**	**5,500**
Change of loan facility amount in 2017	-	-	-	-	-	-	-
Amount of the loan facility as at 31 December 2017	**500**	**1,000**	**2,000**	**1,000**	**-**	**1,000**	**5,500**
Amount unused as at 31 December 2017	**500**	**1,000**	**2,000**	**1,000**	**-**	**1,000**	**5,500**

38. Post Balance Sheet Events

On 13 February 2018 ČD Cargo, a.s., as the sole shareholder of ČD Cargo Slovakia, s.r.o., decided to increase the share capital of the subsidiary in the amount of EUR 2.7 million, in the exercise of the powers of the General Meeting.

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

39. Approval of the Consolidated Financial Statements

The financial statements were approved by the Board of Directors and authorised for issue on 10th of April 2018.

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Separate Financial Statements
for the Year 2017 Prepared under IFRS as Adopted by the EU

Company name: **České dráhy, a.s.**
Registered office: **Nábřeží L. Svobody 1222, 110 15 Praha 1**
Legal form: **Joint Stock Company**
Corporate ID: **70994226**

Components of the Separate Financial Statements for the year 2017 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

Separate Financial Statements were prepared on 10th of April 2018.
Statutory body of the reporting entity

Pavel Krtek, M.Sc.	Martin Bělčík
Chairman of the Board	Member of the Board
of Directors	of Directors
České dráhy, a.s.	České dráhy, a.s.

Statement of profit or loss for the year ended 31 december 2017

		Year ended 31 Dec 2017 CZK million	Year ended 31 Dec 2016 CZK million
CONTINUING OPERATIONS			
Revenues from principal operations	5	22,110	21,571
Other operating income *)	6	2,303	2,086
Purchased consumables and services *)	7	(10,076)	(9,667)
Employee benefit costs *)	8	(8,408)	(7,953)
Depreciation and amortisation *)	9	(4,767)	(4,811)
Other operating costs *)	10	(538)	(491)
Profit from operating activities before tax		**624**	**735**
Financial expenses *)	11	(1,108)	(1,209)
Financial income	12	794	89
Profit (loss) before tax		**310**	**(385)**
Profit (loss) for the period from continuing operations		**310**	**(385)**
DISCONTINUED OPERATIONS			
Profit from discontinued operations	14	-	224
Profit (loss) for the year		**310**	**(161)**

Statement of other comprehensive income for the year ended 31 december 2017

	Year ended 31 Dec 2017 CZK million	Year ended 31 Dec 2016 CZK million
Profit (loss) for the year	310	(161)
Actuarial gains on employee benefit liabilities	9	10
Relating income tax	-	-
Other comprehensive income/(loss) for the year (items that are not reclassified to profit or loss)	**9**	**10**
Cash flow hedging	1,103	149
Relating income tax	-	-
Other comprehensive income/(loss) for the year (items that may be reclassified to profit or loss)	**1,103**	**149**
Other comprehensive income/(loss) for the year, net	**1,112**	**159**
Total comprehensive income/(loss) for the year	**1,422**	**(2)**

*) After change in data for the year ended 31 December 2016, see note 2.2.1.

Statement of financial position (balance sheet) as at 31 december 2017

		31 Dec 2017 CZK million	**31 Dec 2016** CZK million
Property, plant and equipment	15	52,889	54,644
Investment property	16	666	715
Intangible assets	17	237	170
Investments in subsidiaries and associates and joint ventures	18	8,004	8,002
Other financial assets	21	1,249	1,122
Other assets	22	5	3
Total non-current assets		**63,050**	**64,656**
Inventories	19	1,128	1,032
Trade receivables	20	1,151	1,293
Other financial assets	21	257	176
Other assets	22	588	488
Cash and cash equivalents	30	6,332	6,019
Assets held for sale		-	-
Total current assets		**9,456**	**9,008**
TOTAL ASSETS		**72,506**	**73,664**
Share capital	23	20,000	20,000
Reserve and other funds	23	16,540	16,540
Cash flow hedging reserve	23	265	(838)
Retained earnings (accumulated losses)		(1,437)	(1,756)
Total equity		**35,368**	**33,946**
Loans and borrowings	24	26,008	31,775
Provisions	25	152	153
Other financial liabilities	27	382	880
Total non-current liabilities		**26,542**	**32,808**
Trade payables	26	2,947	2,444
Loans and borrowings	24	4,783	1,761
Provisions	25	792	732
Other financial liabilities	27	129	144
Other liabilities	28	1,945	1,829
Total current liabilities		**10,596**	**6,910**
TOTAL LIABILITIES		**72,506**	**73,664**

Statement of changes in equity for the year ended 31 december 2017

	Share capital CZK million	Reserve and other funds CZK million	Cash flow hedging reserve CZK million	Retained earnings (accumulated losses) CZK million	Total equity CZK million
Balance as at 1 January 2016	**20,000**	**16,540**	**(987)**	**(1,605)**	**33,948**
Comprehensive income					
Loss for the period	-	-	-	(161)	(161)
Other comprehensive income for the year	-	-	149	10	159
Comprehensive income for the year - total	**-**	**-**	**149**	**(151)**	**(2)**
Balance as at 31 December 2016	**20,000**	**16,540**	**(838)**	**(1,756)**	**33,946**
Comprehensive income					
Profit for the period	-	-	-	310	310
Other comprehensive income for the year	-	-	1,103	9	1,112
Comprehensive income for the year - total	**-**	**-**	**1,103**	**319**	**1,422**
Balance as at 31 December 2017	**20,000**	**16,540**	**265**	**(1,437)**	**35,368**

Cash flow statement for the year ended 31 december 2017

		Year ended 31 Dec 2017 CZK million	Year ended 31 Dec 2016 CZK million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) for the year before tax		**310**	**(161)**
Dividend income	12	(350)	(109)
Financial expenses - interest *)	11	1,019	1,119
Profit from the sale and disposal of non-current assets	6	(292)	(462)
Profit from the sale of part of the business		-	(302)
Profit from sale joint venture	12	(40)	-
Depreciation and amortisation of non-current assets	9	4,767	4,811
Impairment of property, plant and equipment, investment property and assets held for sale *)	10	129	115
Reversal of impairments of trade receivables	10	(39)	30
Increase (decrease) in provisions *)	25	64	(70)
Foreign exchange rate gains (losses)		(668)	(10)
Other *)		(113)	120
Cash flows from operating activities before changes in working capital		**4,787**	**5,081**
Decrease (increase) in trade receivables	20	185	278
Decrease (increase) in inventories	19	(64)	(124)
Decrease (increase) in other assets	21,22	(116)	1,132
Increase (decrease) in trade payables	26	544	(1,710)
Increase (decrease) in other liabilities	27,28	94	409
Total changes in working capital		**643**	**(15)**
Cash flows from operating activities		**5,430**	**5,066**
Interests paid	11	(984)	(1,137)
Dividends received	6	350	109
Net cash flows from operating activities		**4,796**	**4,038**
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment	15	(3,079)	(4,900)
Proceeds from disposal of property, plant and equipment	6	358	547
Payments for investment property	16	(2)	(36)
Costs of acquisition of intangible assets	17	(130)	(82)
Net cash flows from the sale of part of the business	14	-	3,389
Net cash flows from the sale of joint venture	18	59	-
Interest received	12	32	16
Loans and borrowings provided to related parties	29.6	(515)	(590)
Repayments of loans and borrowings from related parties	29.6	120	121
Net cash flows from investment activities		**(3,157)**	**(1,535)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings	24	-	10,833
Repayments of loans and borrowings	24	(946)	(8,897)
Payment of financial leasing	24	(380)	(444)
Net cash flows from financing activities		**(1,326)**	**1,492**
Net increase (decrease) in cash and cash equivalents		**313**	**3,995**
Cash and cash equivalents at the beginning of the reporting period		6,019	2,024
Cash and cash equivalents at the end of the reporting period	**30**	**6,332**	**6,019**

*) After change in data for the year ended 31 December 2016, see in note 2.2.1.

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Notes to the Separate Financial Statements for the Year Ended 31 December 2017

1. General Information

1.1. Formation of the Company

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

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

The separate financial statements have been prepared as at and for the year ended 31 December 2017 (hereinafter "financial statement). The reporting period is the calendar year from 1 January 2017 to 31 December 2017. The Company additionally prepares the consolidated financial statements under IFRS that will be approved as of the same date as the separate financial statements.

1.2. Principal operations

The Company is principally engaged in operating railway passenger transportation. In addition, the Company is engaged in other activities relating to its principal business activities.

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

2. Significant Accounting Policies

2.1. Statement of compliance

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

2.2. Basis of preparation

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

Accounting policies used in reported period are consistent with the accounting policies used in previous periods, except from the changes described in Note 2.2.1.

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

2.2.1. Changes in the application of accounting procedures and modification of the method of reporting

Reclassification of items in financial statements

The Company has changed the presentation of change in provisions in the financial statements for the year 2017. Unused part of provision which was released in the reporting period and for which there is no related expenditure, is presented in Other operating income instead of Other operating expense. Creation and use of provision is allocated to the particular type of expense for which the provision has actually been created.

The company has changed the presentation of dividends received. Dividends received are now disclosed in Other operating income. Comparative period ended as at 31.12.2016 was also adjusted.

The following table presents the summary of adjustments:

Period ended as at 31 Dec 2016		Formerly presented (CZK million)	Reclassification (CZK million)	Modified (CZK million)
Other operating income	6	1,788	298	2,086
Services, material and energy consumption	7	(9,558)	(109)	(9,667)
Employee benefit costs	8	(7,943)	(10)	(7,953)
Other operating expenses	10	(441)	(50)	(491)
Financial expenses	11	(1,189)	(20)	(1,209)
Financial income	12	198	(109)	89

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

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

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

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

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

Information on revenues are introduced into the accounting from passenger information system, which registers cash income, credit cards payments, incomes from e-shop and other incomes. Revenues accounting takes place at the moment of collection of revenue. Revenues from prepaid products are charged by applying accruals. Prepaid products include for example: annual tickets, annual employee tickets, kilometric bank, loyalty program.

Compared to the national transportation, in international transportation there are incomes and revenues with foreign railways and international ticket sellers recognized. This reconciliation may be delayed for months in some cases, therefore accruals are used.

Significant revenues from transport, apart from the sale of tickets and other vouchers, are also revenues from use of passenger cars in RIC system ("Regolamento Internazionale delle Carrozze", based on the Agreement of mutual usage of passenger cars in international transport), which are accounted annually. Therefore accruals are created.

Key revenues included in passenger transport are payments from customers – Ministry of Transportation and regions. These revenues are accounted monthly in accordance to annually approved documents and volume of the services.

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

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

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

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

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

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

2.4.3. Sale and leaseback

The sale and leaseback involves the sale of an asset and the subsequent leaseback of the same asset. Leasing payments and the sale price are often interdependent because they are negotiated upon in a single transaction. The accounting treatment of the sale transaction and leaseback depends on the type of leasing, which constitutes apart of this transaction.

If the leaseback is a financial leasing the lessor provides cash through this transaction to the lessee with the leased asset as a guarantee. Due to this the excess proceeds from the sale and the carrying amount cannot be considered as an income.

If the sale operation and leaseback leads to an operating lease and it is evident that the operation was established at fair value, all profits and losses are to be recognized immediately. The exception is when the loss is compensated by future lease payments set out below market price. In this case the loss must be postponed and compensated in relation to the lease payments over the intended use of the asset.

2.5. Foreign currencies

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

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

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

2.6. Borrowing costs

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

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

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

2.7. Government grants

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

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

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

2.8. Employee benefit costs

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

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

The reserve for long-term employee benefits is reported in the current value of future cash outflows which will be necessary for their payment. The discount rate used will be the rate of return on government bonds at the balance sheet date. This is due to a non-existent market of high quality corporate bonds denominated in Czech crowns. The currency and terms of these bonds is consistent with the currency and terms of the respective long-term benefits. The value of this reserve set annually on the basis of a calculation of independent insurance actuaries. The profits and losses arising from the modifications and changes of actuarial assumptions for the benefits at retirement are included in other comprehensive income, changes in the reserve for other benefits are included in the income statement.

2.9. Taxation
The income tax includes current tax payable and deferred tax.

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

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

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

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

2.9.3. 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 recorded at a cost reduced by accumulated losses from impairment, and by accumulated depreciation in respect of property and equipment. Freehold land is not depreciated.

Fixed 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 recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

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

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

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

2.11. Property investment
Property investments, which constitute property held with the purpose of profit from renting and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, the Company measures its investment property using the cost valuation model in accordance with the requirements of IAS 16 Property, Plant and Equipment.

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

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

2.13. Impairment of tangible and intangible assets
At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if

any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

2.14. Investments in subsidiaries, associates and joint ventures

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

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

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

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

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

2.15. Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell and are not depreciated.

2.16. Inventories

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

2.17. Provisions

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

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

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

Only expenditures that relate to the original provision are set against it. Changes in provisions are recognised into the income statement for the specific expenses, unused provisions are recorded in Other operating income.

2.18. Financial instruments

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

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

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

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

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

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

2.18.1. Effective interest method

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

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

2.18.2. Financial assets available for sale

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

The Company holds equity investments (other than subsidiaries and associates) that are not traded on an active market, classified as financial assets available for sale and carried at cost less any impairment losses as their fair value cannot be reliably determined.

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

2.18.3. Loans and receivables

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

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

2.18.4. Impairment of financial assets

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

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

The Company records impairment losses (allowances) based on an individual assessment of trade receivables as equal to 50% of the outstanding carrying amount of the receivables that are past due by more than 18 months and full allowances against receivables registered for recovery under insolvency proceedings. In addition, full allowances are recognised in respect of receivables that are past due by more than 12 months and whose carrying amount does not exceed CZK 30 thousand. The Company recognises no allowances against receivables from subsidiaries.

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

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

2.18.5. Derecognition of financial assets

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

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

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

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

2.18.7. Other financial liabilities
Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

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

2.18.9. Derivative financial instruments
The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate, currency and commodity risks.

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

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

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

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

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

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

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

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

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

3. Adoption of New and Revised International Financial Reporting Standards

3.1. Standards and interpretations effective for annual period ended 31 December 2017

During the year ended 31 December 2017 the following standards, amendments and interpretations came into force:

Modifications, new and revised standards and interpretations	Effective for accounting periods beginning on or after the date
IAS 7 – Modifications of IAS 7 – Disclosure Initiative	1. January 2017
IAS 12 - Modifications of IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	1. January 2017
IFRS 12 – Modifications of IFRS 12 (included in Annual improvements to IFRS – cycle 2014 – 2016)	1. January 2017*)

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

Mentioned improvements and interpretations have no material impact on the reporting or disclosure. In accordance with IAS 7 requirements, table of changes in financing liabilities was added to note 24.3.

3.2. Standards and interpretations used prior to the effective date

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

3.3. Standards and interpretations issued but not yet issued

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

Modifications, new and revised standards and interpretations	Effective for accounting periods beginning on or after the date
IFRS 9 – Financial instruments	1 January 2018
IFRS 15 – Revenue from Contracts with Customers	1 January 2018
IFRS 16 – Leases	1 January 2019
IFRS 17 – Insurance contracts	1 January 2021*)
IFRS 2 – Modifications of IFRS 2 – Classification and valuation of share-based payment transactions	1. January 2018*)
IFRS 4 – Modifications of IFRS 4 – using IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts	1 January 2018
IFRS 9 – Modifications of IFRS 9 – Prepayment Features with Negative Compensation	1 January 2019*)
IFRS 10, IAS 28 – Modification of IFRS 10 a IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date will be determined*)
IAS 28 – Modifications of IAS 28 – Long – term Interests in Associates and Joint Ventures	1 January 2019*)
IAS 40 – Modifications of IAS 40 – Transfers of Investment Property	1 January 2018*)
Annual improvements to IFRS – cycle 2014 – 2016	1 January 2017/ 1 January 2018*)
Annual improvements to IFRS – cycle 2015 – 2017	1 January 2019*)
IFRIC 22 – Foreign Currency Transactions and Advance Consideration	1 January 2018*)
IFRIC 23 – Uncertainty over Income Tax Treatments	1 January 2019*)

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

According to IFRS 15, the Company will disclose contractual penalties related to customer contracts as a reduction in consideration. Reclassification in amount of CZK 25 million from Other operating expenses to Revenues from principal operations is expected. The Company did not identify any other significant area for adjustments under IFRS 15.

According to IFRS 9, the Company will recognize equity financial instruments in fair value, in particular the interest in Eurofima. The impact of this transaction will be approximately CZK 93 million, as increase of Financial assets available-for-sale and an increase in Other comprehensive income. The application will be retrospective.

According to IFRS 9, the Company will create allowances for receivables before due date, according to the expected default rate. Creation of allowance will be approximately in amount of CZK 15 million. The application will be retrospective.

The impact of IFRS 9 on hedge accounting was assessed as insignificant. During the year 2018 the hedge documentation and methodology of efficiency valuation will be amended as well as booking of derivatives in fair value.

For both standards, IFRS 9 and IFRS 15, the Company expects a wider range of disclosures.

For IFRS 16, the Company expects a need of recognition of significant number of lease agreements in the Balance sheet. IFRS 16 will be adopted by the Company as at its mandatory date of 1 January 2019. The current analysis of implementation of IFRS 16 shows that the value of the group's assets and liabilities will increase by several hundred million CZK. The group's profit or loss is expected to be affected by tens of millions. Information about operating lease contracts is disclosed in the Note 31.

The management of the Company expects that the adoption of other 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

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

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

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

4.1. Useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Although the Company identified no changes in the useful lives of property, plant and equipment, the situation may change in the following periods. The information on long-term depreciated assets is disclosed in Notes 15, 16 and 17.

4.2. Impairment of assets

The Company assesses the recoverable value of all asset components when there are indicators of their impairment (with the exception of intangible assets under construction, the recoverable value of which is assessed annually). This assessment is based on anticipated assumptions and may change in the future as the situation evolves and information is available. Impairment of property, plant and equipment is disclosed in Note 15.1.

4.3. Provisions for legal disputes and business risks

The Company is involved in a number of court and out-of-court commercial disputes. Where the criteria for the recognition of provisions are met, the Company creates provisions for these disputes on the basis of the best available information and estimates. However, the actual outcome of the disputes may differ from these estimates. The information on legal disputes is disclosed in Note 33.

5. Revenues from Principal Operations

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

(CZK million)	**2017**	**2016**
Revenue from passenger transportation - fare	8,066	7,820
Domestic passenger transportation	5,357	5,152
International passenger transportation	2,709	2,668
Revenue from passenger transportation - payments from public service orderers	14,044	13,751
Payment from the state budget	4,599	4,485
Payment from the regional budget	9,445	9,266
Total revenue from principal operations	**22,110**	**21,571**

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

The Company provides transport services in public railway transport for a stated (often reasonable) price and assures transport services in the specified categories of passenger transport trains on the railway system of the Czech Republic. The scope of these services and the compensation (Company profits) are set in agreements between the State and regional authorities. A contract concerning the obligation for public service provision for the period of 2010-2019 was signed on 2.12.2009.

The Czech Republic has reconciled its legislatives in the area of public transport with the EU legislature by adopting the Act no. 194/2010 Coll. concerning the public transport services and amendments of other laws. České dráhy, a.s. has arranged a public service obligation agreement for the duration of ten years and more, and is governed by the law prior to the adoption of the law in question.

The Government resolution no. 1132/2009 from 31.8.2009 states the securing of additional funding of the regional railway transport by regional subsidies including the rules for the increase or reduction of the scope of purchased railway transport and the increase of this special purpose subsidiary during the following years. In 2016, the Government of the Czech Republic has adopted a resolution on the organization and financing of regional railway transport after 2019. This resolution sets out the rules for financing regional transport for the period following the end of a majority of contracts in the public service. This document is crucial for the decision of individual purchasers concerning the regional transport in the year 2019.

There are intensive discussions being held on the matter of amendments to the long-term contracts for the year 2018 to the date of the financial statements for the year 2017. Three amendments concerning regional transport have been concluded for the year 2018. Other amendments are in the process of discussion at the appropriate regional level. The closing of all amendments is likely according to the opinion of the management. In relation to the provision of public transport services this does not constitute any restriction. Due to long-term contracts there will not occur an interruption of services or discontinuation of funding. Advances for payments from regional budgets are sent at an appropriate amount – in the case of yet unsigned amendments for the year 2018.

Significant transactions with main customers with state participation are stated in Note 29.8.

6. Other Operating Income

(in CZK million)	**2017**	**2016**
Gain from sale of property, plant and equipment and investment property	292	462
Commission for mediation of the purchase of diesel and spare parts	75	98
Sales of other services	355	348
Rental income	344	303
Compensations for deficits and damage	83	32
Contractual penalties and default interest	62	38
Payments for rail replacement bus service	392	293
Dividends received	350	109
Commission from ticket sales and other transactions at cash desks	55	52
Foreign Exchange gains – operating	40	22
Released provisions *)	10	189
Release of allowance for accounts receivables	55	-
Reversal of write-off of inventory to net realisable value	53	-
Other	137	140
Total other operating income *)	**2,303**	**2,086**

*) After change in data for the year ended 31 December 2016, see in 2.2.1.

7. Purchased Consumables and Services

(in CZK million)	**2017**	**2016**
Traction costs	(2,299)	(2,303)
Traction fuel (diesel)	*(1,156)*	*(1,101)*
Traction electricity	*(1,143)*	*(1,202)*
Payment for the use of railway route	(1,864)	(1,842)
Other purchased consumables and services *)	(5,913)	(5,522)
Consumed material	*(1,021)*	*(942)*
Consumed other energy	*(269)*	*(285)*
Consumed fuel	*(64)*	*(60)*
*Repairs and maintenance *)*	*(824)*	*(661)*
Travel costs	*(115)*	*(114)*
Telecommunication, data and postal services	*(108)*	*(102)*
Other rental	*(154)*	*(120)*
Rental for rail vehicles	*(504)*	*(503)*
Transportation charges	*(16)*	*(18)*
Rail replacement bus service	*(512)*	*(480)*
Services of dining and sleeping carriages	*(175)*	*(143)*
Services associated with the use of buildings	*(220)*	*(253)*
Operational cleaning of rail vehicles	*(324)*	*(331)*
Border area services	*(450)*	*(438)*
Advertising and promotion costs	*(174)*	*(145)*
Commission from ticket sales to other carriers and vendors	*(149)*	*(144)*
Infrastructure capacity allocation	*(53)*	*(53)*
Services related to IT	*(296)*	*(281)*
Fire brigade services	*(30)*	*(30)*
Services in the field of ecology	*(36)*	*(36)*
Other services	*(419)*	*(383)*
Total services, consumption of material and energy *)	**(10,076)**	**(9,667)**

*) After change in reporting data for the year ended 31 December 2016, see Note 2.2.1.

Other services include mostly expenses related to education, health care, consulting, expert opinions and other services.

Other services include also audit and non-audit services provided by the PwC network. The total cost for these services:

(in CZK million)	2017	2016
PwC Audit	2	-
Tax advisory	-	-
PwC ČR	8	9
Total	**10**	**9**

8. Employee Benefit Costs

(in CZK million)	2017	2016
Payroll costs *)	(6,034)	(5,692)
Severance pay *)	(46)	(45)
Statutory social security and health insurance *)	(743)	(689)
Pension insurance *)	(1,273)	(1,209)
Contributions to the pension insurance and capital life insurance	(219)	(228)
Other social costs	(38)	(35)
Other employee benefit costs *)	(55)	(55)
Total employee benefit costs *)	**(8,408)**	**(7,953)**

*) After change in reporting data for the year ended 31 December 2016, see Note 2.2.1.

Other social costs includes, in particular, meal allowances. Other employee benefit costs primarily include costs for stays in health resorts or remuneration to the members of statutory bodies.

9. Depreciation and Amortisation

(in CZK million)	2017	2016
Depreciation of property, plant and equipment	(4,660)	(4,660)
Depreciation of investment property	(24)	(26)
Amortisation of intangible assets	(83)	(125)
Total depreciation and amortisation	**(4,767)**	**(4,811)**

10. Other Operating Expenses

(in CZK million)	2017	2016
Reversal of losses (loss) from impaired receivables	-	(16)
Losses from impaired property, plant and equipment, investment property and assets held for sale *)	(129)	(115)
Reversal of write-down of inventories to their net realisable value	-	(42)
Costs of contractual fines and default interest	(31)	(54)
Taxes and fees	(19)	(20)
Insurance	(83)	(73)
Foreign Exchange loses - operating	(31)	(11)
Shortages and damages	(23)	(38)
Expenses for uniforms and personal protective equipment	(47)	(44)
Provision for legal disputes related to other operating expenses	(77)	-
Lump sum payments to employees	(17)	(17)
Other operating expenses	(81)	(61)
Total other operating losses *)	**(538)**	**(491)**

*) After change in reporting data for the year ended 31 December 2016, see Note 2.2.1.

11. Financial Expenses

(in CZK million)	2017	2016
Interest on issued bonds	(868)	(986)
Interest on finance lease payables	(45)	(59)
Other interests *)	(109)	(107)
Less: amounts capitalised as part of the costs of an eligible asset	3	33
Foreign Exchange loses– financial	(56)	(58)
Other financial expenses	**(33)**	**(32)**
Total financial expenses *)	**(1,108)**	**(1,209)**

*) After change in reporting data for the year ended 31 December 2016, see Note 2.2.1.

The capitalisation rate in the year 2017 je 2.87 % p. a. (2016: 2.81 % p. a.).

12. Financial Income

(in CZK million)	2017	2016
Foreign exchange gains – financial	721	68
Received interest	32	16
Gain from sale of securities and shares	40	-
Other financial income	1	5
Total other financial income *)	**794**	**89**

*) After change in reporting data for the year ended 31 December 2016, see Note 2.2.1.

13. Income Tax

13.1. Income tax reported in profit or loss

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

(in CZK million)	2017	2016
Profit (loss) for the period from continuing operations	310	(385)
Profit (loss) from discontinued operations	-	224
Profit (loss) for the period before tax	**310**	**(161)**
Statutory tax rate on corporate income in the Czech Republic	19%	19%
Expected income tax expense	**(59)**	**31**
Adjustments:		
Effect of the unrecognised deferred tax asset	62	74
Revenues exempt	66	20
Tax non-deductible expenses – creation(-)/cancellation(+) provisions for penalty from the Competition Bureau	(26)	(72)
Tax non-deductible expenses - deficits and damage	(4)	(7)
Tax non-deductible payroll expenses	(22)	(21)
Other tax non-deductible items, net	(17)	(25)
Income tax reported in profit or loss	**-**	**-**

13.2. Deferred tax

(in CZK million)	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Other	Total
Balance at 1 Jan 2016 – calculated	**337**	**1,090**	**288**	**(127)**	**21**	**213**	**1,822**
Balance at 1 Jan 2016 - recognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deferred tax recognised in profit or loss:	-	-	-	-	-	-	-
– of which current changes	*(129)*	*279*	*(211)*	*(40)*	*5*	*22*	*(74)*
*– of which impairment *)*	*129*	*(279)*	*211*	*40*	*(5)*	*(22)*	*74*
Deferred tax recognised in other comprehensive income	-	-	-	-	-	-	-
– of which current changes	-	-	*2*	-	-	*(31)*	*(29)*
*– of which impairment *)*	-	-	*(2)*	-	-	*31*	*29*
Balance at 31 Dec 2016 – calculated	**208**	**1,369**	**79**	**(167)**	**26**	**204**	**1,719**
Balance at 31 Dec 2016 – recognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deferred tax recognised in profit or loss	-	-	-	-	-	-	-
– of which current changes	*(12)*	*51*	*(39)*	*(37)*	*(10)*	*(15)*	*(62)*
*– of which impairment *)*	*12*	*(-51)*	*39*	*37*	*10*	*15*	*62*
Deferred tax recognised in other comprehensive income	-	-	-	-	-	-	-
– of which current changes	-	-	*2*	-	-	*(210)*	*(208)*
*– of which impairment *)*	-	-	*(2)*	-	-	*210*	*208*
Balance at 31 Dec 2017 – calculated	**196**	**1,420**	**42**	**(204)**	**16**	**(21)**	**1,449**
Balance at 31 Dec 2017 - recognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**

*) The decrease in the deferred tax asset recognised in the balance sheet (directly or indirectly as items decreasing deferred tax liabilities) to its recoverable value.

According to the preliminary due corporate income tax return for the 2017 taxation period, the Company records an utilisable tax loss for the 2013 taxation period in the total amount of CZK 1,029,661 thousand. The tax loss is utilisable always in five taxation periods subsequent to the period in which the relevant loss was assessed, i.e. between 2014 and 2018. Given the low anticipated taxable profits, the realisation of deferred tax assets is uncertain. For this reason, the Company attributes a zero recoverable value to this deferred tax asset when the resulting net position as of the balance sheet date is a deferred tax asset.

14. Discontinued Operations

Sale of part of the business
On 24 June 2016 the contract on sale of part of the business between České dráhy, a.s. and SŽDC, s.o was signed. The sale took place on 1 July 2016. Part of the factory held for sale was recognised as organizational unit of ČD ‘‘Railway station” (CZ: “Železniční stanice”), its material, technological and human resources.

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

(CZK million)	2017	2016
Revenue from principal operations	-	-
Other operating income	-	200
Services, consumption of material and energy	-	(123)
Employee benefit costs	-	(79)
Depreciation and amortisation	-	(65)
Other operating expenses	-	(11)
Loss from operating activities before tax	**-**	**(78)**
Profit or loss from sale of the part of the factory	**-**	**(78)**
Consideration received – purchase price	-	3,310
Consideration received – working capital matching	-	79
Net assets transferred to Railway Infrastructure Administration	-	(3,087)
Profit from sale of discontinued operations	-	302
Profit (loss) from discontinued operations	**-**	**224**

(CZK million)	2017	2016
Cash flows from operating activities	-	(12)
Cash flows from investment activities	-	3,361
– Net cash flows from sale of part of the business	-	*3,389*
– Payments for property, plant and equipment	-	*(28)*
Cash flows from financing activities	-	-
Net cash flows from discontinued operations	**-**	**3,349**

Other information on sale of part of the business was disclosed in the financial statements for the year 2016, Note 14.1.

15. Property, Plant and Equipment

(in CZK million)

Cost	Balance at 1 Jan 2016	Additions	Disposals	Reclassification	Balance at 31 Dec 2016	Additions	Disposals	Reclassification	Balance at 31 Dec 2017
Land	5,926	-	299	-	5,627	8	37	1	5,599
Constructions	13,553	102	4,243	125	9,537	66	157	29	9,475
Equipment	84,140	5,665	1,968	57	87,894	2,445	2,467	124	87,996
- Machinery, equipment, and furniture and fixtures	*2,240*	*49*	*224*	*10*	*2,075*	*70*	*136*	*90*	*2,099*
- Vehicles	*81,076*	*5,606*	*1,732*	*47*	*84,997*	*2,325*	*2,299*	*800*	*85,823*
- Vehicles acquired under finance leases	*788*	*10*	*7*	-	*791*	*50*	*31*	*(766)*	*44*
- Other	*36*	-	*5*	-	*31*	-	*1*	-	*30*
Other assets	13	-	-	-	13	-	-	-	13
Assets under construction	1,853	750	1,254	(139)	1,210	321	-	(141)	1,390
Prepayments	-	-	-	-	-	250	3	-	247
Total	**105,485**	**6,517**	**7,764**	**43**	**104,281**	**3,090**	**2,664**	**13**	**104,720**

(in CZK million)

Accumulated depreciation	Balance at 1 Jan 2016	Additions	Disposals	Reclassification	Balance at 31 Dec 2016	Additions	Disposals	Reclassification	Balance at 31 Dec 2017
Constructions	6,998	231	2,087	(2)	5,140	191	103	(28)	5,200
Equipment	39,951	4,363	1,665	-	42,649	4,359	2,360	4	44,652
- Machinery, equipment, and furniture and fixtures	*1,801*	*74*	*175*	*1*	*1,701*	*81*	*130*	*4*	*1,656*
- Vehicles	*37,823*	*4,252*	*1,479*	*(1)*	*40,595*	*4,263*	*2,198*	*304*	*42,964*
- Vehicles acquired under finance leases	*292*	*37*	*6*	-	*323*	*15*	*31*	*(304)*	*3*
- Other	*35*	-	*5*		*30*	-	*1*	-	*29*
Total	**46,949**	**4,594**	**3,752**	**(2)**	**47,789**	**4,550**	**2,463**	**(24)**	**49,852**

(in CZK million)

Impairment	Balance at 1 Jan 2016	Additions	Disposals	Reclassification	Balance at 31 Dec 2016	Additions	Disposals	Reclassification	Balance at 31 Dec 2017
Land	103	68	103	-	68	-	-	-	68
Constructions	423	64	424	-	63	-	1	-	62
Equipment	981	567	21	-	1,527	15	167	-	1,375
- Vehicles	*981*	*567*	*21*	-	*1,527*	*15*	*167*	-	*1,375*
Assets underconstruction	-	190	-	-	190	284	-	-	474
Total	**1,507**	**889**	**548**	**-**	**1,848**	**299**	**168**	**-**	**1,979**

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

(in CZK million)

Net book value	Balance at 1 Jan 2016	Balance at 31 Dec 2016	Balance at 31 Dec 2017
Land	5,823	5,559	5,531
Constructions	6,132	4,334	4,213
Equipment	43,208	43,718	41,969
- Machinery, equipment, and furniture and fixtures	439	374	443
- Vehicles	*42,272*	*42,875*	*41,484*
- Vehicles acquired under finance leases	496	468	41
- Other	*1*	*1*	*1*
Other assets	13	13	13
Assets under construction	1,853	1,020	916
Prepayments	-	-	247
Total	**57,029**	**54,644**	**52,889**

The following useful lives were used in the calculation of depreciation:

	Number of years
Buildings	30 – 50
Constructions	20 – 50
Locomotives	20 – 30
Passenger cars	20 – 30
Freight wagons	25 – 33
Components	2 - 15
Machinery and equipment	8 – 20

The most significant additions from 1 January 2016 to 31 December 2017 include the acquisition and modernization of railway vehicles as part of the renewal of the Company's fleet of railway vehicles. Given the long-term nature of the acquisition of this type of assets, significant balances are presented in assets under construction. In 2017, the Company provided prepayment of CZK 214 million for modernization of 79 passenger cars, in 2016 the Company provided no significant prepayments.

The Company did not obtain subsidies for fixed assets in 2017. In 2016, the Company obtained subsidies of CZK 1,343.5 million for long-term assets, which were purchased in 2015 („Renewal of the vehicle fleet for the railway line R13 Brno - Břeclav - Olomouc" – CZK 1,109.7 million "Transport connection to the Leoš Janáček airport" – CZK 223.9 million, "Transfer terminal Třinec" – CZK 9.9 million).

15.1. Impairment loses recognised in the reporting period
Vehicles predominantly include railway vehicles (locomotives, passenger coaches, other railway vehicles) used for operating passenger railway transportation. Pursuant to the inventory count and analyses, the Company identified items of assets for which there is a significant doubt about their future usability. The Company recognised an impairment

loss for these items in the amount of the difference between the net book value and the estimated recoverable value. The recoverable value is usually determined as net proceeds from the sale less cost to sell.

The principal impairment loss as of 31 December 2017, 2016 and 1 January 2016 is the loss on the 680 series tilting trains (Pendolino) amounting to CZK 572 million, CZK 709 million and CZK 764 million. In 2013, the impairment was determined on the basis of an independent expert's assessment reflecting the market value net of the costs of sale. In 2017, the independent expert's assessment does not indicate any decline in the value. In 2015, the level of the allowance was significantly affected by the inoperability of train no. 3 due to an accident. Other items with significant impairment are type 380 locomotives. Amount of impairment is CZK 589 million, as at 31 December 2017 and of CZK 612 million as at 31 December 2016. This item was created in 2016 in the amount of CZK 628 million.

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

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

15.2. Pledged assets

The Company's does not have any pledged assets as at 31 December 2017.

15.3. Unused immovable assets

In the property, plant and equipment class, the Company reports assets of CZK 168 million which are currently not used. These are primarily vacant buildings. The Company anticipates selling the assets in the future but it did not report these assets as assets held for sale, as they have not yet complied with the criteria set out in IFRS 5.

16. Property Investment

(in CZK million)	**2017**	**2016**
Balance at the beginning of the year	715	1,958
Additions from subsequent capitalised expenses	1	10
Disposals	(19)	(1,256)
Disposals, annual depreciation	(24)	(50)
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	11	77
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	(21)	(121)
Impairment	3	97
Balance at the end of the year	**666**	**715**

(in CZK million)	**Balance at 31 Dec 2017**	**Balance at 31 Dec 2016**	**Balance at 1 Jan 2016**
Cost	1,287	1,324	3,699
Accumulated depreciation and impairment	(621)	(609)	(1,741)
Net book value	**666**	**715**	**1,958**

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

The property is located around the railway route, in train stations and depots of rail vehicles. The Company applied the valuation model in the SAP application to determine the fair value of property investment. The application works in several stages, according to the type of property. Application will use the revenue method to determine the value of building. The method is based on the size of a specific building, occupancy by the particular type of premises, external annual rent in accordance to individual type of premises. The costs incurred for a given building and the capitalization rate for a given location (yield) will be taken into account to determine the final cost of the building. Yield is calculated as a sum of earned revenues divided by the sum of sale prices. Yield is updated annually based on the expert's opinion and then attached to the application. To determine the fair value of real estates as at 31 December 2017, taking into account the type of real estate and its location, yield used was in the range of 6-10%. The calculation for land is the multiple of market value for m2, for the locality, and area of the land.

The fair value estimate as at 31 December 2017, 2016 and 1 January 2016 amounted to CZK 4,353 million, CZK 3,926 million, CZK 7,851 million, respectively. Property investment is classified as a method of determining fair value to 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

(in CZK million)

Cost	Balance at 1 Jan 2016	Additions	Disposals	Reclassifi- -cation	Balance at 31 Dec 2016	Additions	Disposals	Reclassifi- -cation	Balance at 31 Dec 2017
Development costs	2	-	-	-	2	-	-	-	2
Software	819	16	-	15	850	37	5	34	916
Software licences	599	18	2	3	618	8	-	7	633
Assets under construction	28	41	-	(22)	47	105	-	(41)	111
Total	**1,448**	**75**	**2**	**(4)**	**1,517**	**150**	**5**	**-**	**1,662**

(in CZK million)

Accumulated amortisation	Balance at 1 Jan 2016	Additions	Disposals	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017
Development costs	2	-	-	2	-	-	2
Software	677	98	-	775	60	5	830
Software licences	545	27	2	570	23	-	593
Total	**1,224**	**125**	**2**	**1,347**	**83**	**5**	**1,425**

(in CZK million)

Net book value	Balance at 1 Jan 2016	Balance at 31 Dec 2016	Balance at 31 Dec 2017
Development costs	-	-	-
Software	142	75	86
Software licences	54	48	40
Assets under construction	28	47	111
Total	**224**	**170**	**237**

The costs of amortisation were reported in the line 'Depreciation and amortisation' in the statement of profit or loss. The Company used useful lifes presented in table below in calculating amortisation:

	Number of years
Software	3
Other royalties	6

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

18. Investments in Subsidiaries, Associates and Joint Ventures

18.1. Information on subsidiaries

(in CZK million)

Name of the entity	Registered office	Value of investment as of 31 Dec 2017	Value of investment as of 31 Dec 2016
Výzkumný Ústav Železniční, a. s.	Prague	383	383
ČD – Telematika a. s.	Prague	1,060	1,060
DPOV, a. s.	Přerov	406	385
ČD Cargo, a. s.	Prague	5,908	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		**7,893**	**7,872**

(in CZK million)

Name of the entity	Principal activity	Ownership percentage as at 31 Dec 2017	Ownership percentage as at 31 Dec 2016
Výzkumný Ústav Železniční, a. s.	Research and development in rail vehicles	100%	100%
ČD – Telematika a. s.	Provision of ITC services	69.18%	69.18%
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%

During the 2017 year, ČD, a.s. increased its shares in DPOV, a.s. by CZK 68 million out of which there was in-kind contribution of CZK 66 million and cash of CZK 2 million, however the value of its shares did not change.

18.1.1. Details on Significant Co-owned Subsidiaries

Summary of financial information on ČD – Telematika, a. s.:

(in CZK million)	31.12.2017	31.12.2016
Fixed assets	1,624	1,696
Current assets	1,327	1,296
Long-term liabilities	129	134
Short-term liabilities	845	929
Equity	1,977	1,929
Equity attributable to the owners of the Company	1,368	1,334
Non-controlling interests	609	595

(in CZK million)	Year ended as at 31 Dec 2017	Year ended as at 31 Dec 2016
Income	1,391	1,678
Expenses	(1,342)	(1,625)
Profit for the period	**49**	**53**
Profit attributable to company owners	34	37
Other comprehensive income attributable to company owners	-	-
Total comprehensive income attributable to company owners	**34**	**37**
Profit attributable to non-controlling interests	15	16
Other total profit attributable to non-controlling interests	-	-
Total profit attributable to non-controlling interests	**15**	**16**
Net cash flows from operating activities	63	(90)
Net cash flows from investment activities	(49)	(150)
Net cash flows from financing activities	(10)	(10)
Net cash flow	**4**	**(250)**

18.2. Information on associates and joint ventures

(in CZK million)

Name of the entity	Registered office	Investment as of 31 Dec 2017	Investment as of 31 Dec 2016
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
RAILREKLAM, spol. s r. o.	Prague	-	19
Total		**111**	**130**

Name of the entity	Principal activity	Ownership percentage as at 31 Dec 2017	Ownership percentage as at 31 Dec 2016
JLV, a. s.	Catering services	38.79%	38.79%
Masaryk Station Development, a.s.	Development of the Masaryk train station	34 %	34%
Smíchov Station Development, a. s. *)	Development of the Smíchov train station	51%	51%
Žižkov Station Development, a. s. *)	Development of the Žižkov train station	51%	51%
RAILREKLAM, spol. s r. o. *)	Advertising and mediation of services	0%	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.

As at 21st of December 2017 ČD, a.s. sold its 51% shares in RAILREKLAM, spol. s r.o. This way the previous shareholder - Expiria, a.s. became its sole shareholder. The income from the sale of CZK 59 million was received in cash.

Summary of financial information on associates and joint ventures:

(in CZK million)

31 December 2017	Masaryk Station Development, a.s.	JLV, a. s.	Joint ventures	Total
Total assets	17	507	106	630
Of which: long-term assets	*2*	*305*	*103*	*409*
short-term assets	*15*	*202*	*3*	*220*
Total liabilities	11	161	131	303
Of which: long-term liabilities	*5*	*91*	*120*	*216*
short-term liabilities	*6*	*70*	*11*	*87*
Net assets	6	347	(26)	327
The Company's share of net assets	**2**	**134**	**(13)**	**123**
Total income	16	503	-	519
Profit (loss) for the period	-	19	(5)	14
The Company's share of profit	**-**	**7**	**(2)**	**5**

(in CZK million)

31 December 2016	Masaryk Station Development, a.s.	JLV, a. s.	Joint ventures	Total
Total assets	11	517	161	689
Of which: long-term assets	*7*	*332*	*87*	*426*
short-term assets	*4*	*185*	*74*	*263*
Total liabilities	5	184	131	320
Of which: long-term liabilities	*-*	*108*	*92*	*200*
short-term liabilities	*5*	*76*	*39*	*120*
Net assets	5	333	30	368
The Company's share of net assets	**2**	**129**	**15**	**146**
Total income	155	455	118	728
Profit (loss) for the period	7	14	11	32
The Company's share of profit	**2**	**5**	**6**	**13**

19. Inventories

(in CZK million)	31 Dec 2017	31 Dec 2016
Spare parts for machinery and equipment	78	80
Spare parts and other components for rail vehicles and locomotives	829	779
Other machinery, tools and equipment and their spare parts	77	93
Fuels, lubricants and other oil products	28	24
Work clothes, work shoes, protective devices	93	74
Other	85	97
Total cost	**1,190**	**1,147**
Impairment of inventories to their net realisable value	(62)	(115)
Total net book value	**1,128**	**1,032**

20. Trade Receivables

20.1. Aging of trade receivables

				Past due date (days				Total	
(in CZK million)	Category	Before due date	1 - 30 days	31 - 90	91 - 180	181 - 365	Over 365	Past due date	Total
31 Dec 2017	Gross	1,129	21	5	1	1	107	135	1,264
	Allowances	-	-	(5)	-	(1)	(107)	(113)	(113)
	Net	**1,129**	**21**	**-**	**1**	**-**	**-**	**22**	**1,151**
31 Dec 2016	Gross	1,270	17	3	2	2	171	195	1,465
	Allowances	-	-	-	(2)	(2)	(168)	(172)	(172)
	Net	**1,270**	**17**	**3**	**-**	**-**	**3**	**23**	**1,293**

Information on receivables is disclosed in Note 34.8. Credit risk management.

20.2. Movements in allowances for doubtful receivables

(in CZK million)	2017	2016
Balance at the beginning of the year	172	178
Recognition of allowances	18	22
Use of allowances	(77)	(28)
Balance at the end of the year	**113**	**172**

21. Other Financial Assets

(in CZK million)	31 Dec 2017	31 Dec 2016
Financial assets available for sale	330	330
Receivables from finance leases	76	77
Hedging derivatives *)	69	263
Loans within the ČD Group	752	450
Restricted cash	19	-
Other	3	2
Total non-current financial assets	**1,249**	**1,122**
Receivables from finance leases	-	1
Hedging derivatives *)	3	19
Group cash pooling	1	-
Receivables for deficits and damage	40	33
Loans within the ČD Group	173	107
Restricted cash	15	-
Other	25	16
Total current financial assets	**257**	**176**
Total	**1,506**	**1,298**

*) The Company uses fair value measurement for the hedging derivatives and other financial assets are valued at amortized cost.

21.1. Receivables from financial leases

The Company leased the station buildings at Brno hlavní nádraží.

(in CZK million)	Minimal lease payments 31 Dec 2017	31 Dec 2016	Present value of minimum lease payments 31 Dec 2017	31 Dec 2016
Up to 1 year	18	17	-	1
1 to 5 years	73	64	-	-
Over 5 years	473	427	76	77
Total	**564**	**508**	**76**	**78**
Less: unrealized finance gains	(488)	(430)	-	-
Present value of receivables of minimum lease payments	**76**	**78**	**76**	**78**
In the statement of financial position as:				
Other current financial assets			-	*1*
Other non-current financial assets			76	77
Total			**76**	**78**

The fair value of receivables from finance leases approximates their carrying amount.

22. Other Assets

(in CZK million)	31 Dec 2017	31 Dec 2016
Total non-current assets	**5**	**3**
Prepayments made	81	68
Tax receivables – VAT	440	349
Tax receivables – other (except for the corporate income tax)	16	7
Prepaid expenses	49	57
Subsidies	-	-
Other	2	7
Total current assets	**588**	**488**
Total	**593**	**491**

23. Equity

23.1. Share capital

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

23.2. Reserve and other funds

(in CZK million)	31 Dec 2017	31 Dec 2016	1 Jan 2016
Share premium	16,439	16,439	16,439
Statutory reserve fund	101	101	101
Total	**16,540**	**16,540**	**16,540**

Allocations to the statutory reserve fund are made in accordance with the Company's Articles of Association.

23.3. Cash flow hedging reserve

(in CZK million)	2017	2016
Balance at the beginning of the year	(838)	(987)
Revaluation loss	1,054	(30)
Settled deferred derivatives	35	21
Reclassification to profit or loss	14	158
Total change in the cash flow hedging reserve	**1,103**	**149**
Relating income tax	-	-
Balance at the year-end	**265**	**(838)**

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

Gains and losses reclassified during the year from equity are included under 'Purchased consumables and services' and 'Financial expenses' in the statement of profit or loss.

24. Loans and Borrowings

(in CZK million)	31 Dec 2017	31 Dec 2016
Payable to EUROFIMA	-	811
Payables from finance leases	375	378
Group cash pooling	57	193
Issued bonds	4,351	379
Total short-term	**4,783**	**1,761**
Payable to EUROFIMA	-	-
Issued bonds	751	1,082
Payables from finance leases	25,257	30,693
Total long-term	**26,008**	**31,775**
Total	**30,791**	**33,536**

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

The Company had loan agreements concluded with EUROFIMA. The last repayment of the principal in amount of EUR 30 million was made in April 2017.

Issued bonds in book value of CZK 4,034 million with due date in July 2018 are disclosed as short-term loans and borrowings as at 31 December 2017.

24.1. Issued bonds

Issue date	Nominal value	Maturity	Public traded	Coupon	Carrying value at 31 Dec 2017 CZK million	Carrying value at 31 Dec 2016 CZK million
24.6.2011	EUR 300 million	5	Yes	4.50%	-	-
23.7.2012	EUR 300 million	7	Yes	4.125%	7,787	8,241
25.7.2013	CZK 4,000 million	5	Yes	6M PRIBOR + 1.7%	4,034	4,028
5.11.2014	EUR 30 million	10	No	2.875%	763	806
5.11.2014	EUR 150 million	15	No	3.50%	3,820	4,041
3.6.2015	EUR 37.7 million	7	No	1.89%	974	1,030
3.6.2015	EUR 77.5 million	20	No	3.00%	2,006	2,122
25.5.2016	EUR 400 million	7	Yes	1.875%	10,224	10,804
Total					**29,608**	**31,072**
- of which current					*4,351*	*379*
- of which non-current					*25,257*	*30,693*

The Company breached no loan covenants in the reporting period.

24.2. Financial lease payables

Finance leases relate to railway vehicles with the lease period of 10 and more years. In the year 2017, the lease agreement for 12 sleeping cars ended and the Company renewed the car fleet, also under finance lease arrangement. Payables arising from finance leases are as follows:

(in CZK million)	Minimal lease payments 31 Dec 2017	31 Dec 2016	Present value of minimum lease payments 31 Dec 2017	31 Dec 2016
Up to 1 year	412	423	375	378
1 to 5 years	794	1,145	751	1,074
Over 5 years	-	8	-	8
Total	**1,206**	**1,576**	**1,126**	**1,460**
Less: future financial costs	(80)	(116)	-	-
Present value of minimum lease payments	**1,126**	**1,460**	**1,126**	**1,460**
In the statement of financial position as:				
short-term loans			*375*	*378*
long-term loans			*751*	*1,082*
Total			**1,126**	**1,460**

The fair value of finance lease payables approximates their carrying amount.

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.

24.3. Changes in financing liabilities

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

(in CZK million)	Payable to Eurofima – short-term	Payable to Eurofima – long-term	Financial lease payables – short-term	Financial lease payables – long-term	Group cash pooling	Issued bonds – short-term	Issued bonds – long-term	Other	Total
Note	24	24	24	24	24	24	24	24	24
Financing liabilities as at 1 Jan 2016	**812**	**811**	**449**	**1 455**	**58**	**8 552**	**19 998**	**-**	**32 135**
Cash flows from financing activities *)	(811)	-	(444)	-	135	(8,108)	10 698	22	1 492
Non-cash flows									
Effect of exchange rate changes	-	-	1	-	-	-	(12)	-	(11)
Reclassification **)	811	(811)	373	(373)	-	-	-	-	-
Other non-cash movements	(1)	-	(1)	-	-	(65)	9	(22)	(80)
Financing liabilities as at 31 Dec 2016	**811**	**-**	**378**	**1 082**	**193**	**379**	**30 693**	**-**	**33 536**
Cash flows from financing activities *)	(811)	-	(380)	-	(135)	-	-	-	(1,326)
Non-cash flows									
Effect of exchange rate changes	-	-	-	-	-	(25)	(1,473)	-	(1,498)
Reclassification **)	-	-	377	(377)	-	4 000	(4,000)	-	-
Other non-cash movements	-	-	-	46	(1)	(3)	37	-	79
Financing liabilities as at 31 Dec 2017	**-**	**-**	**375**	**751**	**57**	**4 351**	**25 257**	**-**	**30 791**

*) Cash flows from financing activities includes proceeds from loans and borrowings, repayments of loans and borrowings, payment of financial leasing instalments and are disclosed in the cash flow statement.
**) Loans and borrowing which were classified as long-term in prior period and in current period were recognised as short-term.

25. Provisions

(in CZK million)	Balance at 1 Jan 2016	Creation	Use	Release of unused part	Balance at 31 Dec 2016	Creation	Use	Release of unused part	Balance at 31 Dec 2017
Provision for allowances	4	-	1	3	-	-	-	-	-
out ow which: long-term	-				-				-
Provision for legal disputes	1 304	417	630	574	517	203	-	129	591
out ow which: long-term	-				-				-
Other provision	-	119	-	-	119	-	-	10	109
out ow which: long-term	-				-				-
Provisions for employees benefits	261	83	92	3	249	82	87	-	244
out ow which: long-term	*164*				*153*				*152*
Total provisions	**1,569**	**619**	**723**	**580**	**885**	**285**	**87**	**139**	**944**
long-term	*164*				*153*				*152*
short-term	*1,405*				*732*				*792*

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

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

26. Trade Payables

(in CZK million)

Year	Category	Before due date	Past due date (days) 1 - 30	31 - 90	91 - 180	181 - 365	Over 365	Total past due date	Total
31 Dec 2017	Short-term	2,859	63	6	1	14	4	88	**2,947**
31 Dec 2016	Short-term	2,391	29	17	1	3	3	53	**2,444**

27. Other Financial Liabilities

(in CZK million)	31 Dec 2017	31 Dec 2016
Financial derivatives *)	348	847
Other	34	33
Total long-term	**382**	**880**
Financial derivatives *)	95	106
Other	34	38
Total short-term	**129**	**144**
Total	**511**	**1,024**

*) The Company uses fair value measurement for the financial derivatives and other financial liabilities are valued in amortized cost.

28. Other Liabilities

(in CZK million)	31 Dec 2017	31 Dec 2016
Prepayments received	64	72
Payables to employees	876	793
Social security and health insurance payables	277	235
Tax liabilities - tax withheld from employees	89	70
Accruals of revenues from intrastate passenger transportation	196	168
Repayment of part of subsidy within ROP project	379	379
Other	64	112
Total short-term	**1,945**	**1,829**

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

29. Related Parties

29.1. Income generated from subsidiaries and associates

(in CZK million)

2017	**Sale of inventories**	**Sale of services**	**Other income**	**Total**
ČD – Telematika a. s.	-	42	-	42
Výzkumný Ústav Železniční, a. s.	-	7	-	7
DPOV, a.s.	13	47	3*)	63
ČD Cargo, a. s.	29	169	6*)	204
ČD-Informační Systémy, a.s.	-	16	7*)	23
JLV, a. s.	-	2	-	2
Dopravní vzdělávací institut, a.s.	-	2	-	2
ČD travel, s.r.o.	-	8	1	9
Total	**42**	**293**	**17**	**352**

*) including financial income

(in CZK million)

2016	**Sale of inventories**	**Sale of services**	**Other income**	**Total**
ČD – Telematika a. s.	-	5	-	5
Výzkumný Ústav Železniční, a. s.	-	2	-	2
DPOV, a.s.	16	38	3	57
ČD Cargo, a. s.	29	143	2	174
ČD-Informační Systémy, a.s.	-	17	1	18
JLV, a. s.	-	5	-	5
Dopravní vzdělávací institut, a.s.	-	3	-	3
ČD travel, s.r.o.	-	7	1	8
Total	**45**	**220**	**7**	**272**

*) including financial income

29.2. Purchases from subsidiaries and associates

(in CZK million)

2017	Purchase of material	Services	Total
ČD - Telematika a. s.	10	45	55
Výzkumný Ústav Železniční, a. s.	-	1	1
DPOV, a.s.	32	99	131
ČD Cargo, a.s.	-	20	20
ČD Informační Systémy, a.s.	11	208	219
JLV, a. s.	-	186	186
Dopravní vzdělávací institut, a.s.	-	52	52
ODP-software, spol. s r.o.	-	12	12
ČD travel, s.r.o.	-	2	2
ČD Relax, s.r.o.	-	25	25
CHAPS, spol. s r.o.	-	3	3
Total	**53**	**653**	**706**

(in CZK million)

2016	Purchase of material	Services	Total
ČD - Telematika a. s.	9	46	55
Výzkumný Ústav Železniční, a. s.	-	1	1
DPOV, a.s.	12	94	106
ČD Cargo, a.s.	1	19	20
ČD Informační Systémy, a.s.	3	203	206
JLV, a. s.	-	159	159
Dopravní vzdělávací institut, a.s.	-	40	40
ODP-software, spol. s r.o.	2	11	13
ČD travel, s.r.o.	-	30	30
Total	**27**	**603**	**630**

Subsidiaries and affiliates dispose of the services provided by the Company under the same conditions as for other customers. Based on the costs of the Company the Company purchased certain services, materials and energy from subsidiaries and affiliates under the same conditions as other consumers.

29.3. Purchases and sales of fixed assets and financial assets with subsidiaries and associates

(in CZK million) Sales	Tangible fixed assets 2017	Tangible fixed assets 2016
DPOV, a.s.	-	1
ČD Cargo, a.s.	25	71
Total	**25**	**72**

(in CZK million) Purchases	Intangible fixed assets 2017	Tangible fixed assets 2017	Intangible fixed assets 2016	Tangible fixed assets 2016
ČD - Telematika a. s.	-	-	1	26
DPOV, a.s.	-	1,089	-	1,079
ČD Cargo, a.s.	-	3	-	-
ODP-software, spol. s r.o.	5	55	15	54
ČD-Informační Systémy, a.s.	98	-	33	4
CHAPS, spol. s r.o.	11	-	-	-
Total	**114**	**1,147**	**49**	**1,163**

Purchases of fixed assets from DPOV, a.s. include the purchases of railway vehicle components – major periodical repairs.

29.4. Outstanding balances at the end of the reporting period with subsidiaries and associates

(in CZK million)

31 December 2017	Receivables	Liabilities
ČD - Telematika a. s.	7	20
Výzkumný Ústav Železniční, a. s.	1	-
DPOV, a.s.	37	352
ČD Cargo, a.s.	181	4
JLV, a. s.	-	54
ČD-Informační Systémy, a.s.	4	87
Dopravní vzdělávací institut, a.s.	-	3
ČD travel, s.r.o.	2	-
ODP-software, spol. s r.o.	-	6
ČD Relax, s.r.o.	-	4
CHAPS, spol. s r.o.	-	9
Total	**232**	**539**

(in CZK million)

31 December 2016	Receivables	Liabilities
ČD - Telematika a. s.	58	24
DPOV, a.s.	73	199
ČD Cargo, a.s.	269	3
JLV, a. s.	-	35
ČD-Informační Systémy, a.s.	1	57
Dopravní vzdělávací institut, a.s.	-	3
ČD travel, s.r.o.	1	3
ODP-software, spol. s r.o.	-	19
Total	**402**	**343**

Outstanding balances are not hedged and are paid by bank transfer. No guarantees were received or provided. In the reporting period and prior reporting periods, the Company reported no expenses relating to bad or doubtful receivables from related parties

29.5. Contractual obligations relating to expenses

As of the financial statements preparation date, the Company concluded contracts for the purchase of fixed assets, inventory and services with related parties:

(in CZK million)	31 Dec 2017	31 Dec 2016
ČD - Telematika a. s.	-	4
DPOV, a.s.	1,301	52
ČD-Informační Systémy, a.s.	177	201
ODP-software, spol. s r.o.	-	76
Total	**1,478**	**333**

29.6. Loans to related parties

(in CZK million)

Counterparty	Loan amount	Date of supply	Maturity	Interest rate	Book value as at 31.12.2017	Book value as at 31.12.2016
ČD - Informační Systémy, a.s.	CZK 30 million	15.9.2016	15.3.2017	0,96% p.a.	-	30
ČD Cargo, a.s.	CZK 540 million	17.10.2016	Monthly payment to 17 October 2023	6M EUROPRIBOR plus margin 1% p.a	425	527
ČD - Informační Systémy, a.s.	CZK 400 million	27.9.2017	27.9.2027	3M Pribor + 5.4% p.a.	400	-
DPOV, a.s.	CZK 100 million	23.10.2017	23.4.2018	1.16% p.a.	100	-
Total					**925**	**557**

29.7. Key management members compensation

The members of key management received the following bonuses in 2017:

(in CZK million)

2017	Board of Directors	Supervisory Board	Steering committee
Wages and salaries to the Statutory Body	27	2	-
Other short-term employee benefits	5	5	-
Total	**32**	**7**	**-**
Number of key management members	**5**	**9**	**3**

(in CZK million)

2016	Board of Directors	Supervisory Board	Steering committee
Wages and salaries to the Statutory Body	23	2	-
Other short-term employee benefits	4	4	-
Total	**27**	**6**	**-**
Number of key management members	**5**	**9**	**3**

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

29.8. Transactions with state owned companies

The Company is wholly owned by the state. In concordance with the exception stated in the IAS 24 standard - Related party disclosures. The Company does not disclose quantitative information concerning the individually insignificant transactions with companies owned by the state. Material transactions with related parties which were recognized by the Company are presented below: orderers of transport in public services (region and Ministry of Transportation), government organization SŽDC and the ČEZ group.

(in CZK million)

Income	Counterparty	2017	2016
Income from rental property	SŽDC	24	62
Payment for rail replacement bus service	SŽDC	392	299
Payments from public services customers – payment from the state budget	state - Ministry of Transportation	4,599	4,485
Payments from public services customers – payment from the region budget	regions	9,445	9,266

(in CZK million)

Expenses	Counterparty	2017	2016
Use of railway route and allocated capacity of the railway	SŽDC	1,911	1,895
Consumption of traction electricity	SŽDC	621	623
Consumption of traction electricity	ČEZ	543	579
Rental estate	SŽDC	48	24

(in CZK million)

Receivables	Counterparty	31 Dec 2017	31 Dec 2016
Payment for rail replacement bus service	SŽDC	37	43
Public service commitment	state - Ministry of Transportation	2	17
Public service commitment	regions	112	9

(in CZK million)

Liabilities	Counterparty	31 Dec 2017	31 Dec 2016
Use of railway route and allocated capacity of the railway	SŽDC	183	244
Consumption of traction electricity	SŽDC	71	76
Consumption of traction electricity	ČEZ	69	80

State institutions, companies and other parties controlled by the state dispose of the services provided by the Company under the same conditions as for other customers. Based on the costs, the Company purchased certain services and other supplies (water, electricity, etc.) from companies controlled by the state under the same conditions as other consumers.

30. Cash and Cash Equivalents

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

(in CZK million)	**31.12.2017**	**31.12.2016**
Cash on hand and cash in transit	83	67
Cash at banks *)	6,249	5,952
Total	**6,332**	**6,019**

*) The counterparties are banks with high credit-ratings assigned (the investment grade is required).

31. Contracts for Operating Leases

31.1. The company as lessee

Assets under operating leases which are reported off balance sheet include a number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognised in expenses in the year 2017 amounted to CZK 99 million (in 2016: CZK 74 million).

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 468 million in 2017 (in 2016: CZK 482 million). Other payments for the operating lease of railway vehicles amounted to CZK 36 million in 2017 (in 2016: CZK 21 million).

The Company as a lessee has not concluded any irrevocable lease contracts, contingent lease contracts or onerous contracts.

31.2. The Company as a lessor

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

Revenue from the lease of property that the Company acquired in 2017 from investment property based on the operating leases amounts to CZK 256 million (in 2016: CZK 381 million).

Direct operating expenses relating to investment property for the period amounted to CZK 92 million in 2017 (in 2016: CZK 97 million).

Income from operating leases of movable assets in 2017 amounts to CZK 88 million (in 2016: CZK 65 million).

Future minimal leasing payments from irrevocable operating leasing contracts as at 31.12.2017:

- up to one year in amount of CZK 36 million
- from one to five years in amount of CZK 144 million
- more than five years in amount of CZK 180 million

Future minimal leasing payments from irrevocable operating leasing contracts as at 31.12.2016:

- up to one year in amount of CZK 36 million
- from one to five years in amount of CZK 144 million
- more than five years in amount of CZK 216 million

32. 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 3,331 million.

(in CZK million)	**31 Dec 2017**
Supplies agreed for 2018	1,338
Supplies agreed for the following years	1,501
As at 31 December 2017 was already paid	492
Total	**3,331**

Investments in railway vehicles represent a significant part of the obligations relating to expenses of CZK 2,839 million.

33. 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 2017 was CHF 20.8 million (CZK 454 mil. as at 31. 12. 2017). The likelihood that the Company will be asked to pay the nominal value of the unpaid portion of the equity investment is considered to be low by the Company's management.

The aggregate costs of clean-ups in 2017 was CZK 25 million and in 2016 CZK 27 million respectively. The Company is not aware of any environmental burdens that would exceed legislative limits and represent harm to human health or property of third parties. The provisions for clean-ups of other environmental burdens are not recognised as the Company is unable to estimate the scope of these burdens and its potential involvement in their removal. The Company has not prepared an overall strategy and plan of clean-ups according to which it could recognise the provisions.

In 2017, the bank guarantee for the fulfilment of the contract regarding public service obligations in passenger rail transport in the public interest. In order to meet the transport needs of the state in relation to Pardubice-Liberec the guarantee in amount of CZK 5 million was renewed. The bank guarantee for the fulfilment of the contract regarding public rail passenger transport services in order to provide the transport service of the national transport trains on the line R13 Brno - Břeclav – Olomouc in amount of CZK 10 million, the beneficiary of which is the Czech Republic - the Ministry of Transport, was renewed. The bank guarantee for the fulfilment of the contract regarding public service obligations in passenger rail transport in the public interest in order to provide the basic transport service of a part of Liberec Region for a specified performances Jizera Mountains Railway ("Jizerskohorská železnice") amounted to CZK 52 million, the beneficiary of which is the Liberec Region was renewed. All three above guarantees were issued with the effective date of 8 December 2018.

33.1. Legal disputes

33.1.1. Railway Freight Transportation Market

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 enormous amounts of natural resources and raw materials of approximately CZK 250 million. Based on ČD 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, a.s. favour and returned to the OPC, back to the first instance, where it will be resolved again in accordance to the binding legal opinion of the Supreme Administrative Court or the District Court in Brno.

33.1.2. Prague – Ostrava line

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

33.1.3. Legal Action by LEO Express against ČD, a.s. for the compensation of damage amounting to CZK 434 million

In July 2014 LEO Express filed a legal action for the compensation of damage amounting to approximately CZK 419 million which was allegedly caused to LEO Express by ČD, a.s. and its pricing policy. The first-instance court rejected LEO Express's legal action. LEO Express partially withdrawed the legal action, against which ČD applied the legal remedy, but the court accepted such partial withdrawal, while Leo Express appealed against the decision of Court of first instance of dismissing the application to the extent of which there was no withdrawal. In March 2018, the court accepted LEO Express' appeal, cancelled the decision of the first instance court due to administrative proceeding reasons and returned the case to the Municipal Court. At the end of December 2016 Leo Express filed a new legal action against ČD for approximate amount of CZK 434 million with accessories and for similar reason. The second legal action is mostly overlapped with part of legal action which was wthdrawed by Leo Express after failure in first instance in Municipal Court in Prague. The proceeding is not ongoing, because the LEO Express insists on exemption from court fees, and the courts must first address this issue.

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

In April 2015, RegioJet filed a legal action for the return of approximately CZK 7 billion and default interest due to allegedly prohibited public support. The assets involving the 'assets required to maintain rails and their operability' ("mrtvá dopravní cesta" in Czech), which were transferred by ČD to SŽDC in 2008 for CZK 12 billion, were allegedly overstated by this amount. ČD provided its statement to the legal action indicating that it does not agree with the assertions made in the legal action and considers it to lack merit. RegioJet asked the court to invite company Student Agency as co-claimant. This was approved by the court. CD does not agree with the change. In April 2017, the ČD appealed to the Supreme Court against the access of the Student Agency to the proceedings. The Supreme Court has dismissed the ČD's appeal and will continue proceedings on the merits.

33.1.5. 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 detriment dated 10 April 2015 in which it seeks the payment of cca. CZK 717 million. The alleged detriment was caused by ČD's illegal activities in operating the Prague – Ostrava track, involving the application of dumping prices. ČD refused to pay the detriment. RegioJet filed a legal action seeking the payment of compensation of approximately CZK 717 million with accrued interest and charges which result in legal proceedings being initiated in the matter. Court proceedings are still ongoing at first instance.

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

The Company Grandi Stazioni Česká republika, s.r.o. (GS) filed three legal actions against state organization Railway Infrastructure Administration (SŽDC) and against ČD. GS is seeking the payment of compensation of CZK 777 million, increased by fine for delayed payment and default interests from SŽDC or ČD, depending on the court decision as to who the owner of Prague Main Railway Station – Praha Hlavní nádraží (Fanta's building and passenger terminal) is. SŽDC and ČD agree that the owner of Prague Main Station is SŽDC, so that ČD should not be the party in the payment dispute. In accordance to this, ČD has the same position in legal procedures. In the matter of determining the ownership of the Fanta's building, GS's action was dismissed, the applicant GS filed an appeal. Ownership of the passenger terminal has not yet been decided. SŽDC commissioned the expert opinion to assess whether the amounts claimed by GS in the application for payment by available documents and based on the expert opinion SŽDC paid the amount of CZK 556 million to GS. The court ordered the parties to mediate regarding the payment application.

33.1.7. Legal Action by Grandi Stazioni Česká republika, s.r.o. against SŽDC and ČD compensation of pre-contractual liability

In August 2017, Grandi Stazioni Czech Republic, s.r.o. (GS) filled the lawsuit to the District Court in Prague 1, in which seeks the payment of CZK 1,256 million from Railway Infrastructure Administration (SŽDC) and ČD for the payment of the compensation of pre-contractual liability. The alleged damage was caused by failure to apply the Amendment No.5 to the lease agreement regarding the lease and revitalization of Prague - Main Railway Station- Praha Hlavní nádraží. The claim has not been formally served on the defendant.

33.1.8. Proceedings in the matter of a possible abuse of the dominant position on the routes Pardubice - Liberec and Plzeň - Most

In April 2016 the Office for the Protection of Competition (OPC) initiated administrative proceedings. Alleged violation of competition rules were charged to ČD for the reason that during the tender held in 2005 concerning the railway transport and provision of public services on the routes Pardubice-Liberec and Plzeň-Most for the duration of the 2006/2007 timetable they have presented a price offer which did not cover the costs of service provision on the routes in question. Such an agree upon commitment was to be performed by ČD on the stated routes until the end of the 2013/2014 timetable. OPC imposed a fine of CZK 368 million on 14 December 2017. ČD applied a legal remedy as the decision is not final.

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

In Autumn 2016, the Office for the Protection of Competition initiated proceedings with ČD and ČD Cargo, a.s. in the matter of a possible violation of the Law on the Protection of Competition and the Treaty of the European Union ČD a ČD Cargo have allegedly committed a violation by providing transport and mail services with the help of railway vehicles including related transport and forwarding services for the moving of goods to the loading station and moving goods to the destination. This violation occurred in a period longer than ten years ago according to the OPC. By the decision taken on 19 June 2017 by OPC, proceedings against ČD Cargo have been discontinued, but ČD, as a parent company, is still a part of administrative proceeding. The reason is that according to the "protection of economic competition of the sole competitor" law it is appropriate to involve in administrative proceedings only one company. Administrative proceedings are still ongoing.

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

Since early 2014, the Audit Body of the Czech Ministry of Finance (the "Audit Body") has been conducting a due audit of operation at ČD, a.s. in terms of Section 7 (2) and Section 13a of Act No. 320/2001 Coll., on Financial Auditing in Public Administration and Changes to Certain Acts (the "Financial Auditing Act"), as amended, and Article 62 (1) (b) of Council Regulation (EC) No. 1083/2006. Quantified corrections presents the risk of returning part of the subsidy in anticipated amount of CZK 588 million. ČD, a.s. disagrees with the mentioned conclusions and appealed against them to the Ministry of Finance. The appeal proceedings are still ongoing. Payment demands are not valid yet and ČD is not obliged to pay them.

34. Financial Instruments

34.1. Capital risk management

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

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

(in CZK million)

Net debt		31.12.2017	31.12.2016
Loans and borrowings	24	30,791	33,536
Cash and cash equivalents	30	6,332	6,019
Total net debt		**24,459**	**27,517**
Equity			
Share capital	23	20,000	20,000
Reserve and other funds	23	16,540	16,540
Cash flow hedging reserve	23	265	(838)
Retained earnings/(accumulated loss)	23	(1,437)	(1,756)
Total equity		**35,368**	**33,946**

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

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

34.2. Significant accounting policies

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

34.3. Categories of financial instruments

(in CZK million)

Category of financial assets	Class of financial assets		31 Dec 2017	31 Dec 2016
Loans and receivables	Trade receivables	20	1,151	1,293
	Cash and cash equivalents	30	6,332	6,019
	Receivables from financial leases	21	76	78
	Loans in the CD Group	21	925	557
	Others	21	103	51
Financial assets at fair value reported in the profits and losses	Financial derivatives used in hedge accounting	21	72	282
	Other financial derivatives	21	-	-
Realizable financial assets	Realizable financial assets	21	330	330
Total			**8,989**	**8,610**

(data in CZK million)

Category of financial liabilities	Class of financial liabilities		31 Dec 2017	31 Dec 2016
Financial liabilities at fair value reported in the profits and losses	Financial derivatives used in hedge accounting	27	443	953
Financial liabilities at amortized cost	Loans and borrowings	24	30,791	33,536
	Trade payables	26	2,947	2,444
	Other	27	68	71
Total			**34,249**	**37,004**

Available-for-sale financial assets include investments in equity investments that do not have listed market values on an active market and are measured at cost as their fair value cannot be reliably determined.

Income from individual categories of financial assets is as follows:

(in CZK million)

Category of financial assets	2017	2016	Reported in the statement of profit or loss line
Interest on cash and cash equivalents	4	1	Financial income
Interest on cash pooling and on loans granted	11	1	Financial income
Interest on leasing receivables	17	14	Financial income
Dividends from available-for-sale financial assets	-	2	Other operating income
Total	**32**	**18**	

Impairment losses on financial assets are disclosed in the Note 20 'Trade receivables' and 34.8 'Credit risk management'.

Fair value of financial instruments

Financial assets (in CZK million)	**Level**	**Fair value as at 31 Dec 2017**	**Carrying value as at 31 Dec 2017**	**Fair value as at 31 Dec 2016**	**Carrying value as at 31 Dec 2016**
Derivative instruments in designated hedge accounting relationships	Level 2	72	72	282	282
Other financial derivatives	Level 2	-	-	-	-
Loans	Level 2	1,001	1,001	635	635
Available-for-sale financial assets	Level 2	*)	330	*)	330
Other financial assets- long-term	Level 2	22	22	2	2
Total		**1,095**	**1,425**	**919**	**1 249**

*) The fair value is not reliably determinable.

Financial liabilities (in CZK million)	**Level**	**Fair value as at 31 Dec 2017**	**Carrying value as at 31 Dec 2017**	**Fair value as at 31 Dec 2016**	**Carrying value as at 31 Dec 2016**
Derivative instruments in hedge accounting	Level 2	443	443	953	953
Measured at amortised cost		**31,777**	**30,825**	**34,927**	**33,569**
Liability to EUROFIMA	*Level 2*	*-*	*-*	*811*	*811*
Liabilities from financial lease	*Level 2*	*1,126*	*1,126*	*1,460*	*1,460*
Issued bonds	*Level 2*	*7,733*	*7,563*	*8,260*	*7,999*
Issued bonds (traded)	*Level 1*	*22,827*	*22,045*	*24,170*	*23,073*
Other financial liabilities	*Level 2*	*91*	*91*	*226*	*226*
Total		**32,220**	**31,268**	**35,880**	**34,522**

Cash and cash equivalents, trade receivables, other financial assets and other short-term financial liabilities are not stated in the table because their fair value is the same as the accounted amount due to its short--term maturity.

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.

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. Optional valuation model is used for derivative options.

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 (ie, prices) or indirectly (ie 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 2017 and 31 December 2016 are included in level 2.

34.4. Financial risk management objectives

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

34.5. Currency risk management

The Company undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. These transactions predominantly include income from international transportation, received loans and issued bonds. In line with the approved Risk Management Strategy, the Company hedges anticipated payments in a foreign currency such that the size of the open risk position does not exceed the limit defined for the period by the Risk Management Committee and approved by the Company's Board of Directors.

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

(in CZK million)

31.12.2017	EUR	Other	Total
Financial assets	782	3	785
Financial liabilities	(26,599)	-	(26,599)
Total	**(25,817)**	**3**	**(25,814)**

(in CZK million)

31 December 2016	EUR	Other	Total
Financial assets	1,411	3	1,414
Financial liabilities	(29,302)	-	(29,302)
Total	**(27,891)**	**3**	**(27,888)**

34.5.1. Foreign currency sensitivity analysis

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

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

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

(in CZK million)	2017	2016
Translation of items denominated in foreign currencies at the end of the period	1,011	1,032
Change in the fair value of derivatives at the end of the period	(549)	(592)
Total impact on the profit for the period	**462**	**440**
Change in the fair value of derivatives at the end of the period	(75)	(96)
Total impact on other comprehensive income	**(75)**	**(96)**

34.5.2. Cross currency interest rate swaps

In accordance with the currency risk management requirements, the Company has entered into a cross-currency interest rate swap which reduces the risk of the bond funding in EUR.

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

31 Dec 2017	Nominal (EUR million)	Collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK million
Up to 1 year	542	3.45%	(14,412)	3.63%	(50)
1 to 5 years	542	3.09%	(14,412)	3.20%	189
Over 5 years	255	3.01%	(7,027)	3.11%	(469)
Total					**(330)**

31 Dec 2016	Nominal (EUR million)	Collected interest rate (annual)	Nominal value (CZK million)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK million
Up to 1 year	542	3.45%	(14,412)	3.63%	(24)
1 to 5 years	542	3.24%	(14,412)	3.38%	58
Over 5 years	292	2.87%	(8,062)	2.95%	(571)
Total					**(537)**

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

The expected realization of hedged items by inter-currency interest rate swaps

The expected secured cash flow from foreign currency bonds are stated in the chapter 34.10.1 in tables with remaining contractual maturities in the row Tools with fixed interest rate.

34.5.3. Currency forwards

31 Dec 2017	Average agreed exchange rate (CZK/EUR)	Principal	Fair value in CZK million
Up to 3 months	-	-	-

31 Dec 2016	Average agreed exchange rate (CZK/EUR)	Principal	Fair value in CZK million
Up to 3 months	27.08	EUR 43 million	(2)

In 2016, the Company concluded currency swap in order to hedge repayments of EUR loans that was due in the first half of 2017. This derivative was classified as fair value hedges. Currency swap opened on 31 Dec 2015 was classified as trading derivative.

The loss from fair value hedging instruments amounted to CZK (2) million for the year ended 31 December 2016 (2015: CZK 0 million). The gain from the hedged item was identical and the hedging was fully effective.

34.6. Interest rate risk management

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

34.6.1. Interest Rate Sensitivity Analysis

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

– Changes in interest expenses from loans and lease with a variable rate;
– 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:

(in CZK million)	**2017**	**2016**
Interest from loans and lease with variable rate for the period	(44)	(51)
Total impact on the profit for the period	**(44)**	**(51)**
Change in the fair value of derivatives at the end of the period	49	150
Total impact on other comprehensive income	**49**	**150**

34.6.2. Interest Rate Swap Contracts

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

	Hedging of interest rate from	**Average contracted fixed interest rate**	**Principal**	**Fair value in CZK million as at 31 December 2017**
Up to 1 year	Float interest bonds	1.61%	CZK 4,000 million	(40)
	Leases	1.23%	CZK 673 million	(4)
				(44)
1 to 5 years	Leases	1.23%	CZK 303 million	2
				2
Total				**(42)**

	Hedging of interest rate from	**Average contracted fixed interest rate**	**Principal**	**Fair value in CZK million as at 31 December 2016**
Up to 1 year	Loan from Eurofirma	2.58%	EUR 30 million	(11)
	Float interest bonds	1.61%	CZK 4,000 million	(51)
	Leases	1.23%	CZK 843 million	(7)
				(69)
1 to 5 years	Float interest bonds	1.61%	CZK 4,000 million	(60)
	Leases	1.23%	CZK 395 million	(14)
				(74)
Total				**(143)**

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

The expected realization of the hedged items with interest rate swaps

The expected secured cash flows from interest on variable rate loans are stated in chapter 34. 9. 1. in the tables remaining contractual maturities of financial liabilities in the rows Financial lease liabilities and Tolls with a variable interest rate.

34.7. Commodity risk management

The Company is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically oil and electricity, is a significant cost item of the Company. The Company manages this risk 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 and traction electricity;
- Negotiating a fixed price of electricity always for the following calendar year.

Besides above stated instruments, in case of price increase of above stated commodities the Group can ask regions and state for increased payments per transport.

34.7.1. Analysis of Sensitivity to Changes in Commodity Prices

The exposure to the change in the price of commodities is measured by the sensitivity analysis.

The Company is exposed to the risk of changes in commodities prices due to change in the fair value of concluded financial derivatives.

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

(in CZK million)	2017	2016
Change in the fair value of derivatives at the end of the period	6	6
Total impact on the profit for the period	**6**	**6**
Change in the fair value of derivatives at the end of the period	1	16
Total impact on other comprehensive income	**1**	**16**

34.7.2. Commodity derivatives

The table presents outstanding commodity contracts for the oil and electricity puchases as of:

Purchase of oil	Hedged value	Volume of contracts (mt)	Fair value (CZK million)
31 Dec 2017	7,260 – 16,000 CZK/mt	14,400	1
31 Dec 2016	14,100 CZK/mt	2,100	(2)
	7,200 – 16,000 CZK/mt	16,800	(3)

Purchase of electricity	Hedged value	Volume of contracts (mt)	Fair value (CZK million)
31 Dec 2017	-	-	-
31 Dec 2016	29 EUR/MWh	122,640	16

Expected realization of hedged items in commodity derivatives
The following table states the expected secured cash flows from the purchasing of fuel and electricity:

(in CZK million)

31 Dec 2017	Up to 1 month	1 - 3 months	3 months up to 1 year	1 - 5 years	Over 5 years	Total
Secured future purchases of fuel	15	31	138	-	-	184
Secured future purchases of electricity	10	20	92	-	-	122

(in CZK million)

31 Dec 2016	Up to 1 month	1 - 3 months	3 months up to 1 year	1 - 5 years	Over 5 years	Total
Secured future purchases of fuel	15	30	137	62	-	244
Secured future purchases of electricity	7	14	62	104	-	187

34.8. Credit risk management

The concentration of the Company's credit risk is low as a significant portion of the Company's revenues (passenger transportation fare) is collected in cash. In case of payments from public services customers from state budget or regional budget, the risk is low due to bank's high (see note 29.8.). In other transactions, the Company seeks to deal only with creditworthy counterparties whom the Company reviews on an ongoing basis using publicly available information. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

Financial assets:

(in CZK million)

As at 31 December 2017		Before due date, not impaired	Past due date, not impaired	Past due date, impaired	Impairment	Total
Trade receivables *)	20	1,129	22	113	(113)	1,151
Cash and cash equivalents	30	6,332	-	-	-	6,332
Receivables from finance leases	21	76	-	-	-	76
Loans in the CD Group	21	925	-	-	-	925
Other	21	103	-	36	(36)	103
Financial derivatives used in hedge accounting	21	72	-	-	-	72
Other financial derivatives	21	-	-	-	-	-
Realisable financial assets	21	335	-	72	(5)	330
Total		**8,972**	**22**	**149**	**(154)**	**8,989**

(in CZK million)

As at 31 December 2016		Before due date, not impaired	Past due date, not impaired	Past due date, impaired	Impairment	Total
Trade receivables *)	20	1,270	23	172	(172	1,293
Cash and cash equivalents	30	6,019	-	-	-	6,019
Receivables from finance leases	21	78	-	-	-	78
Loans in the CD Group	21	557	-	-	-	557
Other	21	51	-	33	(33)	51
Financial derivatives used in hedge accounting	21	282	-	-	-	282
Other financial derivatives	21	-	-	-	-	-
Realisable financial assets	21	335	-	-	(5)	330
Total		**8,592**	**23**	**205**	**(210)**	**8 610**

*) 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.

(in CZK million)

Bank	Bank balances at 31 Dec 2017	Promissory notes at 31 Dec 2017	Bank balances at 31 Dec 2016	Promissory notes at 31 Dec 2016
Komerční banka	1,486	-	1,883	-
ČSOB	3,263	-	1,968	-
Citibank	594	-	998	-
ING bank	305	-	100	-
Česká spořitelna	601	-	1,003	-
Total	**6,249**	**-**	**5,952**	**-**

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 2017.

34.9. Liquidity risk management

The Company manages its liquidity risk by a process of planning future cash flows and provision of short-term funding with reputable financial institutions (promissory notes programme and agreed overdraft loans). With the minimum period of 12 months. In order to secure sufficient short-term liquidity, the Company has contracted committed credit facilities so that its available funds exceed its short-term liabilities. The liquidity balance is monitored by the Moody´s rating agency on an ongoing basis.

34.9.1. Liquidity and Interest Rate Risk Tables

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

(in CZK million)

31 December 2017	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	1,011	1,464	505	12	22	3,014
Derivatives	26	1	43	169	692	931
Incoming cash flows	-	-	214	1,819	7,642	9,705
Outgoing cash flows	26	1	257	1,988	8,364	10,636
Finance lease liabilities	34	69	309	794	-	1,206
Float interest rate instruments	99	-	4,042	-	-	4,141
Fixed interest rate instruments	-	-	741	10,642	18,739	30,122
Total	**1,170**	**1,534**	**5,640**	**11,617**	**19,453**	**39,414**

(in CZK million)

31 December 2016	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	1,281	736	467	4	29	2,517
Derivatives	30	4	65	143	282	524
Incoming cash flows	-	-	475	1,341	9,300	11,116
Outgoing cash flows	30	4	540	1,484	9,582	11,640
Finance lease liabilities	41	82	300	1,145	8	1,576
Float interest rate instruments	234	-	861	4,101	-	5,196
Fixed interest rate instruments	-	-	784	10,574	21,293	32,651
Total	**1,586**	**822**	**2,477**	**15,967**	**21,612**	**42,464**

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.

(in CZK million)

31 December 2017	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	6,793	382	394	17	330	7,916
Finance lease assets	4	-	14	73	473	564
Fixed interest rate instruments	-	-	100	-	-	100
Float interest rate instruments	6	12	55	292	461	826
Hedging derivatives	-	-	(19)	17	-	(2)
Incoming cash flows	-	-	265	6,651	-	6,916
Outgoing cash flows	-	-	284	6,634	-	6,918
Total	**6,803**	**394**	**544**	**399**	**1,264**	**9,404**

(in CZK million)

31 December 2016	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
Non-interest bearing	6 471	462	391	38	330	7,692
Finance lease assets	5	-	12	64	427	508
Fixed interest rate instruments	-	30	-	-	-	30
Float interest rate instruments	6	13	58	308	141	526
Hedging derivatives	-	-	20	417	5	442
Incoming cash flows	-	-	48	6,879	61	6,988
Outgoing cash flows	-	-	28	6,462	56	6,546
Total	**6,482**	**505**	**481**	**827**	**903**	**9,198**

34.9.2. Financing facilities

The Group has access to the below loan facilities:

(in CZK million)

Bank overdrafts	ČSOB	KB	Total
Amount of the loan as at 1 Jan 2016	**700**	**1,500**	**2,200**
Unused amount as at 1 Jan 2016	**700**	**1,500**	**2,200**
Change in the amount of the loan in 2016	-	-	-
Amount of the loan as at 31 Dec 2016	**700**	**1,500**	**2,200**
Unused amount as at 31 Dec 2016	**700**	**1,500**	**2,200**
Change in the amount of the loan in 2017	-	-	-
Amount of the loan as at 31 Dec 2017	**700**	**1,500**	**2,200**
Unused amount as at 31 Dec 2017	**700**	**1,500**	**2,200**

(in CZK million)

Promissory notes programme	ČSOB	Citibank	ING	KB	Deutsche Bank	Česká spořitelna	Total
Amount of the loan as at 1 Jan 2016	**1,000**	**2,000**	**2,000**	**300**	**700**	**2,000**	**8,000**
Unused amount as at 1 Jan 2016	**1,000**	**2,000**	**2,000**	**300**	**700**	**2,000**	**8,000**
Change in the amount of the loan in 2016	(1,000)	(1,000)	-	(300)	(700)	(1,000)	(4,000)
Amount of the loan as at 31 Dec 2016	**-**	**1,000**	**2,000**	**-**	**-**	**1,000**	**4,000**
Unused amount as at 31 Dec 2016	**-**	**1,000**	**2,000**	**-**	**-**	**1,000**	**4,000**
Change in the amount of the loan in 2017	-	-	-	-	-	-	-
Amount of the loan as at 31 Dec 2017	**-**	**1,000**	**2,000**	**-**	**-**	**1,000**	**4,000**
Unused amount as at 31 Dec 2017	**-**	**1,000**	**2,000**	**-**	**-**	**1,000**	**4,000**

35. Post Balance Sheet Events

No significant events occurred between the balance sheet date and the date of the preparation of the financial statements except of the changes in the Steering Committee of the Company described in the chapter on Corporate governance.

36. Approval of the Financial Statement

The financial statements were approved by the Board of Directors and authorised for issue on 10th of April 2018.

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Providing Information

Pursuant to Act No. 106/1999 coll., on Free Access to Information for 2017

Pursuant to Section 18 of Act No. 106/1999 Coll., on Free Access to Information, as amended (hereinafter the "Act") České dráhy, a.s., hereby publishes its annual report on its activities in providing information pursuant to the Act in 2017.

a) The number of submitted information requests and the number of issued decisions

- In the reporting period, the total number of 91 information requests were responded to.

b) Pursuant to Section 15 of the Act, the following fist-instance decisions were issued:

- 10 decisions to decline the request; and

- 7 decisions to partially decline the request.

c) Pursuant to Section 90 (1)(b) of Act no. 500/2004 Coll., the Code of Administrative Procedure, as amended, the following number of decisions was rejected and returned by the Chairman of the Board of Directors of České dráhy, a.s. based on the requesting party's appeal.

- A total of 17 first-instance decisions.

d) Pursuant to Section 14 (5) (d) of the Act

- 11 pieces of information were provided.

- 8 appeals.

- 8 repeated first-instance decisions.

- 18 deferment notice for lack of competence.

- 4 calls to complete the application.

e) Pursuant to Section 16a of the Act, the Chairman of the Board of Directors of České dráhy a.s. received

- 5 complaints for late settlement; these complaints were rejected as having no grounds.

f) 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 11 requests relating to the operation of České dráhy, a.s.

h) České dráhy, a.s., as an interested party in the appeal proceedings expressed to the Ministry of the Interior in 3 cases.

ch) České dráhy, a.s., as an interested party in the appeal proceedings expressed to the Regional Offices and SŽDC in 4 cases.

i) České dráhy, a.s., as a defendant person according to § 74 paragraph 1 provided comment to the Municipal Court in Prague in 21 prosecutions against České dráhy, a.s. 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.

j) List of exclusive license, including a justification of the necessity to grant exclusive license

- In the period under review, none of the application procedure under the provisions of the license or sub-license agreement in providing information were adhered to.

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Information about Persons

Responsible for the ČD Group Annual Report

Responsibility for the Annual Report

Affidavit

With due care and to the best of our knowledge, the consolidated annual report gives a true and fair view of the financial position, business activities and operational results of the Company and its consolidation group for the year ended 31 December 2017, 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, 10 April 2018

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

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

13

Report on Relations

Between the Controlling Party and the Controlled Party and Parties Controlled by the Same Controlling Party for the Year 2017

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 2017 to 31 January 2017.

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

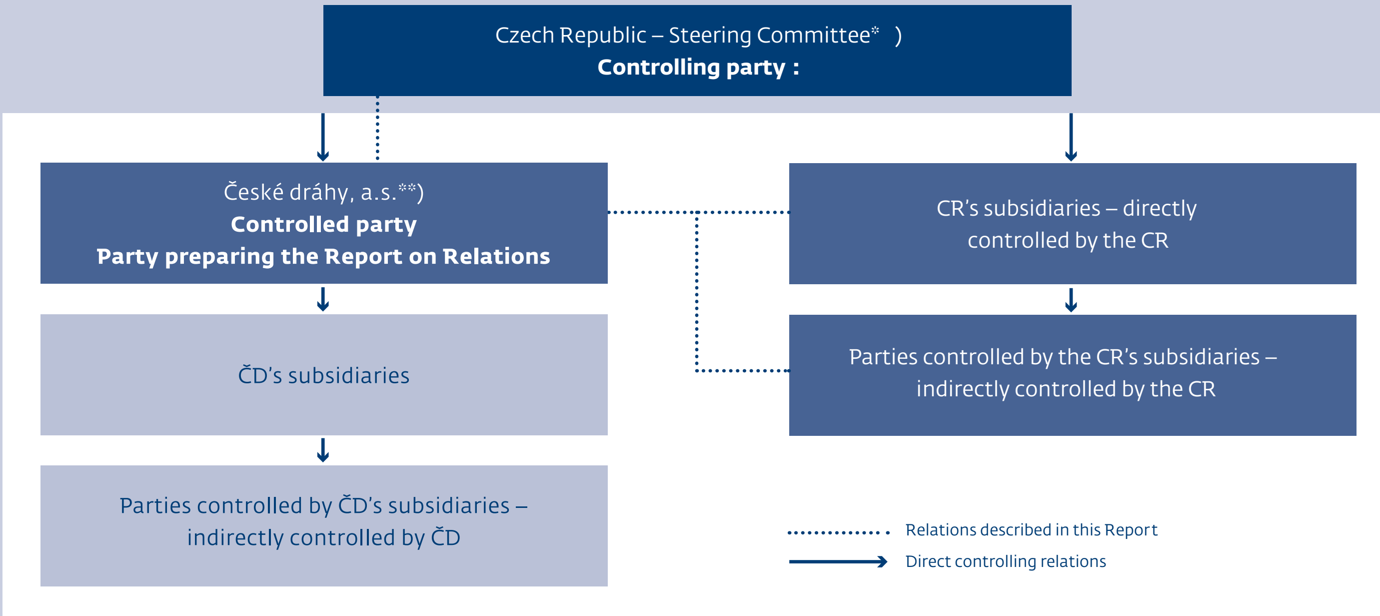
1) A directly controlled related party is a business corporation in which the State has a share of voting rights of at least 40% of all the votes in the given business corporation, unless another party or other parties in concern have the same or bigger share of voting rights in the given business corporation.

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 2017.

ČEPRO, a.s.	
Contract	**Description**
E900-14C/08221/008/003/TA	Light fuel oil supplies (TOEL)
E153-D-158/2017	Repair, maintenance T709 528-4
4600010961	Extra light heating oil LTO-E
4600005754	Light fuel oil supplies (TOEL)
4500707790	Extra light heating oil LTO-E
4500707798	Extra light heating oil LTO-E
4500707811	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 Veselí nad Lužnicí
2977735207	Plot of land no. 3203/22, cadastral territory no 722120

ČEZ Distribuce, a. s.	
Contract	**Description**
E296-DS-0043/12-G	Electricity
E296-OS-0039/14-Y	Construction contract
4500688492	Connection of electric devices Benešov
2927402414	1S44 powerhouse Olomouc
2927852807	Plot of land Ostrava
2947003102	Plot of land H. Králové
2947012007	Plot of land, Všestary siding
2957019705	Svojšovice cadastral territory, plot of land no. 474/11 and 161
E123-91901021	Central settlement of import duties

ČEZ Prodej, a.s.	
Contract	**Description**
2017002520147	Provision of services - REMIT
2016405518111	Electricity, flat Ústí nad Labem
E002-16R/23835/SLU/003/PK	Traction power supply of electricity
E166-SML_D-EE-0577130	Contract on joint services of electricity supplies
E166-SML_D-EE-1074230	Electricity supplies - Hlinsko, Nádražní 545,
E292-S-00142/15	Contract on electricity supplies Frýdek-Místek
4600011461	Traction power supply of electricity
4600010959	Electricity supplies
4600010443	Electricity supplies - Hlinsko
4600010444	Contract on joint services of electricity supplies
4600011357	Connection of sampling point
4600008450	Electricity supplies - Ústí nad Labem
4600008487	Electricity supplies - Borová u Poličky

ČEZ Teplárenská, a.s.	
Contract	**Description**
E166-SML_D-EN-T-007TRU	Heat supplies to PJ TRU
E166-K-4101481290	Purchase agreement and lien agreement
E296-OS-0015/12-A	Water- sewerage
4600009597	Heat energy - Hradiště UNL
4600009554	Heat energy - Chomutov
4600010292	Heat energy
4600009767	Heat energy

ČEZ, a. s.	
Contract	**Description**
4600008825	Water and sewerage fees
4500692098	Demineralized water
2667102516	Land under construction parcel no. 3772 - Chomutov
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	**Description**
2967362307	Siding no. 310/14 and 385/2 - Počerady

EVČ s.r.o.	
Contract	**Description**
4600010190	Rental of technological equipment
4600010776	Heat energy Havlíčkův Brod
2937705510	Rooms 1S16 and 1S17 Havlíčkův Brod

MARTIA a.s.	
Contract	**Description**
E028-SOPS-M-UK05055	Ensuring the operation of heating equipment Bílina
E028-SOPS-M-UK05059	Ensuring the operation of heating equipment Chomutov
E028-SOPS-M-UK05067	Ensuring the operation of heating equipment Ústí st.5
E028-SOPS-M-UK05071	Ensuring the operation of heating equipment Úpořiny
E028-SOPS-M-UK05075	Ensuring of the heating equipment Ústí dílny
E266-O-0269/16	Order
2967348607	Rent of the boiler room and storage Chomutov

Ministerstvo dopravy	
Contract	**Description**
E-004-MD/2014	Contract for the lease of commercial space
E060-59345/2015-O16	SŽDC - transport services Pardubice - Liberec
E060-59346/2015-O16	SŽDC - transport services Brno-Břeclav-Olomouc

SD - Kolejová doprava, a.s.	
Contract	**Description**
2017002520143	Traction el. 2017 - SD-Rail transport
E296-OS-0022/13-T	Heat and hot water supply
E296-OS-0026/13-A	Water, sewerage, storm water
2957008912	OP14+OP15 Hostivice
2967105113	Building no. 354 Březno
2967346907	Siding no. 224/6 – Chotějovice

Severočeské doly a.s.	
Contract	**Description**
2667100215	Siding no. 2251/1 and 2386 – Bílina

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 3,395 million according to the most recent set of financial statements - as at 31 December 2016.

VI. Other information

Credibility of information: Confidential information comprises information and facts that are part of the related parties' business secret and information that was designated as confidential by any party that is part of the structure of relations described in this Report on Relations. In addition, confidential information includes any business information that could, on its own or in connection with other information, cause damage to any party belonging to the structure of relations described in this Report on Relations. For this reason, the Report on Relations contains no information on the prices (or amounts) of construction work, supplies, services or the relevant amounts.

VII. Declaration

All the above-specified contracts and amendments were entered into and the performance and counter-performance were provided under arm's length conditions. The Company suffered no detriment arising from the business relations.

The Company's statutory body states that the relations described in this Report on Relations primarily bring the Company advantages and that it is not aware of any risks arising to the Company from the relations described in this Report on Relations.

VIII. Conclusion

The Company's statutory body prepared the Report on Relations within the deadline stipulated by law. The Report on Relations was prepared to the best of the Company's knowledge and belief, using available data and documents and taking all reasonable efforts. The scope of the Czech Republic's controlling relations was identified using the data provided by the shareholder. The Report was submitted for the review to the Supervisory Board which will provide its statement at the Company's Steering Committee.

In Prague, 29 March 2018

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

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

Appendix 1

List of business corporations controlled by the State from 1 January 2017 to 31 December 2017 with which relations as described in this Report were established in the reporting period

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 Prodej, s.r.o.	27232433	0,00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
ČEZ Teplárenská, a.s.	27309941	0,00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
ČEZ, a. s.	45274649	69,78%	Related entity directly controlled by the State.
Elektrárna Počerady, a.s.	24288110	0,00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
EVČ s.r.o.	13582275	0,00%	Related entity indirectly controlled by the State through ČEZ ESCO, a. s., which has a 100% share in this entity.
MARTIA a.s.	25006754	0,00%	Related entity indirectly controlled by the State through ČEZ Teplárenská, a. s., which has a 100% share in this entity.
SD - Kolejová doprava, a.s.	25438107	0,00%	Related entity indirectly controlled by the State through Severočeské doly a.s, which has a 100% share in this entity.
Severočeské doly a.s.	49901982	0,00%	Related entity indirectly controlled by the State through ČEZ, a. s., which has a 100% share in this entity.
Ministry of Transport	66003008	100,00%	State organizational unit.

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List of Used Abbreviations

Abbreviation	Description
AO	Audit body
APA	Analysis of the Application Portfolio
CAPEX	Investment (capital) expenditures
CER	Community of European Railways
CSM	Security method for evaluating and assessing risks
ČD	České dráhy, a. s.
ČD-IS	ČD – Informační Systémy, a. s.
ČDC	ČD Cargo, a. s.
ČDT	ČD - Telematika a. s.
CFaR	Cash Flow at Risk
CIT	International Rail Transport Committee
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
DKV	Railway Vehicles Depot
DLB	Die Länderbahn GmbH
DMS	Document Management System
DPOV	Dílny pro opravy vozidel (DPOV, a.s.)
DVI	Transport Education Institute (Dopravní vzdělávací institut, a.s.)
EBIT	Earnings Before Interest and Taxes

Abbreviation	Description
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EC	Passenger train category of higher quality (EuroCity)
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
FISAIC	International Federation for Railways Culture and Leisure
GPS	Global Positioning System
GSM-R	Global System for Mobile Communication- Railway
IAS	International Accounting Standards
IC	Passenger train category of higher quality (InterCity)
ICT	Information and Communication Technology
IDOL	Integrated Transport System of Liberec Region
IDS	Integrated Transport System
IFRS	International Financial Reporting Standards
IoT	Internet of Things
IRRB	International Railway Research Board
IS	Information system
IS NORMIS	Database of internal regulations
ISIC	International Student Identity Card
ISO	International Organisation for Standardisation
IT	Information technologies
JLV	Jídelní a lůžkové vozy, a. s.

Abbreviation	Description
JŘ	Train timetable
KAC	Control and Analytical Centre for Transport Management
KASO	Complex application of rounds
KJŘ	Book timetable
KS	Collective agreement
KSM	Generic list of materials
MAP	Multi-application platform (Production automation protocol)
MD	Ministry of Transportation of Czech Republic
MF	Ministry of Finance of the Czech Republic
MMR	Ministry of Regional Development
MO	Ministry of Defence
MPO	Ministry of Industry and Trade
MPSV	Ministry of Labour and Social Affairs
NAD	Rail Replacement Bus Service
NOVIBRAIL	Project Noise emissions and vibration in the rail system
OPPI	Business and Innovation Operational Program
OSŽ	Railway Workers Union
OSŽD	Organisation for Railway Cooperation
ÖBB	Österreichische Bundesbahnen
PARIS	Sales and reservation information system
PID	Prague Integrated Transport
PJ	Organisational Unit
RSM	Regional asset management

Abbreviation	Description
ROCE	Return on Capital Employed
ROP	EU Regional Operational Programme
ROPID	Regional Organizer of Prague Integrated Transport
Rx	Higher-quality express train (train category)
SAP	Bookkeeping system
SC	Passenger train category of highest quality (SuperCity)
SFDI	State Fund for Transport Infrastructure
SOKV	Středisko oprav kolejových vozidel ČD Cargo, a. s.
SŽDC	Správa železniční dopravní cesty, státní organizace/Railway Transport Route Administration, state organisation
TAČR	Technology Agency of the Czech Republic
TAF	Telematic applications for freight transport
TAP	Telematic application for passenger transport
TSI	Technical specifications of interoperability
UIC	International Union of Railways
UNIPOK	Cash register system for ČD personnal transport
ÚOHS	Office for Protection of Competition
ÚRR	Regional Council Offices
Vlkm	Train kilometers (sum of train and distance trains)
VUZ	Výzkumný Ústav Železniční, a.s./ Railway Research Institute
ZSSK	Železničná spoločnosť Slovensko, a.s./ Slovak Railway Company
ZVS	Public service commitment (závazek veřejné služby)
ŽKV	Railway vehicle
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, PSČ 110 15

Corporate ID: 70994226

Tax ID: CZ70994226

Registration court: Prague

File no.: Section B, file 8039

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České dráhy, a.s
2017