Presentation of the interim financial results of the ČD Group for 2016

Prague, 31 August 2016

Financial results of the ČD Group

[CZK mil.]	1st half of 2016	1st half of 2015
Revenues from principal operations	**16 330**	**16 326**
Other operating income	**2 442**	**1 635**
Costs	**-14 366**	**-14 127**
- purchased consumables and services	*-8 098*	*-7 912*
- personnel costs	*-6 155*	*-6 009*
- other operating profit/losses	*-113*	*-206*
EBITDA	**4 406**	**3 834**
Depreciation and amortization	*-3 003*	*-2 875*
EBIT	**1 403**	**958**
EBT	**454**	**198**
Profit (loss) for the period	**375**	**102**

(consolidated IFRS for ČD Group)

- **ČD Group increased net profit for 1st half of 2016 to CZK 375 million from CZK 102 million in 1st half of last year.**
- **The rise in other operating income by 49.4 % (to 2.44 billion) had a favourable impact, revenues from principal operations (aggregate passenger and freight transport) remained year-on-year on the same level (16.33 billion):**
  - ***in the 1st half of 2016 in passenger transport, traffic performance continued to grow and revenues increased year-on-year, especially for international outputs;***
  - ***contrariwise, revenues went slightly down in freight transport – this segment however is successful in decreasing cost items and in substantial contributing to group's profitability. Lower revenues are primarily the result of i) growing domestic road truck carriers to the detriment of single rail wagon loads and ii) competitive pressure on margins in the whole trains' business;***
  - ***the rise in other operating income is driven by a more significant asset disposal (land surrounding Prague Masaryk railway station) and by increased revenues of some daughter companies.***
- **Total operating costs of the group are year-on-year up by CZK 239 million (1.7 %), out of it consumables and services by CZK 186 million (2.4 %), personnel costs by CZK 146 million (2.4 %). Depreciation and amortization grew by CZK 128 million (4.5 %) due to the increased investment activity to the renovation of the rolling stock. Financial result dropped by CZK 86 million mainly due to the year-on-year lower exchange gains.**
- **Particularly owing to the above mentioned, total results of the ČD Group are year-on-year improved. EBITDA increased by CZK 572 million (14.9 %), EBIT by CZK 445 million (46.5 %) and net profit by CZK 273 million (267.6 %).**

Financial results of the passenger transport segment

[CZK mil.]	1st half of 2016	1st half of 2015
Revenues from principal operations	**10 577**	**10 425**
Costs	**-8 073**	**-7 891**
- purchased consumables and services	*-4 417*	*-4 294*
- personnel costs	*-3 584*	*-3 421*
- other operating profit/losses	*-72*	*-176*
EBITDA	**2 504**	**2 534**
Depreciation and amortization	*-2 278*	*-2 155*
EBIT	**226**	**379**
Profit (loss) for the period	**-342**	**-78**

(financials of the passenger transport segment according to IFRS)

- **According to the segment classification of the ČD Group, in the 1st half of 2016 passenger transport reported a loss of CZK 342 million. According to the Czech accounting standards for this period, however, mother company České dráhy, a.s., under which passenger transport belongs, made a profit of CZK 77 million (included also bigger asset disposal proceeds).**

- **Revenues from principal operations rose year-on-year by CZK 152 million (1.5 %):**
  - ***both the number of carried passengers (85.6 million) as well as traffic performance (3556 mil. person-kilometres) slightly increased***
  - ***revenues from international transport went up owing to fulfilling of the long-term contract with Deutsche Bahn for operation of EC trains on the Prague – Hamburg line***
  - ***as for domestic transport, Czech Railways managed to increase revenues from its shares from integrated transport systems, revenues from fare however decreased. Total revenues from domestic transport slightly declined (by 0.8 %).***

- **Operating costs are year-on-year higher by CZK 182 million (2.3 %). Although diesel oil and electric power costs sank, a number of expenses such as personnel, repair or international outputs costs increased. Personnel costs went up by CZK 163 million to 3.58 billion with regard to the terms of the company's 2016 collective agreement and due to fulfilling social fund. In the long term, total costs are negatively affected by high interest costs resulting from rapid indebtedness increase from 2011 in order to massively renovate ČD's rolling stock. Furthermore, in the 1st half of 2016 passenger transport continued to cope with extraordinary expenses incurred as a result of route closures of SŽDC (Railway Infrastructure Administration).**

- **The year-on-year growth of costs caused a decline of operating and net profit. EBITDA remained year-on-year on the same level of CZK 2.5 billion, but due to higher depreciation and amortization (deriving from increased investment activity) EBIT decreased by CZK 153 million to 226 million. The year-on-year increase of the net loss also reflects higher financial costs, especially as a result of lower exchange gains (coming from currency exchange rates development).**

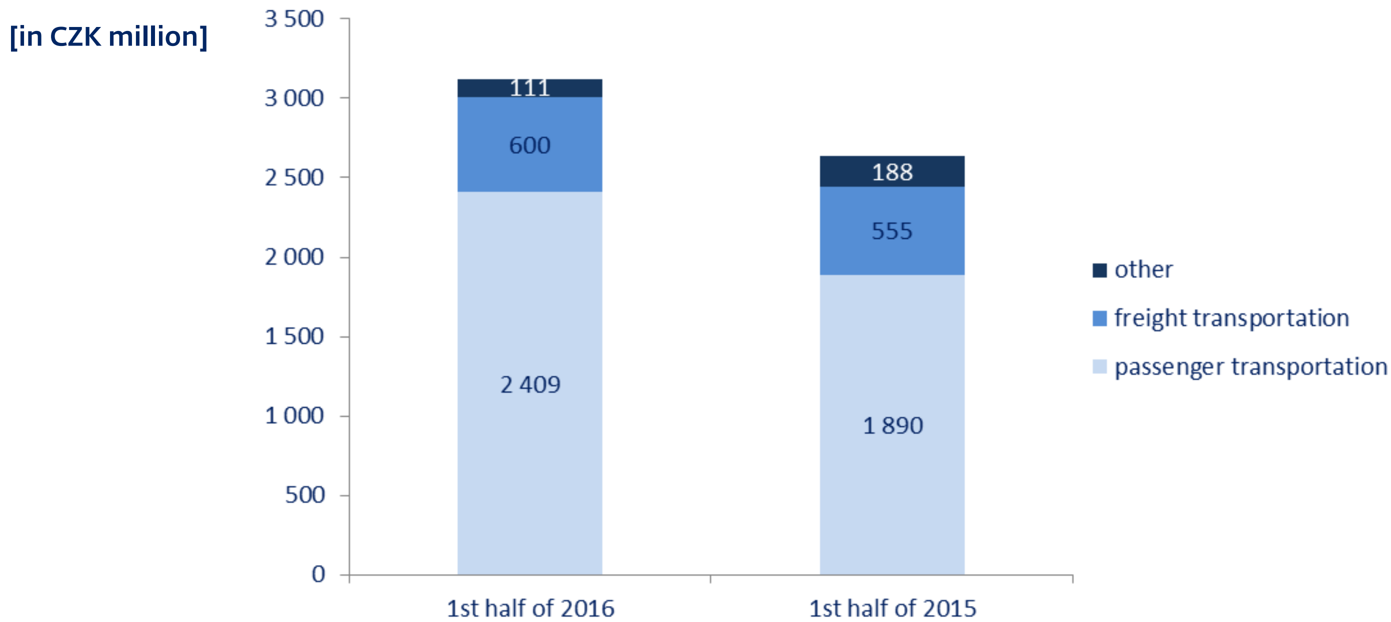
Financial results of the freight transport segment

[CZK mil.]	1st half of 2016	1st half of 2015
Revenues from principal operations	**5 777**	**5 893**
Costs	**-4 531**	**-4 920**
- purchased consumables and services	*-2 868*	*-3 109*
- personnel costs	*-1 894*	*-1 940*
- other operating profit/losses	*231*	*129*
EBITDA	**1 246**	**973**
Depreciation and amortization	*-535*	*-546*
EBIT	**711**	**427**
Profit (loss) for the period	**427**	**216**

(financials of the freight transport segment according to IFRS)

- **In spite of moderate year-on-year outputs' decline, the freight transport segment reported net profit of CZK 427 million in the 1st half of 2016**
- **Revenues from principal operations of the freight transport declined year-on-year by CZK 115 million (2 %). The revenues' decline was influenced by competitive pressure on unit prices in the whole trains business as well as by lower prices of oil on commodity markets, which led to transfer of transport of single wagon loads from rail to road. Additionally, low scrap iron and electric power prices led to decreased interest in transport of metallurgical products and energy coal.**
- **The freight transport was successful in decreasing cost items though. Operating costs year-on-year dropped by CZK 389 million (7.9 %) due to the company's higher efficiency, lower variable costs and also in connection with the increased discount for using rail infrastructure in the product of single wagon loads. Optimization in the number and in the structure of employees continued too and it led to year-on-year reduction of employees by 318 and personnel costs by CZK 46 million (2.4 %).**
- **The above mentioned impacts, primarily on the cost side, contributed to the year-on-year increase of EBITDA by CZK 273 million (28.1 %), EBIT went up by CZK 284 million (66.5 %) and net profit by CZK 211 million (97.7 %).**

CAPEX of the ČD Group



- **Total CAPEX in the 1st half of 2016 amounted to CZK 3.12 billion.**

- **Largest amount of financial resources is regularly invested in passenger transport, to the purchase of new and reconstruction of existing rolling stock. In total CZK 2.4 billion was spent in the 1st half of 2016 – investments were focused on long-distance transport – on modernization of vehicles as well as on purchase of 8 new InterPanter units. Year-on-year CAPEX increase is also impacted by extra payment (inflationary increase) in the amount of CZK 628 million for 20 locomotives 380 on the basis of arbitration ruling.**

- **CAPEX in the freight transport reached CZK 600 million and were primarily focused on reconstruction of the tractive fleet and on the purchase of the first modern multisystem locomotive Vectron, additionally it involved repairs and technical improvements of the rolling stock. The freight transport fleet was also strengthened by the acquisition of 23 older locomotives 163 for CZK 233 million from the mother company České dráhy, a.s., this purchase however is not included in the above mentioned amount (CZK 600 million) due to the intergroup eliminations.**

- **CAPEX in other subsidiaries consolidated in ČD Group amounted to CZK 111 million.**

Debt development

[CZK mil.]	1st half of 2016	1st half of 2015
ČD - bonds	31 277	28 759
ČD - Eurofima	814	1 635
ČD - leasing	1 682	2 131
ČD - promissory notes, overdraft and other	1 204	117
Total ČD	**34 977**	**32 641**
ČD Cargo - bonds	2 012	2 171
ČD Cargo - leasing	2 232	2 652
ČD Cargo - promissory notes and overdraft	0	0
Total ČD Cargo	**4 244**	**4 823**
debt of other consolidated subsidiaries	368	352
Total debt (consolidated)	**39 589**	**37 816**
cash and its equivalents	5 977	4 735
Net Debt	**33 612**	**33 081**

- **Year-on-year growth of the net debt (by 1.6 %) is primarily related to the Eurobonds issue in May 2016 when Czech Railways capitalized on the favourable market conditions and replaced payable EUR 300 million (Eurobonds from 2011) by a new 7- year issue in the amount of EUR 400 million with a notably lower interest (coupon) of 1,875 % p.a. The need of higher sources in the 2nd half of 2015 and 1st half of 2016 comes from expenses for the lost arbitration with Škoda Transportatin and from the extraordinary costs incurred due to the route closures of SŽDC. The amount of net debt is decreased though already now as a result of the realized property sale for CZK 3.31 billion to SŽDC and receipt of these proceeds on ČD's account in July 2016.**

- **In March 2016 part of the Eurofima loan was repaid in the amount of EUR 30 million according to the repayment schedule.**

- **In the 1st half of 2016 Czech Railways used its promissory notes programme and issued notes in the amount of CZK 1.1 billion to solve its temporarily lower liquidity (before issuing the new Eurobonds). These notes should be repaid on its maturities in the 2nd half of 2016.**

- **In June 2016 ČD Cargo, a.s. issued bonds in the total nominal value of CZK 500 million (coupon 1.28 % p.a., 5-year maturity) which were used to refinance payable domestic bonds in the amount of CZK 658.3 million.**

- **Financial leasing is being repaid by ČD and ČD Cargo in regular instalments and the obligations are gradually being reduced.**

- **There was not any need to draw funds from overdrafts.**

České dráhy

National carrier