# 2013

Interim Report 2013 České dráhy Group

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# Responsibility for the Interim Report of the ČD Group

## Declaration

The persons responsible for preparing the Interim Report of the ČD Group, including the interim consolidated financial statements, declare that, to the best of their knowledge, this report gives a true and fair view of the financial position of České dráhy, a.s. and its subsidiaries as of 30 June 2013, and its financial performance and cash flows for the six months then ended.

In Prague on 29 August 2013

Dalibor Zelený
Chairman of the Board of Directors
České dráhy, a.s.

This report was not audited.

# Key Interim Indicators for the ČD Group

| **Key Indicators –** IFRS financial indicators (CZK mil.) | Jan–Jun 2013 | Jan–Jun 2012 | Difference | INDEX |
|---|---|---|---|---|
| **ČD Group** | | | | |
| EBITDA (from the continuing operations) | **3,359** | 2,908 | 451 | 116 |
| EBIT (from the continuing opetations) | **473** | 26 | 447 | n/a |
| Profit/loss for the period | **-510** | -494 | -16 | n/a |
| Total assets | **85,722** | 82,526 | 3,196 | 104 |
| CAPEX | **5,356** | 4,843 | 513 | 111 |
| Depreciation and amortization | **2,886** | 2,882 | 4 | 100 |
| Leverage (%) – external funding/assets | **53** | 49 | 4 | 109 |
| Current liquidity (%) – short-term assets/short-term liabilities | **41** | 39 | 2 | 105 |
| ROCE (%) – EBIT/(total assets - short-term liabilities) | **0.7** | 0.0 | 0.7 | n/a |
| Number of employees in average FTE | **25,573** | 26,417 | -844 | 97 |

| **Passenger transport (ČD, a.s.)** * | | | | |
|---|---|---|---|---|
| Traffic performance (mil. person-kilometres) | **3,349** | 3,387 | -38 | 99 |
| Transport performance (mil. train-kilometres) | **61** | 61 | 0 | 100 |
| Average traffic distance (km) | **39** | 40 | -1 | 98 |
| Occupancy ratio (%) | **24** | 24 | 0 | 100 |

| **Freight transport (ČD Cargo, a.s.)** | | | | |
|---|---|---|---|---|
| Traffic volume (mil. tonnes) | **35** | 37 | -2 | 95 |
| Traffic performance (mil. tariff tonne-kilometres) | **6,148** | 6,664 | -516 | 92 |
| Transport performance (mil. train-kilometres) | **13** | 13 | 0 | 100 |
| Average traffic distance (km) | **176** | 180 | -4 | 98 |

| **DPOV, a.s.** | | | | |
|---|---|---|---|---|
| SOP - Average actual repair period (days) | **68.20** | 86.41 | -18.21 | 79 |
| ODKP - Average commission repair period (days) | **68.50** | 81.10 | -12.60 | 84 |
| Weighted average calculated from (SOP) – (ODKP) | **-0.20** | 2.59 | -2.79 | n/a |

* Passenger transport indicators do not include free of charge and fixed payment transports.

# Opening Statement of the Chairman of the Board of Directors

Dear Ladies and Gentlemen,

We would like to present you the Interim report of the České dráhy Group for the first six months of 2013. The results positively reflect the rationalisation measures and savings in staff and overhead costs. In spite of significant growth in operating profitability, the Group reported a total loss of CZK 510 million which is primarily attributable to massive investments in modernising vehicles and accounting for income tax of CZK 320 million.

In the passenger transport segment, the key indicators were impacted by the June floods. The number of passengers increased by 21,000 year-on-year and sales from principal activities slightly increased. A significant improvement in EBITDA was achieved due to a decrease in the Group's own costs. As expected, the loss of the passenger transport segment was impacted by higher depreciation arising from the modernisation of the rolling stock, higher interest expenses and adverse impacts of exchange rate developments. In general, it can be stated that passenger transport was doing well in the first six months of 2013.

In the freight transport segment, we recorded a slight decline in the volume of transported goods. Although the subsidiary ČD Cargo reported a decline in sales of 11%, it achieved improved results, primarily as a result of savings as part of the restructuring measures aimed at stabilising and revitalising ČD Cargo. EBITDA amounted to CZK 901 million which is a year-on-year increase of 16%. The economic result was positively impacted by a net gain of CZK 85 million from the sale of non-core assets which was also made as part of the restructuring measures. The freight transport segment reported a pre-tax profit of CZK 378 million and a post-tax profit of CZK 208 million in the six months ended 30 June 2013.

Primarily in the freight transport segment, it is apparent that without strengthening business activities and obtaining new orders we will not achieve a sustainably improving business.

Dalibor Zelený
Chairman of the Board of Directors
České dráhy, a.s.

# Principal Events in the First Half of 2013

## January

ČD Cargo started new transports of black coal from the Ostrava region to Munich.

## February

A new RegioPanter train for ČD, a.s. obtained the type certificate. The vehicles have provided transportation in regions since mid-September 2012 as part of testing operations with passengers.

ČD Cargo, a.s. made a first transportation with a common CIM/SMGS freight bill to Kazakhstan.

## March

On 21 March 2013, the Board of Directors of ČD Cargo, a. s. approved the intention to transfer the 100% equity investment in ČD Generalvertretung Wien GmbH to ČD Generalvetretung GmbH and the 100% equity investment in Generálne zastúpenie ČD Cargo, s.r.o to Koleje Czeskie Sp. z o.o.

In order to gradually transfer transportation volumes from Western Europe to Russia and back, ČD Interport, s.r.o. was formed.

## April

In April 2013, the ČD Group commenced the implementation of real group cash-pooling.

The first regular combined transportation train of ČD Cargo, a.s. arrived from Charleroi to Lovosice with road semi-trailers carrying lattice glass to Teplice.

## May

ČD Cargo, a.s. transported the first regular combined transport train with road semi-trailers from Rostock to Vienna through the Czech Republic.

## June

On 21 June 2013, Moody’s rating agency downgraded the rating of České dráhy, a.s. from Baa1 with a negative outlook to Baa2 with a stable outlook.

The locomotive of the 380 series for ČD, a.s. obtained a type certificate from the Railway Authority.

The suspended cabin cableway from Horní Hanychov to Ještěd celebrated its 80th birthday. It transports 230 thousand passengers per year.

The testing circuit of Výzkumný Ústav Železniční, a.s. in Velim marked 50 years of its existence.

# Organisational Structure of the ČD Group

## as of June 2013

Consolidated ČD Group

České dráhy, a. s.

- **Steering committee** — **Audit Committee**
- **Supervisory Board**
- **Board of Directors** — **General Directorate**

General Directorate:

- Rail Vehicle Depots (DKV)
- Regional  Passenger Transport Centers (KCOD)
- Procurement Center (ZC)
- Regional Asset Management (RSM)
- Transportation Sales Clearing (OPT)
- Internal Service Center (CIS)
- HR Service Center (CPS)
- Passenger Train Conductors (VDOD)
- Railway Medical Service
- Historical Cars Depot (DHV)

Subsidiaries:

- DPOV, a.s. (100% ownership)
- Dopravní vzdělávací institut, a.s. (100% ownership)
- ČD – Informační Systémy, a.s. (100% ownership)
- Výzkumný Ústav Železniční, a.s. (100% ownership)
- ČD – Telematika a.s. (59.31% ownership)
- ČD travel, s.r.o. (51.72% ownership)
- RAILREKLAM spol. s r.o. (51% ownership)
- Centrum Holešovice a.s. (51% ownership)
- Smíchov Station Development, a.s. (51% ownership)
- Žižkov Station Development, a.s. (51% ownership)
- JLV, a.s. (38.79% ownership)
- Masaryk Station Development, a.s. (34% ownership)

ČD Cargo, a.s. (100% ownership):

- CD – Generalvertretung Wien GmbH (100% ownership)
- CD Generalvertretung GmbH (100% ownership)
- Generálne zastúpenie ČD Cargo, s.r.o. (100% ownership)
- Koleje Czeskie Sp. z o.o. (100% ownership)
- Auto Terminal Nymburk, s.r.o. (100% ownership)
- Terminal Brno, a.s. (66.94% ownership)
- ČD Logistics, a.s. (56% ownership)
- ČD-DUSS Terminál, a.s. (51% ownership)
- ČD Interport, s.r.o. (51% ownership)
- RAILLEX, a.s. (50% ownership)
- BOHEMIAKOMBI, spol. s r.o. (30% ownership)
- Ostravská dopravní společnost, a.s. (20% ownership)

# Business Results of the ČD Group

Although the decline in the Czech economy continued, the operations of the ČD Group in the first half of 2013 show solid results primarily in operational activities. Despite a slight decrease in operating income of 3.1% largely due to reduced sales in freight transport, the Group reports EBITDA of CZK 3.4 billion which is a 15.5% increase year-on-year. EBIT increased from CZK 26 million to CZK 473 million.

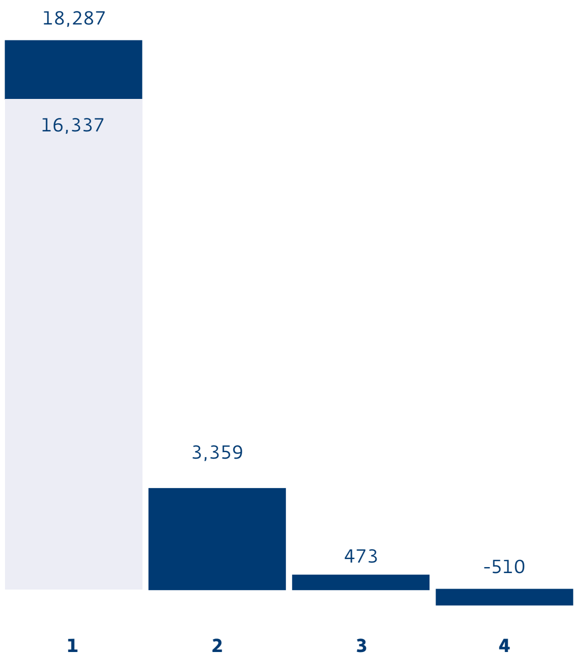
The continuing optimisation resulted in other savings of operating expenses in addition to the savings relating to the decline in the performance in the freight transport segment. Other purchased consumables and services which include overhead costs and costs relating to principal activities declined by 11.5% (CZK 575.7 million) year-on-year. In overhead costs, savings were achieved, among other things, in respect of advisory services, promotion and lease of wagons. Savings relating to the decrease in transportation were reflected in a decrease in costs of traction fuel – traction electricity and diesel. The decline in payments for the use of the railway route reflects the discount provided by Správa železniční dopravní cesty, s.o. (hereinafter "SŽDC") for transportation of single wagons. Depreciation did not change significantly year-on-year; it ranges around CZK 2.9 billion.

The ČD Group achieved a significant savings in staff costs in the aggregate amount of CZK 107.9 million.

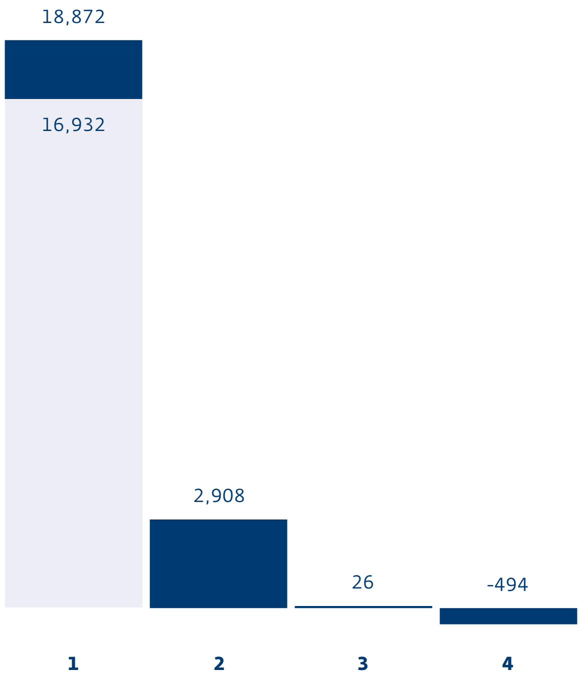
Overall loss of the ČD Group of CZK 510 million is primarily due to higher costs relating to the funding of the renewal of the rolling stock, impact of foreign exchange rate differences due to lower exchange rate gains as compared to the prior year and accounting for income tax of CZK 320 million. This loss is, however, not significantly higher than the loss for the first six months of 2012.

**Operating Revenues, EBITDA, Profit (loss) after tax** [in CZK mil.]

**First half of 2013**




**First half of 2012**




1 Operating revenues
2 EBITDA
3 EBIT
4 Profit (loss) after tax

1 of which Revenues from principal operations

**Assets structure** [in CZK mil.]

**First half of 2013**

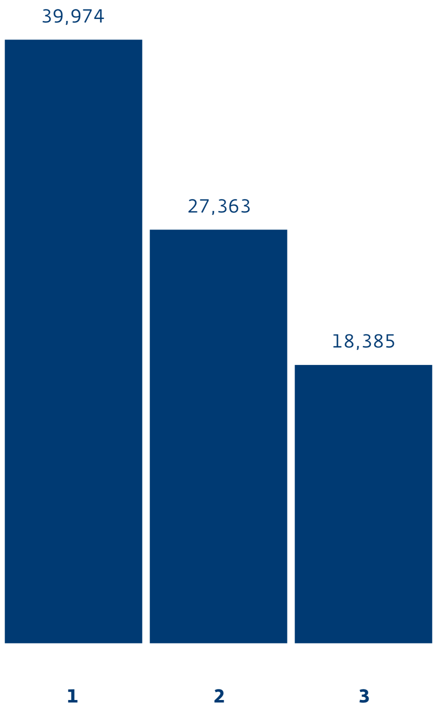

**First half of 2012**


**1** Fixed assets **2** Other fixed assets **3** Short-term assets

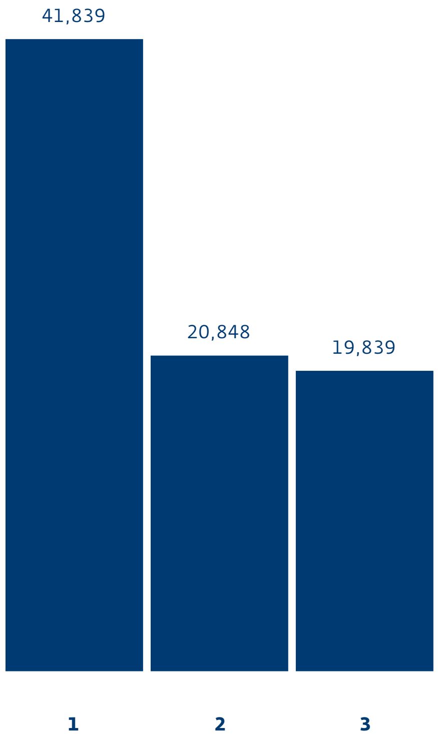
Total assets increased by CZK 3.2 billion year-on-year. The increase in fixed assets was due to the continuing process of the rolling stock renewal. The increase in other fixed assets is due to the revaluation of hedging instruments. There were no significant year-on-year changes in current assets.

**Liabilities structure** [in CZK mil.]

**First half of 2013**




**First half of 2012**

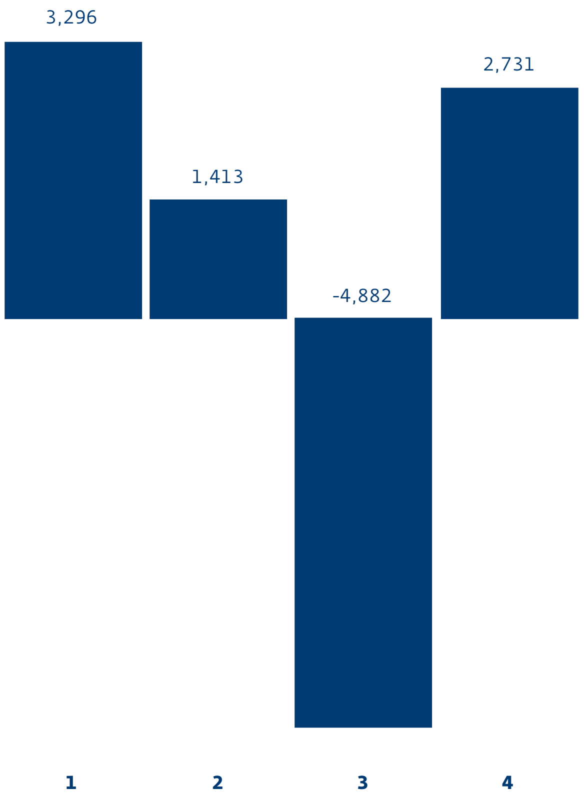



**1** Equity **2** Long-term liabilities **3** Short-term liabilities

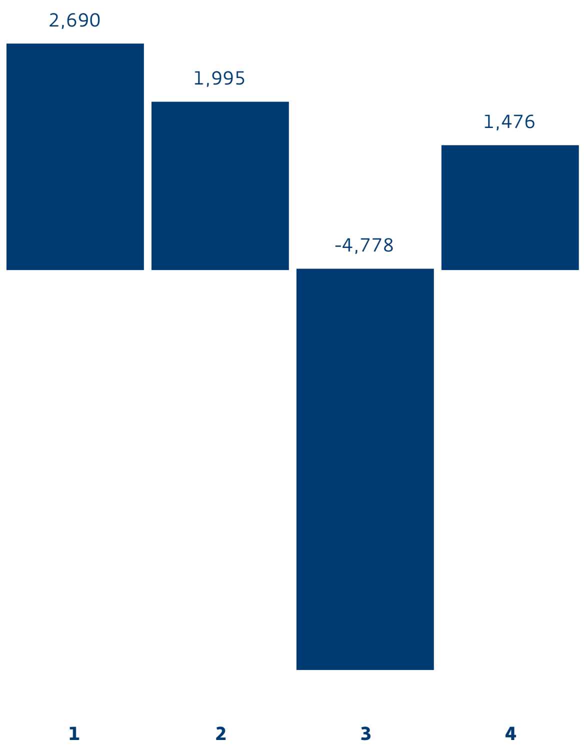
On the liabilities side, the equity decreased by CZK 1.9 billion as a result of a decrease in retained earnings due to the loss for 2012 and first half of 2013. The increase in long-term liabilities of CZK 6.5 billion relates to the issue of Eurobonds in July 2012 in the amount of EUR 300 million. The decline in short-term liabilities of CZK 1.5 billion is due to the repayment of privately subscribed bonds issued in 2009 in the amount of CZK 2 billion.

**Cash flow** [in CZK mil.]

**First half of 2013**




**First half of 2012**




**1** Operating activities before changes in working capital

**2** Operating activities

**3** Investing activities

**4** Financing activities

Cash flows from operating activities before changes in working capital increased year-on-year by CZK 606 million due to significant improvements in operational profit. The increase in working capital primarily attributable to a significant rise in receivables from the payment for the public service obligation from the budget of the regions and a higher decline in trade payables resulted in a year-on-year decrease in the net flow from operating cash flow.

As compared with the first six months of 2012, capital expenses and proceeds of the sale of property, plant and equipment increased. These sales primarily relate to the subsidiary ČD Cargo, a.s. which sold its non-core assets outside of the ČD Group. Overall, there was only a slight increase in cash flows from investment activities of CZK 104 million.

Financial needs arising from operating and investment cash flows were funded primarily from external funding in the amount of CZK 2.7 billion.

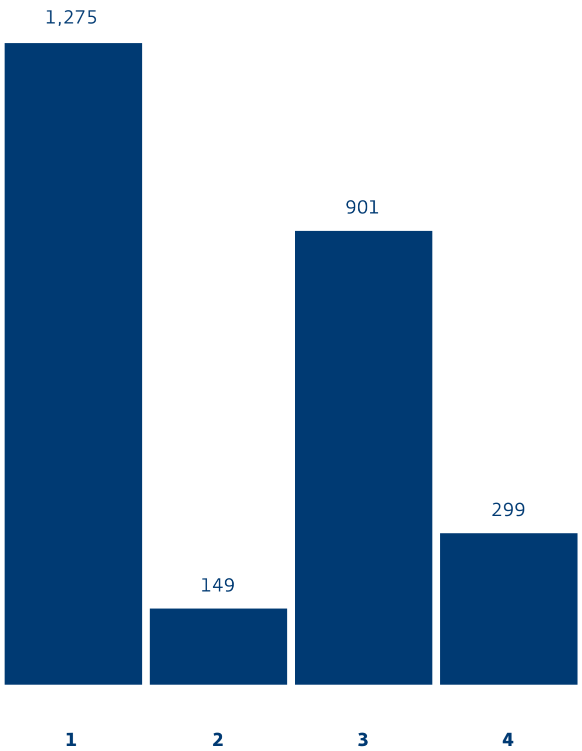
# VI–I Financial Results of Segments of Principal Activities

| [in CZK mil.] | | Passanger transport | Asset management | Freight transport | Others | Elimination and reconciliation | Total |
|---|---|---|---|---|---|---|---|
| **Revenues from principal operations** | first half of 2013 | 9,748 | 0 | 7,155 | 0 | -566 | 16,337 |
| | first half of 2012 | 9,618 | 0 | 8,012 | 3 | -701 | 16,932 |
| **Purchased consumables and services** | first half of 2013 | -5,028 | -205 | -4,728 | -1,298 | 2,738 | -8,521 |
| | first half of 2012 | -5,087 | -261 | -5,311 | -1,697 | 2,904 | -9,452 |
| **Staff costs** | first half of 2013 | -3,263 | -118 | -2,170 | -712 | 44 | -6,219 |
| | first half of 2012 | -3,331 | -132 | -2,201 | -706 | 43 | -6,327 |
| **EBITDA** from continuing operations | first half of 2013 | **1,275** | **149** | **901** | **299** | 735 | **3,359** |
| | first half of 2012 | **860** | **81** | **777** | **319** | 870 | **2,908** |
| **Depreciation / amortization** | first half of 2013 | -1,113 | -109 | -551 | -155 | -958 | -2,886 |
| | first half of 2012 | -987 | -110 | -673 | -150 | -962 | -2,882 |
| **EBIT** from continuing operations | first half of 2013 | **162** | **40** | **350** | **144** | -223 | **473** |
| | first half of 2012 | **-127** | **-29** | **104** | **169** | -92 | **26** |
| **Profit (loss) for the period** | first half of 2013 | **-274** | **49** | **208** | **187** | -680 | **-510** |
| | first half of 2012 | **-259** | **-23** | **46** | **211** | -469 | **-494** |

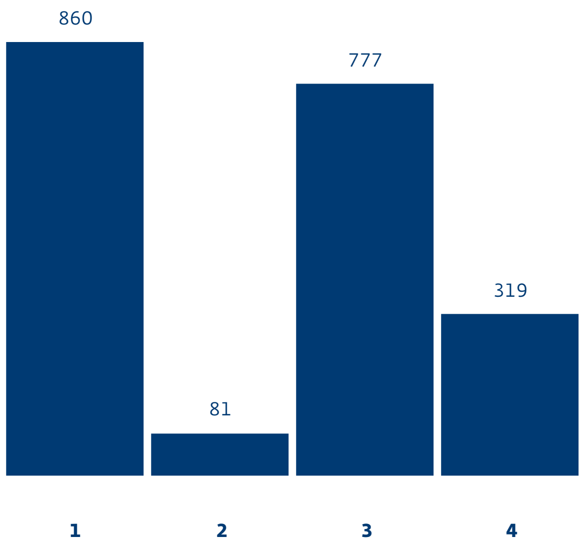
The segment statement contains unconsolidated data prepared under Czech Accounting Standards bacause the Group's management monitors segment financial results in such way. Consolicated adjustments and IFRS adjustments are stated in the elimination and reconciliation column. This mainly involves the elimination of sale of fixed assets within the Group and IFRS adjustments in the presentation and valuation of fixed assets.

**EBITDA Indicator by Segment** [in CZK mil.]

**First half of 2013**



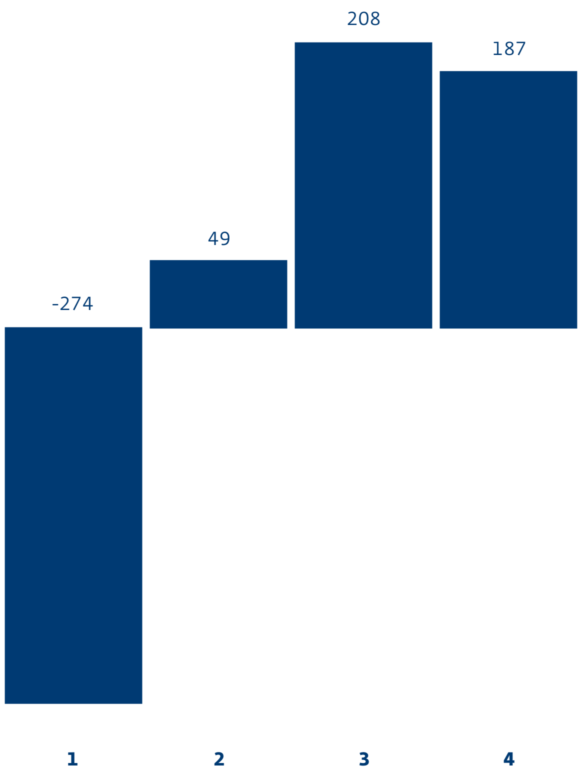

**First half of 2012**



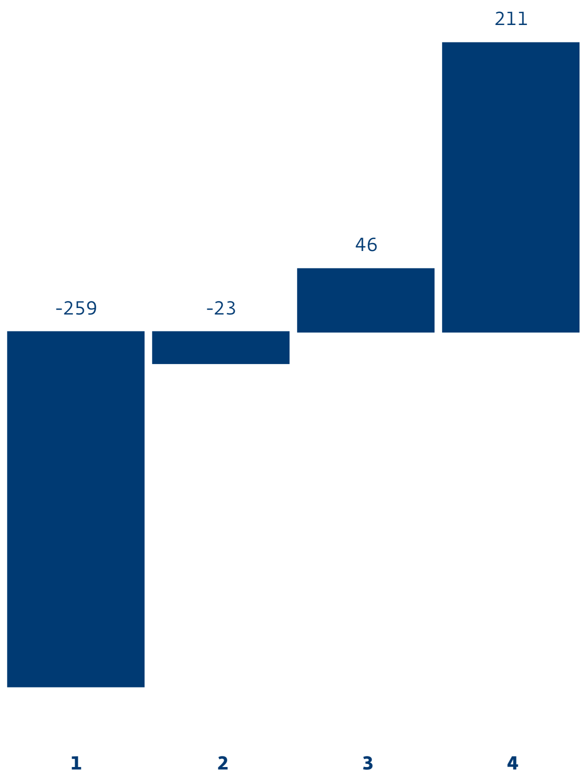

1 Passenger transport
2 Asset management
3 Freight transport
4 Others

**Profit (loss) for the period by Segment** [in CZK mil.]

**First half of 2013**




**First half of 2012**




1 Passenger transport
2 Asset management
3 Freight transport
4 Others

**VI–I–I Passenger Transport**

The EBITDA indicator in the passenger transport segment is significantly better year-on-year by 48.3%. These positive results are due to both an increase in sales and cost savings.

The income from principal operating activities increased by 1.4% (+ CZK 130 million). Despite the increasing competition and pressure on the Prague – Ostrava track, passenger transport has seen a positive trend of growing transportations, both in total – increase in passengers of approximately 21 thousand – and on key markets, predominantly in international and local long-distance transport and in suburban transport integrated in the IDS systems.

The positive result of operations is also impacted by the continuing efforts to increase effectiveness and search for internal savings. The operating expenses relating to the railway transportation declined year-on-year by 1.2% (CZK 59 million) and staff costs declined by 2% (CZK 68 million). Significant investments in railway vehicles and their gradual putting into operation positively impact the consumption of traction energy and fuel. Concurrently with the optimisation of the scope of transportations, the Parent Company manages to reduce the payment of the fee for the use of the railway route year-on-year.

Despite increasing depreciation relating to significant investments in the renewal of rolling stock, EBIT in passenger transport represented a profit of CZK 162 million in the first quarter of 2013 as compared to the loss of CZK 127 million in the same period of 2012.

The loss in the passenger transport segment in the first half of 2013 is primarily due to the impact of higher interest expenses and the adverse impacts of exchange rate developments.

**VI–I–II Freight Transport**

Despite the decline in freight transport sales, the savings in operating expenses led to EBITDA in the freight transport segment of CZK 901 million, which is a year-on-year increase of 16% and EBIT of CZK 350 million.

In the first six months of 2013, ČD Cargo, a.s. (hereinafter "ČD Cargo") transported 35 million tonnes of goods which is a decline of approximately 6% as compared to the same period of 2012. The results are mostly impacted by an unfavourable situation in the mining and sale of solid fuels, primarily black coal (a year-on-year decline of approximately 15%) and the decline in the construction industry (a year-on-year decline of approximately 23%).

The decline in sales is offset by the savings in operating expenses which declined year-on-year by 11% (CZK 583 million) primarily due to a lower consumption of traction energy and fuel, the influence of reduced transports, and a decrease in the fee for the use of the railway route as a result of a discount for single wagon business that SŽDC started providing to all railway transporters in the Czech Republic in March 2013. At present, SŽDC is involved in a legal dispute with the Railway Authority which is described in greater detail in Chapter VII.

In the first half of 2013, EBITDA was positively impacted by the sale of 86 locomotives with a net profit of CZK 85 million. Thanks to other savings in expenses and lower depreciation, the freight transport segment reported a post-tax profit of CZK 208 million.

**VI–I–III Asset Management**

The EBITDA of the Asset Management segment amounted to CZK 149 million which is a year-on-year increase of 84%. This positive result is due primarily to a larger amount of sales of non-core assets and the limitation of construction work involving asset repairs and maintenance.

In the first half of 2013, construction work of a repair and investment nature of CZK 35.4 million was completed.

In project preparation, emphasis was placed on renovations of railway station buildings in relation to ongoing and prepared investments of SŽDC in the transportation infrastructure. In the event of a sale of part of the "Railway Stations" unit, SŽDC will be able to immediately start renovations of railway buildings from the funds of the State Fund of Transportation Infrastructure and subsidies of the European Union.

COMMERCIAL SALES OF NON-CORE ASSETS

As of 30 June 2013, the Group recorded 149 sales in the aggregate amount of CZK 149.6 million.

# VI–II Investments

Total investments of the ČD Group amounted to CZK 5.4 billion in the first half of 2013. The most significant investments relate to passenger and freight transport.

### VI–II–I Passenger Transport

Investments in railway vehicles largely comprising the modernisation of existing vehicles and purchase of new vehicles amounted to CZK 4.1 billion in the first half of 2013. Investments are financed using both own and external funds, primarily the funds obtained from the issue of bonds placed in July 2012.

**Regional Transport**

In the first half of 2013, ČD invested CZK 2.8 billion in purchasing new vehicles and modernising and renovating railway vehicles for regional transport which is a volume of investments comparable to that of the first half of 2012. Two modernised motor vehicles of the 842 series and six modernised passenger coaches of the Bdt series and locomotives of the 961 series, which are used in regional and long-distance transport, were supplied. In addition, three new motor vehicles of the 841 series, 19 new two-motor units of the 844 series, 11 new three-vehicle electric units of the 440/640 series, two new two-floor units of the 471 series and two new two-vehicle electrical units of the 650 series were supplied.

| [CZK million] | Regional transport | Long-distance transport | Commercial transport | Total |
|---|---|---|---|---|
| **Investments in railway vehicles** | | **First half of 2013** | | |
| New railway vehicles | 2,225 | 8 | 4 | |
| Renovation of railway vehicles | 602 | 933 | 356 | **4,128** |
| **Investments in railway vehicles** | | **First half of 2012** | | |
| New railway vehicles | 1,144 | 44 | 9 | |
| Renovation of railway vehicles | 1,526 | 245 | 1 | **2,969** |

**Long-Distance Transport**

ČD invested CZK 941 million in long-distance transport in the first half of 2013, which was a year-on-year increase of 225 % in investments in long-distance transport. Seven modernised catering vehicles and 16 modernised passenger vehicles of the Bdbmsee/Bdbmrsee series were supplied. Catering vehicles and passenger coaches are also used in the commercial transport which ČD operates at its own risk.

**Commercial Transport**

Commercial transport primarily includes the operation of the SC, IC, EC category trains and some other activities, such as the lease of historical and special trains. As compared to the prior year, investments in commercial transport significantly increased and amounted to CZK 360 million in the first half of 2013.

In June 2013, ČD received 12 new multi-system electrical locomotives of the 380 series which are used in both long-distance and commercial transport.

**Investments Relating to Railway Vehicles**

Other investments included the modernisation of electrical locomotives as part of the periodical repairs and modernisation of railway vehicles and their construction units in order to increase the reliability and safety. These investments were made in both the regional and long-distance transport.

In the regional and long-distance transport, ČD additionally invested in adjustments of vehicles in order to enhance passenger comfort. As part of the technical improvements on traction vehicles, the modernisation of electrical locomotives continues through the adding of returnable sets with the control car, the modernisation of electrical locomotives from the 363 series to the 362 series increases the speed from 120 to 140 km/h. As part of technical improvements on passenger coaches, adjustments leading to an increase in passenger comfort, reliability and traffic safety are made.

### Other Investments

| **Other investments** [CZK million] | **First half of 2013** | **First half of 2012** |
|---|---|---|
| Construction | 29 | 126 |
| Other | 22 | 91 |
| **Total** | **51** | **217** |

### VI–II–II Freight Transport

ČD Cargo's investments in the first half of 2013 primarily focused on the renewal of rolling stock. Modernisations and renovations together with component repairs of traction vehicles and freight vehicles accounted for almost 90% of investments made for the first half of 2013 in the aggregate volume of CZK 628 million. In the first half of 2013, 30 % of the annual planned volume of investments were made.

| **Investments in railway vehicles** [CZK million] | **First half of 2013** | **First half of 2012** |
|---|---|---|
| New railway vehicles | 0 | 0 |
| Renovation of railway vehicles | 442* | 773* |
| Inspection repairs | 113 | 257 |
| **Total** | **555** | **1,030** |

* including the modernisation of traction vehicles of the 363.5 series

### Other Investments

Other investments primarily focused on construction adjustments, acquisition of handling technology and modernisation and development of IT technologies.

| **Other investments** [CZK million] | **First half of 2013** | **First half of 2012** |
|---|---|---|
| Construction | 12 | 19 |
| Other | 61 | 16 |
| **Total** | **73** | **35** |

# ČD Group

**Rating**

On 21 June 2013, Moody's rating agency downgraded the rating of České dráhy, a.s. from Baa1 with a negative outlook to Baa2 with a stable outlook. The rating remains in the investment zone with the range of Aaa – Baa3 of Moody's rating scale.

**Centralisation of Supporting Activities and Creation of the Holding Structure**

In the first half of 2013, work on the project of forming a holding structure and centralisation of the supporting activities intensively continued. The project work progressed namely in the preparation of the Internal Services Centre. Under this centre, support administrative activities should be centralised (logistics, operating procurement, accountancy, clearing centre of transportation sales) with the objective of reducing the costs of these activities. In the first phase, the launch at ČD, a.s. is prepared and other subsidiaries will join this model gradually. In operating procurement, a pilot project will be launched, which will be also developed for issues relating to spare parts and material for railway vehicles in the future.

In addition, the project of the document management system at ČD, a.s. was initiated, which is a necessary precondition for the start of the work of the Internal Services Centre. The document management system will additionally bring significant savings, acceleration of administrative processes and clear organisation of processed documents.

In passenger transport projects, analyses of individual segments of transportation, rolling stock, customer services and additional products were prepared. Following these analyses, optimisation was proposed, which is currently being developed into specific steps.

**Group Risk Management**

In the first half of 2013, ČD successfully completed the implementation of active risk management in the ČD Group according to the principles defined by the Risk Management Policy of ČD, a.s. and related internal policies. The principal objective of the single risk management system is to limit the negative influence of identified risks on the result of operations of 2013 on a continuous and active basis. Specific risk management procedures were defined in the entire ČD Group with the effective software support of eRisk. The single system of evaluating the negative influence of risks on the fulfilment of key performance indicators (KPIs) of business plans contributed to an increase in the quality of regular reporting to the senior management of the company on the risk position of all subsidiaries, including the consolidation of the risk position of the ČD Group as a whole. The methodological and control activities of the corporate risk manager contribute to the early warning system where senior management are informed about threats that can significantly endanger or prevent the achievement of the business objectives of individual entities of the company and the ČD Group in advance.

**Introduction of Real Cash Pooling in the Group**

In April 2013, the implementation of real group cash-pooling was initiated in the ČD Group, which is a significant pillar in the treasury centralisation in the ČD Group and an effective tool for achieving interest and loan optimisation and liquidity concentration.

In addition to CZK accounts of ČD, a.s., and its subordinate entities, accounts of selected subsidiaries are gradually involved in the cash-pooling structure. The total cash-pool overdraft facility is agreed in the amount of CZK 1.5 billion. Among other things, it finances individual entities involved in the cash-pooling based on a contract for mutual loan facilities. Pursuant to this contract, the involved entities cancel some of their existing overdrafts and use the corresponding limit in the cash-pooling. Komerční banka, a.s. was selected on the basis of a public tender to be the provider of real cash-pooling, including the overdraft loan and the related banking services.

**Repayment of the principal of EUROFIMA**

On 7 February 2013, ČD, a.s. repaid the principal of EUR 15 million, which it borrowed from EUROFIMA in 2003 for the purchase of new passenger coaches.

**Ongoing Restructuring in ČD Cargo, a.s.**

The subsidiary ČD Cargo is currently being restructured with the objective of increasing work productivity and stabilising operations without any significant impact on the transport volumes. The measures leading to savings in ČD Cargo primarily consist of the optimisation of operating expenses in relation to an increase in the use of the capacities of trains, locomotives and employees and in relation to inspection repairs of wagons. Other significant savings are focused on staff costs in relation to an increase in productivity, changes in technologies and in the collective agreement. Savings measures for the external environment primarily involve the development of conditions for sustainable operations of the freight transportation in single wagon business, which include the provision of discounts for the use of the railway route for the single wagons to all transporters and the harmonisation of conditions between the railway and road transportation leading to an increase in the competitiveness of the railway.

In respect of the provision of the discount for the use of the railway route, SŽDC announced new conditions for the single wagon business in March 2013, which consist of the provision of a discount of 55% for 100% of trains complying with the definition of single wagon business for all transporters starting from March 2013. On 27 March 2013, the AWT transporter contested the announcement of new conditions for single wagon business on the railway and complained to the Railway Authority. The Railway Authority acknowledged this protest and cancelled the new conditions. SŽDC appealed the resolution of the Railway Authority on 27 March 2013 and the dispute is being dealt with by the Czech Ministry of Transport. Pursuant to the monitoring of the dispute development, management of ČD Cargo will decide in the third quarter of 2013 on the potential recognition of a provision for an "additional payment" for the use of the railway route for 2013 in the anticipated amount of approximately CZK 300 million.

**Sale of Railway Stations to SŽDC**

Negotiations are currently being conducted regarding the sale of railway station buildings from the property of the parent company ČD, a.s. to SŽDC. The transfer was approved by the council of economic ministers, which is dealing with this transfer and is further subject to approval by the Czech Government. The buildings are expected to be sold as of 1 January 2014.

# Employees

During the first half of 2013, the ČD Group reported the recalculated number of employees of 25,573, ie a year-on-year decrease of 3% (from 26,417).

In passenger transport, savings measures continued to focus on the optimisation of the professional structure, which followed the trend from the previous year. A predominant part of employees discontinued their employment by agreement either due to the claim for old-age pension, loss of health capability or due to redundancy. Employees were dismissed across all employment levels, ie both employees providing for operations and administration. The primary reason for decreasing the employment relates to the rationalisation measures resulting from changes in the train time table, use of synergic effects in the Group, optimisation of administrative activities and increase in work productivity.

In freight transport, the number of employees significantly decreased primarily due to the implementation of restructuring measures.

# Interim Consolidated Financial Statements

# Interim Consolidated Financial Statements for the Six Months Ended 30 June 2013

## Interim Statement of Financial Position (Balance Sheet) as of 30 June 2013

| | **30 June 2013** CZK thousand | **31 Dec 2012** CZK thousand | **30 June 2012** CZK thousand |
|---|---|---|---|
| | (unaudited) | (audited) | (unaudited) |
| Property plant and equipment | 74,206,632 | 73,545,823 | 70,906,415 |
| Investment property | 2,100,062 | 2,171,692 | 2,160,443 |
| Intangible assets | 560,998 | 571,451 | 500,668 |
| Investments in joint ventures and associates | 191,286 | 173,754 | 169,856 |
| Deferred tax asset | 6,373 | 6,439 | 8,013 |
| Trade receivables | 1,587 | 3,211 | 4,876 |
| Other financial assets | 1,048,768 | 724,517 | 872,391 |
| Other assets | 92,256 | 80,760 | 118,547 |
| **Total non-current assets** | **78,207,962** | **77,277,647** | **74,741,209** |
| | | | |
| Inventories | 1,240,398 | 1,178,752 | 1,164,483 |
| Trade receivables | 3,567,907 | 3,236,625 | 3,376,024 |
| Tax receivables | 4,103 | 10,279 | 1,088 |
| Other financial assets | 149,261 | 192,471 | 230,724 |
| Other assets | 1,569,105 | 872,348 | 1,604,029 |
| Cash and cash equivalents | 787,266 | 1,524,669 | 1,230,871 |
| Assets held for sale | 196,306 | 232,551 | 178,007 |
| **Total current assets** | **7,514,346** | **7,247,695** | **7,785,226** |
| | | | |
| **TOTAL ASSETS** | **85,722,308** | **84,525,342** | **82,526,435** |

## Interim Statement of Financial Position (Balance Sheet) as of 30 June 2013 (continued)

| | **30 June 2013** CZK thousand | **31 Dec 2012** CZK thousand | **30 June 2012** CZK thousand |
|---|---|---|---|
| | (unaudited) | (audited) | (unaudited) |
| Share capital | 20,000,000 | 20,000,000 | 20,000,000 |
| Reserve and other funds | 16,593,373 | 16,393,703 | 16,648,325 |
| Retained earnings | 2,643,550 | 3,176,714 | 4,290,373 |
| **Equity attributable to equity holders of the parent company** | **39,236,923** | **39,570,417** | **40,938,698** |
| Non-controlling interests | 737,365 | 748,588 | 900,738 |
| **Total equity** | **39,974,288** | **40,319,005** | **41,839,436** |
| | | | |
| Loans and borrowings | 25,699,059 | 26,560,597 | 19,403,661 |
| Deferred tax liability | 508,674 | 364,298 | 237,084 |
| Provisions | 248,281 | 241,144 | 257,972 |
| Other financial liabilities | 344,760 | 808,282 | 581,211 |
| Other liabilities | 562,555 | 375,591 | 368,337 |
| **Total non-current payables** | **27,363,329** | **28,349,912** | **20,848,265** |
| | | | |
| Trade payables | 5,846,479 | 7,428,699 | 6,903,378 |
| Loans and borrowings | 7,508,073 | 3,030,771 | 8,362,545 |
| Tax payables | 137,347 | 19,004 | 41,295 |
| Provisions | 1,586,936 | 1,721,689 | 1,135,365 |
| Other financial payables | 630,772 | 769,166 | 635,291 |
| Other payables | 2,675,084 | 2,887,096 | 2,760,860 |
| Payables arising from assets held for sale | 0 | 0 | 0 |
| **Total current payables** | **18,384,691** | **15,856,425** | **19,838,734** |
| | | | |
| **TOTAL LIABILITIES** | **85,722,308** | **84,525,342** | **82,526,435** |

## Interim Statement of Profit or Loss for the Six Months Ended 30 June 2013

| | Period ended 30 June 2013<br>CZK thousand | Period ended 30 June 2012<br>CZK thousand |
|---|---|---|
| | (unaudited) | (unaudited) |
| **CONTINUING OPERATIONS** | | |
| Revenue from principal operations | 16,336,643 | 16,931,633 |
| Other operating income | 1,949,541 | 1,940,076 |
| Purchased consumables and services | -8,520,953 | -9,451,550 |
| Employee benefit costs | -6,218,724 | -6,326,592 |
| Depreciation and amortisation | -2,885,848 | -2,881,588 |
| Other operating losses, net | -187,455 | -185,749 |
| **Profit before interest and tax** | **473,204** | **26,230** |
| Financial expenses | -473,308 | -388,646 |
| Other losses, net | -190,590 | -16,243 |
| Share of income of associates | 249 | 7,128 |
| **Loss before tax** | **-190,445** | **-371,531** |
| Income tax expense | -319,905 | -122,576 |
| **Loss for the period from continuing operations** | **-510,350** | **-494,107** |
| **DISCONTINUED OPERATIONS** | | |
| Profit from discontinued operations | 0 | 0 |
| **Loss for the period** | **-510,350** | **-494,107** |
| Attributable to equity holders of the parent company | -523,595 | -511,368 |
| Attributable to non-controlling interests | 13,245 | 17,261 |

## Interim Statement of Comprehensive Income for the Six Months Ended 30 June 2013

| | Period ended 30 June 2013<br>CZK thousand | Period ended 30 June 2012<br>CZK thousand |
|---|---|---|
| | (unaudited) | (unaudited) |
| Loss for the year | -510,350 | -494,107 |
| Foreign exchange rate gains or losses from the transfer of foreign branches | 1,156 | 63 |
| Cash flow hedging | 187,384 | 13,697 |
| Relating income tax | 1,561 | 2,447 |
| **Other comprehensive income for the period (items that can be reclassified to profit or loss), net of tax** | **190,101** | **16,207** |
| **Total comprehensive income for the year** | **-320,249** | **-477,900** |
| Attributable to equity holders of the parent company | -333,494 | -495,161 |
| Attributable to non-controlling interests | 13,245 | 17,261 |

## Interim Statement of Changes in Equity for the Six Months Ended 30 June 2013

| | Share capital CZK thousand | Reserve and other funds CZK thousand | Retained earnings CZK thousand | Equity attributable to equity holders of the parent company CZK thousand | Non-controlling interests CZK thousand | Total equity CZK thousand |
|---|---|---|---|---|---|---|
| **Balance at 1 Jan 2012** | **20,000,000** | **16,616,402** | **4,817,974** | **41,434,376** | **866,849** | **42,301,225** |
| (audited) | | | | | | |
| Profit (loss) for the period | 0 | 0 | -511,368 | -511,368 | 17,261 | -494,107 |
| Other comprehensive income for the period, net of tax | 0 | 16,207 | 0 | 16,207 | 0 | 16,207 |
| Allocation to the reserve fund | 0 | 16,233 | -16,233 | 0 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | 0 | -9,956 | -9,956 |
| Other | 0 | -517 | 0 | -517 | 26,584 | 26,067 |
| **Balance at 30 June 2012** | **20,000,000** | **16,648,325** | **4,290,373** | **40,938,698** | **900,738** | **41,839,436** |
| (unaudited) | | | | | | |
| **Balance at 1 January 2013** | **20,000,000** | **16,393,703** | **3,176,714** | **39,570,417** | **748,588** | **40,319,005** |
| (audited) | | | | | | |
| Profit (loss) for the period | 0 | 0 | -523,595 | -523,595 | 13,245 | -510,350 |
| Other comprehensive income for the period, net of tax | 0 | 190,101 | 0 | 190,101 | 0 | 190,101 |
| Allocation to the reserve fund | 0 | 9,569 | -9,569 | 0 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | 0 | -24,468 | -24,468 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| **Balance at 30 June 2013** | **20,000,000** | **16,593,373** | **2,643,550** | **39,236,923** | **737,365** | **39,974,288** |
| (unaudited) | | | | | | |

## Interim Cash Flow Statement for the Six Months Ended 30 June 2013

| | **Period ended 30 June 2013** CZK thousand (unaudited) | **Period ended 30 June 2012** CZK thousand (unaudited) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss for the year before tax | -190,445 | -371,531 |
| Dividend income | -1,926 | -2,165 |
| Financial expenses | 473,308 | 388,646 |
| Profit from the sale and disposal of non-current assets | -222,968 | -134,420 |
| Depreciation and amortisation of non-current assets | 2,885,848 | 2,881,588 |
| Impairment of non-current assets | 78,308 | -69,476 |
| Impairment of trade receivables | 25,840 | 60,429 |
| Foreign exchange rate gains | 245,259 | -48,783 |
| Other | 2,421 | -13,918 |
| **Cash flow from operating activities before changes in working capital** | **3,295,645** | **2,690,370** |
| | | |
| Decrease (increase) in trade receivables | -216,502 | -27,275 |
| Decrease (increase) in inventories | -59,944 | -31,334 |
| Decrease (increase) in other assets | -662,610 | -165,203 |
| Increase (decrease) in trade payables | -55,661 | 430,264 |
| Increase (decrease) in provisions | -131,057 | 69,245 |
| Increase (decrease) in other payables | -234,013 | -467,897 |
| **Total changes in working capital** | **-1,359,787** | **-192,200** |
| | | |
| **Cash flows from operating activities** | **1,935,858** | **2,498,170** |
| | | |
| Interest paid | -464,874 | -468,787 |
| Income tax paid | -58,163 | -34,663 |
| **Net cash flows from operating activities** | **1,412,821** | **1,994,720** |

## Interim Cash Flow Statement for the Six Months Ended 30 June 2013 (continued)

| | Period ended 30 June 2013 CZK thousand (unaudited) | Period ended 30 June 2012 CZK thousand (unaudited) |
|---|---|---|
| **CASH FLOWS FROM INVESTMENT ACTIVITIES** | | |
| Payments for property, plant and equipment | -5,254,618 | -4,954,014 |
| Proceeds from disposal of property, plant and equipment | 466,976 | 175,393 |
| Payments for investment property | -7,988 | -95 |
| Costs of acquisition of intangible assets | -92,650 | -10,127 |
| Received interest | 6,524 | 9,745 |
| Received dividends | 103 | 1,020 |
| **Net cash flows used in investment activities** | **-4,881,653** | **-4,778,078** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from loans and borrowings | 5,345,290 | 2,812,324 |
| Repayments of loans and borrowings | -2,476,075 | -1,328,923 |
| Impacts of changes in equity *) | -137,786 | 0 |
| Dividends paid | 0 | -7,487 |
| **Net cash flow from financing activities** | **2,731,429** | **1,475,914** |
| **Net increase in cash and cash equivalents** | **-737,403** | **-1,307,444** |
| Cash and cash equivalents at the beginning of the reporting period | 1,524,669 | 2,538,315 |
| **Cash and cash equivalents at the end of the reporting period** | **787,266** | **1,230,871** |

*)In 2012, the share capital of ČD – Telematika a. s. decreased, the decrease in the share capital attributable to non-controlling interest amounted to CZK (166,197) thousand– in the second half of 2012, CZK 28,411 thousand was paid, and the remaining CZK 137,786 thousand was paid in 2013.

# Notes to the Summarised Interim Consolidated Financial Statements for the Six Months Ended 30 June 2013

# 1 General Information

## I–I General Information

The parent company České dráhy, a. s. (the "Company" or "ČD") was formed on 31 March 2002. The sole shareholder of the Company is the Czech Republic. The Company's share capital is CZK 20,000,000 thousand. The Company's registered office is located at nábř. L. Svobody 1222, Prague 1.

The Group has been principally engaged in operating railway passenger transportation. Other activities of the Group predominantly include the administration of immovable assets (railway station buildings and other). 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 Správa železniční dopravní cesty, s.o. ("SŽDC"). SŽDC secures the operability and servicing of the railway route.

## I–II Organisational Structure and Bodies of the Parent Company

At the meeting of the Steering Committee held on 30 April 2013, David Karásek was appointed a member of the Supervisory Board with immediate effect. At its meeting, the Steering Committee recalled the following members of the Supervisory Board: Miroslav Nádvorník, Libor Antoš, David Karásek, Radim Jirout and Michael Hrbata, with effect from 19 July 2013. The Steering Committee appointed the following members of the Supervisory Board: Ivana Kubaštová, František Žerava, Miroslav Svítek, Zdeněk Žemlička and Antonín Věcheta, with effect from 20 July 2013.

At its meeting held on 16 July 2013, the Czech Government revoked the authorisation for activities in the Steering Committee of ČD, a.s. for Miloslav Müller, Jiří Žák, Miloslav Hala and Michael Hrbata, with immediate effect. In addition, the Czech Government authorised the following members for activities in the Steering Committee with effect from 17 July 2013: Veronika Kramaříková – Head of the Cabinet of the Minister of Finance, Josef Kubovský – Head of the Division for the Infrastructure and Zoning Plan of the Ministry of Transport, Richard Vítek – Vice Deputy Defence Minister, Zbyněk Šolc – Senior Director of the Transport Minister Cabinet Section. Josef Kubovský was appointed Vice-Chairman of the Steering Committee.

On 30 July 2013, the Supervisory Board recalled Petr Žaluda from the position of a member and Chairman of the Board of Directors and Miroslav Šebeňa, Roman Boček and Ctirad Nečas from positions of members of the Board of Directors with immediate effect. The Supervisory Board appointed Dalibor Zelený, Daniel Kurucz and Pavel Švagr members of the Board of Directors and Dalibor Zelený Chairman of the Board of Directors on 30 July 2013 with immediate effect. At its meeting held on 15 August 2013, the Supervisory Board recalled Pavel Švagr from the position of the member of the Board of Directors and appointed Karel Otava as the member of the Board of Directors. According to the revised Articles of Association, the Board of Directors has three members.

Antonín Hájek is a new Chairman of the Risk Management Committee. Petr Vohralík remains a member of the Risk Management Committee.

**I–III Consolidation Group**

The investment in the joint venture RAILREKLAM spol. s r.o. was treated as immaterial in the prior reporting period. In the consolidated financial statements for the year ended 31 December 2012, this investment was reported as other financial assets available for sale. In the interim consolidated financial statements for the six months ended 30 June 2013, it is included in the consolidation group.

In the interim consolidated financial statements for the six months ended 30 June 2013, the consolidation group is extended to include newly formed companies Auto Terminal Nymburk, s.r.o. and ČD Interport, s.r.o.

## 2 Statement of Compliance and Principal Accounting Policies

The interim consolidated financial statements for the six months ended 30 June 2013 were prepared in accordance with IAS 34. They do not include all the information required to be disclosed in the annual financial statements and should be read in close conjunction with the consolidated financial statements of the Group for the year ended 31 December 2012.

These interim consolidated financial statements were not audited by independent auditors.

In preparing these interim consolidated financial statements, the Group used the same accounting policies that were used in the consolidated financial statements for the year ended 31 December 2012.

The Group used no standards or interpretations adopted by the European Union in advance of their effective dates.

## 3 Seasonal Character

In the first half of 2013, passenger transports of the Parent Company stagnated year-on-year and sales from transport activities slightly decreased year-on-year. The principal reasons for the slight decrease in sales was the lower number of days as compared to the prior year (2012 was a leap year), the floods in early June 2013 and an extremely long and cold winter and spring that adversely impacted demand for transportation in the leisure activities segment. Concurrently, the growth in the number of transported passengers and sales in suburban transportation (primarily in the IDS segment), long-distance transport and international transport continued. In the latter half of 2013, we anticipate that these negative impacts will reverse and the growth in sales from passenger transportation will return.

The sales of ČD Cargo, a.s. are affected by various seasonal trends. These include economic cycles in commodities that account for the largest part of its transportation – eg seasonal sales of energy and assorted coal, depending on the heating season and the business policy of mines. In addition, the influence of the global economy increases where both performance and sales are impacted by events abroad and overseas – recently, these have included, for example, the growth in shale gas and crude oil extracting in the USA and the consequent increase in imports of North American black coal to Europe and a decline in global metallurgical production. Last, but not least, mention should be made of force majeure impacts such as the June floods in the Czech Republic and neighbouring countries that will also have a significant impact on the performance and sales of ČD Cargo.

# 4 Related Party Transactions

The Parent Company is fully owned by the state. In accordance with the exception set out in paragraphs 25 – 27 of the amended IAS 24, the Parent Company does not include other state-owned companies among related parties. The below table shows only transactions with SŽDC and the ČEZ Group, given their significant position in the activities of the Group. The most significant transactions with these entities include the use of the railway route, purchase of electricity and freight transportation sales.

Expenses and income of the Group resulting from the transactions conducted with SŽDC and the ČEZ Group were as follows:

| | | 30 June 2013 | | 30 June 2012 |
|---|---|---|---|---|
| | SŽDC | ČEZ Group | SŽDC | ČEZ Group |
| Expenses | 2,271,587 | 420,494 | 2,474,521 | 477,432 |
| Income | 428,148 | 478,588 | 470,315 | 689,609 |

The Group's receivables from and payables to SŽDC and the ČEZ Group were as follows:

| | | 30 June 2013 | | 30 June 2012 |
|---|---|---|---|---|
| | SŽDC | ČEZ Group | SŽDC | ČEZ Group |
| Receivables (line "Trade receivables") | 235,152 | 123,327 | 184,577 | 198,122 |
| Payables (line "Trade payables") | 979,131 | 205,194 | 959,897 | 255,360 |
| Prepayments made (line "Other assets", current) | 43,540 | 2,182 | 47,492 | 724 |
| Received prepayments (line "Other payables", current) | 91,160 | 3,050 | 122,374 | 2,829 |
| Estimated payables (line "Trade payables") | 64,679 | 1 | 15,064 | 3,069 |
| Estimated receivables (line "Trade receivables") | 16,435 | 0 | 49,826 | 287 |

# 5 Income Taxation

The income tax reported in the statement of profit or loss as of 30 June 2013 of CZK (319,905) thousand includes the tax payable of CZK (173,903) thousand and deferred tax of CZK (146,002) thousand.

The effective tax rate is primarily impacted by the Parent Company not accounting for the deferred tax asset on the grounds of prudence.

# 6 Segments

(CZK million)

| Period ended 30 June 2013 | Passenger transportation | Administration of assets | Freight transportation | Other | Elimination and reconciliation *) | Total |
|---|---|---|---|---|---|---|
| **Revenue from principal operations** | | | | | | |
| Revenue from passenger transportation | 3,397 | 0 | 0 | 0 | -23 | 3,374 |
| Revenue from securing railway routes | 0 | 0 | 0 | 0 | 0 | 0 |
| Payments from orderers | 6,351 | 0 | 0 | 0 | 0 | 6,351 |
| Other | 0 | 0 | 7,155 | 0 | -543 | 6,612 |
| | **9,748** | **0** | **7,155** | **0** | **-566** | **16,337** |
| **Purchased consumables and services** | | | | | | |
| Traction costs | -1,493 | 0 | -875 | 0 | 23 | -2,345 |
| Payment for the use of the railway route | -794 | 0 | -936 | 0 | -25 | -1,755 |
| Other purchased consumables and services | -2,741 | -205 | -2,917 | -1,298 | 2,740 | -4,421 |
| | **-5,028** | **-205** | **-4,728** | **-1,298** | **2,738** | **-8,521** |
| **Staff costs** | | | | | | |
| Payroll costs | -2,343 | -85 | -1,584 | -511 | 68 | -4,455 |
| Social security and health insurance | -789 | -29 | -492 | -171 | 29 | -1,452 |
| Statutory social costs | -15 | -1 | -89 | -17 | -122 | -244 |
| Statutory social costs – benefits arising from the collective agreement | -116 | -3 | -5 | -13 | 69 | -68 |
| | **-3,263** | **-118** | **-2,170** | **-712** | **44** | **-6,219** |
| | | | | | | |
| Other operating income and expenses | 312 | 456 | 644 | 1,831 | -1,481 | 1,762 |
| Intracompany income and expenses | -35 | 45 | 0 | -10 | 0 | 0 |
| Overhead costs – operating | -459 | -29 | 0 | 488 | 0 | 0 |
| Depreciation and amortisation | -1,113 | -109 | -551 | -155 | -958 | -2,886 |
| Other income and expenses | -553 | 0 | -142 | 169 | -457 | -983 |
| Overhead costs – financial and other | 117 | 9 | 0 | -126 | 0 | 0 |
| **Profit (loss) for the period from continuing operations** | **-274** | **49** | **208** | **187** | **-680** | **-510** |
| | | | | | | |
| Profit (loss) for the period from discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 |
| **Profit (loss) for the period** | **-274** | **49** | **208** | **187** | **-680** | **-510** |
| Profit (loss) attributable to non-controlling interests | 0 | 0 | 0 | 0 | 13 | 13 |
| Profit (loss) attributable to owners of the parent company | -274 | 49 | 208 | 187 | -693 | -523 |

*) The 'Elimination and reconciliation' column includes eliminations of intracompany relations and differences between balances under Czech Accounting Standards and IFRS.

(CZK million)

| Period ended 30 June 2012 | Passenger transportation | Administration of assets | Freight transportation | Other | Elimination and reconciliation *) | Total |
|---|---|---|---|---|---|---|
| **Revenue from principal operations** | | | | | | |
| Revenue from passenger transportation | 3,438 | 0 | 0 | 0 | -26 | 3,412 |
| Revenue from securing railway routes | 0 | 0 | 0 | 0 | 0 | 0 |
| Payments from orderers | 6,178 | 0 | 0 | 0 | 0 | 6,178 |
| Other | 2 | 0 | 8,012 | 3 | -675 | 7,342 |
| | **9,618** | **0** | **8,012** | **3** | **-701** | **16,932** |
| **Purchased consumables and services** | | | | | | |
| Traction costs | -1,533 | 0 | -959 | 0 | 24 | -2,468 |
| Payment for the use of the railway route | -828 | 0 | -1,137 | 0 | -21 | -1,986 |
| Other purchased consumables and services | -2,726 | -261 | -3,215 | -1,697 | 2,901 | -4,998 |
| | **-5,087** | **-261** | **-5,311** | **-1,697** | **2,904** | **-9,452** |
| **Staff costs** | | | | | | |
| Payroll costs | -2,398 | -97 | -1,568 | -504 | 88 | -4,479 |
| Social security and health insurance | -802 | -31 | -525 | -167 | 17 | -1,508 |
| Statutory social costs | -15 | -1 | -96 | -18 | -125 | -255 |
| Statutory social costs - benefits arising from the collective agreement | -116 | -3 | -12 | -17 | 63 | -85 |
| | **-3,331** | **-132** | **-2,201** | **-706** | **43** | **-6,327** |
| | | | | | | |
| Other operating income and expenses | 273 | 460 | 277 | 2,120 | -1,376 | 1,754 |
| Intracompany income and expenses | -42 | 49 | 0 | -7 | 0 | 0 |
| Overhead costs – operating | -571 | -35 | 0 | 606 | 0 | 0 |
| Depreciation and amortisation | -987 | -110 | -673 | -150 | -962 | -2,882 |
| Other income and expenses | -212 | 0 | -58 | 128 | -377 | -519 |
| Overhead costs – financial and other | 80 | 6 | 0 | -86 | 0 | 0 |
| **Profit (loss) for the period from continuing operations** | **-259** | **-23** | **46** | **211** | **-469** | **-494** |
| | | | | | | |
| Profit (loss) for the period from discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 |
| **Profit (loss) for the period** | **-259** | **-23** | **46** | **211** | **-469** | **-494** |
| Profit (loss) attributable to non-controlling interests | 0 | 0 | 0 | 0 | 17 | 17 |
| Profit (loss) attributable to owners of the parent company | -259 | -23 | 46 | 211 | -486 | -511 |

*) The 'Elimination and reconciliation' column includes eliminations of intracompany relations and differences between balances under Czech Accounting Standards and IFRS.

## 7 Property, Plant and Equipment

In the six months ended 30 June 2013, the Group acquired property, plant and equipment of CZK 4,337,392 thousand (as of 31 December 2012: CZK 9,949,607 thousand).

The most significant items of prepayments made by the Parent Company include prepayments made for the purchase and modernisation of railway vehicles.

Principal additions reported by the Parent Company include the acquisition of railway vehicles of the 440, 441 and 442, 640, 641 and 642, 650 and 651, 840, 841 series and modernisation of railway vehicles of the 842, 961, 053 and 054 series. Other significant additions include the inspection and modernisation of railway vehicles by ČD Cargo, a.s.

Property, plant and equipment with the net book value of CZK 316,697 thousand were disposed of by the Group in the six months ended 30 June 2013 (31 December 2012: CZK 859,251 thousand).

The most significant impairment loss as of 30 June 2013 relates to the series 680 tilting trains (Pendolino) in the amount of CZK 527,753 thousand (31 December 2012: CZK 492,953 thousand).

During the interim period ended 30 June 2013, the Parent Company acquired property, plant and equipment financed using the subsidies of CZK 285,934 thousand.

## 8 Intangible Assets

In the six months ended 30 June 2013, the Group acquired intangible assets of CZK 77,144 thousand (31 December 2012: CZK 173,277 thousand).

The acquisition of intangible assets by the Parent Company includes the POP, the PARIS portal, EVITA, MAVIS and SAP modules.

## 9 Inventories

The decrease in the value of inventories to the net realisable value as of 30 June 2013 amounts to CZK 59,764 thousand (31 December 2012: CZK 62,437 thousand).

# 10 Cash and Cash Equivalents

(CZK '000)

| | 30 June 2013 | 31 Dec 2012 | 30 June 2012 |
|---|---|---|---|
| Cash on hand and cash in transit | 93,139 | 92,806 | 90,486 |
| Cash at bank | 564,445 | 1,431,863 | 790,848 |
| Short-term securities | 129,682 | 0 | 349,537 |
| **Total** | **787,266** | **1,524,669** | **1,230,871** |

# 11 Loans and Borrowings

In April 2013, the ČD Group commenced implementing real group cash-pooling. The aggregate cash-pool overdraft facility is agreed to be CZK 1.5 billion. Komerční banka, a.s. was selected on the basis of a public tender to be the provider of real cash-pooling, including the overdraft loan and the related banking services.

In relation to the accession of ČD Cargo, a.s. to the group cash-pooling arrangement, the overdraft loan with a limit of CZK 200 million with KB, a.s. was discontinued on 28 May 2013 and subsequently the revolving loan of CZK 400 million from KB, a.s. was discontinued on 31 May 2013.

The Parent Company has concluded loan contracts with EUROFIMA. In the first half of 2013, the total principal of EUR 15,000 thousand was paid as of the due date on 11 February 2013. The principal totalling EUR 149,998 thousand remains to be paid to EUROFIMA in line with the relevant due dates from 4 February 2014 to 3 April 2017.

As of 30 June 2013, the Parent Company increased the balance of the issued bills of exchange and overdrafts by CZK 3.7 billion as compared to the balance as of 31 December 2012.

In June 2013, Koleje Czeskie sold 30 traction vehicles for CZK 471.8 million to Millenium leasing and leased them back and paid the initial lump-sum payment of CZK 212 million.

# 12 Contractual Obligations Relating to Expenses

As of the interim consolidated balance sheet date, the Group concluded contracts for the purchase of property, plant and equipment and investment property of CZK 18,871,735 thousand (31 December 2012: CZK 22,818,427 thousand). A significant portion of the obligations relating to expenses include investments in railway vehicles.

## 13 Derivative Financial Instruments

During the interim reporting period, the Parent Company concluded new derivative transactions for the hedging of diesel and electricity prices. The total fair value of these commodity swaps is CZK (2,766) thousand as of 30 June 2013. In March and April 2013, the Parent Company additionally concluded 30 interest rate swaps to hedge interest payments arising from the leaseback of 58 vehicles agreed in 2010. Their fair value as of 30 June 2013 amounts to CZK 30,558 thousand.

During the interim reporting period, ČD Cargo, a.s. concluded five new currency forwards with the fair value of CZK (5,685) thousand as of 30 June 2013. In addition, it concluded new commodity derivatives for the hedging of diesel prices with the fair value of CZK (2,545) thousand as of 30 June 2013.

## 14 Dividends

ČD – Telematika a.s. decided to pay out dividends from ordinary shares outside the Group in the amount of CZK 24,468 thousand in the interim reporting period. The dividends were not paid out by the end of June.

## 15 Significant Events During the Interim Reporting Period

On 21 June 2013, Moody's rating agency downgraded the rating of České dráhy, a.s. from Baa1 with a negative outlook to Baa2 with a stable outlook.

The arbitration proceedings relating to the legal suit brought by ŠKODA TRANSPORTATION a.s. against the Parent Company are ongoing.

The Parent Company intends to transfer the railway station buildings from its assets to Správa železniční dopravní cesty. Work on specifying the portfolio of assets and activities to be transferred is currently underway. No final approval of the entire transaction has been granted yet.

During the interim reporting period, ČD Cargo a.s. released the provision for restructuring in the amount of CZK 158,319 thousand. This provision was reduced following the dismissal of a number of employees.

## 16 Post Balance Sheet Events

On 25 July 2013, the Parent Company issued bonds with a total nominal value of CZK 4 billion with the issue rate of 99.502% of the nominal value, with the maturity of five years and a variable coupon paid on a half-year basis which is composed of the 6M PRIBOR rate plus a markup of 1.7% p.a. The bonds issue is listed on the Regulated Market of the Prague Stock Exchange (Regulovaný trh Burzy cenných papírů Praha, a.s.) The lead managers of the issue were Česká spořitelna, a.s. and Československá obchodní banka, a.s.

In relation to these newly issued bonds with a variable interest rate, the Parent Company concluded interest rate swaps during July and August that serve as hedging against the interest rate risk. The entire issue of the bonds of CZK 4 billion was hedged. Financial settlement of interest rates between the Parent Company and the banks will proceed twice a year, from January 2014 to July 2018, inclusive.

## 17 Approval of the Consolidated Financial Statements

These interim consolidated financial statements were approved and authorised for issue on 29 August 2013.

# Prospects through the End of 2013

In the second half of 2013, the ČD Group anticipates stable development in passenger transport. The ČD Group will continue to pursue restructuring measures by the end of 2013.

In spite of competition on the Prague – Ostrava track, the passenger transport will continue to maintain the positive trend of the growth in sales from passengers.

The operations of the Group may be significantly impacted by changes in the EUR/CZK exchange rate, since part of the loans of ČD, a.s. are denominated in EUR and sales in passenger and freight transport are also largely collected in EUR.

The freight transport will continue implementing the savings measures in order to achieve the “sustainability” of single wagon business through a decrease in this business with a potential impact on the loss of sales and dismissal of other employees.

# Legal Disputes

In the first half of 2013, the ČD Group recorded no new significant legal disputes that could significantly impact the operations of ČD or the ČD Group.

**Ongoing Legal and Arbitration Proceedings**

**1) Legal Dispute with ŠKODA TRANSPORTATION a.s.**
On 9 April 2004, České dráhy and ŠKODA TRANSPORTATION a.s. signed a purchase contract for the supply of 20 three-system electrical locomotives of ŠKODA TRANSPORTATION a.s. (hereinafter the "Purchase Contract"). The agreed purchase price for the supply of the locomotives is approximately CZK 2.7 billion (net of VAT).

By now, České dráhy has paid approximately CZK 2.2 billion (including VAT) under the Purchase Contract. Unfortunately, some locomotive supply deadlines were not met as well as some deadlines for the provision of the documentation necessary for international operation of locomotives (as specified in the Purchase Contract). In addition, certain locomotives have not yet been supplied. For this reason, České dráhy called on ŠKODA TRANSPORTATION a.s. to pay a contractual fine (penalty) for the delay in fulfilling the supply deadlines and for unsupplied locomotives in the amount of approximately CZK 734.7 million determined by České dráhy as of 27 March 2012. However, since České dráhy and ŠKODA TRANSPORTATION a.s. failed to agree on whether ŠKODA TRANSPORTATION a.s. is responsible for the late supply of the locomotives, České dráhy unilaterally offset its obligation to make certain payments based on the Purchase Contract of approximately CZK 208.3 million against the contractual fine claimed from ŠKODA TRANSPORTATION a.s.

On 29 June 2012, ŠKODA TRANSPORTATION a.s. filed a legal action against České dráhy for the compensation of CZK 216,564,109.24 with accrued interest, representing the allegedly hitherto unpaid part of the purchase price with accrued interest. The arbitration proceedings regarding the legal action are held by the Arbitration Court attached to the Czech Economic Chamber and Czech Agrarian Chamber. On 27 September 2012, České dráhy filed a counter-claim for the payment of the contractual fine of CZK 660,800,000 with accrued interest as part of the same proceedings due to the delay in supplying the relevant locomotives by ŠKODA TRANSPORTATION a.s. On 14 May 2013, both parties submitted several written filings to the Arbitration Court which should decide on the date of the verbal hearing. The arbitration proceedings are continuing.

**2) Proceedings with the Anti-Monopoly Office**

**The Freight Transportation Market**
In May 2009, the Chairman of the Anti-Monopoly Office reduced the fine imposed on České dráhy for abusing its market position from CZK 270 million to CZK 254 million. According to the Anti-Monopoly Office, České dráhy abused its dominant position on the market of the railway transportation of large quantities of natural resources and raw materials in accordance with Act No. 143/2001 Coll., on the Protection of the Economic Competition, as amended, and based on the Treaty on the Functioning of the European Union. České dráhy asked the Regional Court in Brno to review the resolution of the Chairman of the Anti-Monopoly Office. In May 2011, the Regional Court in Brno confirmed the fine for České dráhy. Subsequently, České dráhy filed a cassation remedy against the ruling of the Regional Court in Brno with the Supreme Administrative Court. During the pending proceedings on the legal review, the Anti-Monopoly Office repeatedly sanctioned a delay in the payment of the fine; for this reason, České dráhy has not yet paid the fine. Even if the Supreme Administrative Court eventually upholds the fine, such payment does not accrue any interest.

**Prague – Ostrava Track**

In January 2012, the Anti-Monopoly Office initiated proceedings against České dráhy regarding the alleged abuse of České dráhy's dominant position on the Prague – Ostrava track in the form of inadequately low (predatory) prices in response to the entry of a new competitor railway transporter. The proceedings with the Anti-Monopoly Office are continuing and České dráhy has not yet received any statement of objections.

**3) SŽDC's Legal Action against ČD Cargo, a.s. for the Payment of CZK 286,134,763.63**

SŽDC has filed a legal action against ČD Cargo to claim the release of an alleged unreasonable enrichment in purchasing traction electricity in 2009. The case is being conducted by the Municipal Court in Prague. On 5 April 2011, a payment order was issued against which ČD Cargo filed an appeal on 22 April 2011. On 3 October 2012, an interim ruling was issued upholding the merits of the plaintiff's petition. This interim ruling was appealed. No effective ruling has been issued as of today's date, the case is continuing.

**4) SŽDC's Legal Action against ČD Cargo, a.s. for the Payment of CZK 127,184,298.55**

SŽDC has filed a legal action against ČD Cargo to seek payment of the above amount as an alleged underpayment of the prices and services for the use of the railway route between 2008 and 2010 – for the failure to comply with the contract for operating railway transportation between 2008 and 2010 – for the allocated capacity of the railway route and its use by ČD Cargo (traffic closures). ČD Cargo appealed the payment order dated 5 October 2011 issued by the Municipal Court in Prague on 18 October 2011. On 16 March 2012, judicial proceedings were held and were adjourned to 18 May 2012 with the objective of obtaining additional evidence. On 16 November 2012, a ruling was issued in favour of SŽDC. On 21 December 2012, an appeal was filed. No final ruling has yet been issued.

# Information on the ČD Group

The České dráhy Group includes the parent company České dráhy, a.s. and consolidated subsidiaries ČD Cargo, a.s., DPOV, a.s., ČD – Telematika a.s., ČD – Informační Systémy, a.s., Výzkumný Ústav Železniční, a.s., Dopravní vzdělávací institut, a.s., ČD travel, s.r.o., RAILREKLAM, spol. s r.o., JLV, a.s., Smíchov Station Development, a.s., Žižkov Station Development, a.s., Centrum Holešovice a.s., Masaryk Station Development, a.s., CD Generalvertretung GmbH, CD – Generalvertretung Wien GmbH, Koleje Czeskie Sp. z o.o., Generálne zastúpenie ČD Cargo, s.r.o., Auto Terminal Nymburk, s.r.o., ČD Logistics, a.s., Terminal Brno, a.s., ČD-DUSS Terminál, a.s., ČD Interport, s.r.o., RAILLEX, a.s., BOHEMIAKOMBI, spol. s r.o. and Ostravská dopravní společnost, a.s. The ČD Group provides comprehensive services relating to the operation of passenger and freight transport, and additional and related activities – international business representation in freight transport, repairs, railway research and testing, IT services, accommodation and catering services, storage and handling of material and development of localities surrounding railway stations.

## XII–I Identification and Contact Details

| Name of the Company | **České dráhy, a. s.** |
|---|---|
| Registered Office | **Prague 1, Nábřeží L. Svobody 1222, 110 15** |
| Corporate ID | **70994226** |
| Tax ID | **CZ70994226** |
| Register of Companies | **Prague** |
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