2014

INTERIM REPORT

ČESKÉ DRÁHY GROUP


České dráhy

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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 2014, and its financial performance and cash flows for the six months then ended.

In Prague on 1 September 2014

Daniel Kurucz
Chairman of the Board of Directors
České dráhy, a.s.

This report was not audited.

Key Interim Indicators for the ČD Group

Key indicators – Financial indicators under consolidated IFRS (CZK million)	**Jan–Jun 2014**	**Jan–Jun 2013**	**Difference**	**INDEX**
ČD Group				
EBITDA (from continuing operations)	3,998	3,359	639	119
EBIT (from continuing operations)	1,034	473	561	219
Profit or loss for the period	158	-510	668	n/a
Total assets	85,739	85,722	17	100
CAPEX	2,489	5,356	-2,867	46
Depreciation and amortisation	2,964	2,886	78	103
Leverage (%) – external funding/assets	55	53	2	104
Current liquidity (%) – current assets/current liabilities	46	41	5	113
ROCE (%) – EBIT/(total assets – current liabilities)	1.5	0.7	0.8	211
Number of employees in average FTE	24,231	25,573	-1,342	95
Passenger transportation (ČD, a.s.)*				
Traffic performance (millions of passenger-kilometres)	3,384	3,349	35	101
Transport performance (millions of train-kilometres)	60	61	-1	98
Average traffic distance (km)	40	39	1	103
Occupancy ratio (%)	25	24	1	104
Freight transportation (ČD Cargo, a.s.)				
Traffic volume (millions of tonnes)	34	35	-1	97
Traffic performance (millions of tariff tonne-kilometres)	5,837	6,148	-311	95
Transport performance (millions of train-kilometres)	11	13	-2	85
Average traffic distance (km)	172	176	-4	98
DPOV, a.s.				
SOP – Average actual repair period (days)	70.80	68.20	2.60	104
ODKP – Average commission repair period (days)	68.20	68.50	-0.30	100
Weighted average calculated from (SOP) – (ODKP)	2.60	-0.20	2.80	n/a

Notes:

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

Opening Statement from the Chairman of the Board of Directors

Dear Ladies and Gentlemen,

As of 30 June 2014, the ČD Group reported a net profit of CZK 158 million according to International Financial Reporting Standards. It is undoubtedly encouraging progress as it represents a year-on-year improvement of CZK 668 million.

In the six-month period ended 30 June 2014, the Company made significant savings. The savings amounted to hundreds of millions of Czech crowns, by which we managed to partially compensate the increase of input prices. We benefited from more effective purchasing of energy and materials, as well as the decrease in overhead and staff costs. On the other hand, we spent more on the maintenance of railway vehicles.

The financial results are better in both core business segments. In passenger transport we managed to reduce loss by almost CZK 400 million year-on-year, which was also thanks to the CZK 432 million increase in revenues from principal operations. Just in the sale of tickets we reported a year-on-year increase of CZK 137 million. The freight transport segment reported a profit of CZK 540 million and also other subsidiaries were successful in their business performance as they reported profits.

When I assess the first half of 2014, I also have to mention the successes which will have a positive impact on our business in the upcoming years. For instance we agreed with Deutsche Bahn to continue cooperation on Prague – Berlin – Hamburg line and we also managed to put into the operation first railjets on the Vienna line. By these actions we managed to strengthen our position on the market of long-distance international railway transport.

The results for the first six months of 2014 for the ČD Group show that we have the potential to be an effective company. However, the Company ran into debts in previous years due to the necessary renovation of rolling stock. We will face the opening of the market to competitors and search for other business opportunities in order to ensure work for our employees. In other words, we treat these results as a good start and seek to maintain this trend.

Daniel Kurucz
Chairman of the Board of Directors
České dráhy, a.s.

Principal Events in the First Half of 2014

January

From the end of January to the second half of April 2014, ČD Cargo, a.s. provided non-standard transport of sapper's materials between warehouses of the State Material Reserves.

As of 10 January 2014, there was a change in the licence for the operations of freight transport of ČD Cargo, a.s. – since that date, ČD Cargo, a.s. has no longer provided the public railway freight transportation.

The management of ČD Cargo, a.s. decided to sell its share in the subsidiary ČD Interport, s.r.o. The 51% equity investment was sold on 15 January 2014.

February

By its resolution no. 125 dated 26 February 2014, the government changed the composition of the Steering Committee of ČD, a.s. Its new chairman is Deputy Transportation Minister Karel Dobeš, and Second Deputy Transportation Minister Kamil Rudolecký was appointed as Vice-Chairman by the government.

ČD, a.s. ceased to sell redundant real estate through an intermediary.

ČD Cargo, a.s. initiated the regular transport of cars to Jeneč.

March

ČD, a.s. was the main transporter to the Ski Jumping World Cup which was held from 13 to 16 March in Harrachov. Reinforced trains, together with the capacity of regular trains, ensured smooth transport to Harrachov and back.

April

The prevention (safety) train of ČD, a.s. headed to the Valašsko region.

ČD, a.s. included modernised multi-function Bbdgmee vehicles in express trains operating on the Praha – Ústí nad Labem – Cheb and Brno – Jihlava – České Budějovice line.

ČD Cargo, a.s. took part in in the Transrussia 2014 international trade fair.

May

On Tuesday 6 May, the Viaggio Comfort vehicle (ČD railjet) went from Prague to Břeclav with its first passengers as part of testing operations.

Since 17 May, ČD, a.s. has operated the Cyklohráček special train on the Praha Masarykovo nádraží – Hostivice – Podlešín – Slaný line. The seasonal train, in operation on weekends for the 8th consecutive year, is newly adjusted for children with the addition of a large mobile playground and a railway carriage for cyclists.

On 21 May, the ČD, a.s. and ČD Cargo, a.s. Kinematovlak visited Poland for the first time.

On 22 May, ČD, a.s. agreed with the German national transporter Deutsche Bahn to continue cooperation on the Prague – Dresden – Berlin – Hamburg line. Starting on December 2015, trains composed of modernised vehicles will be used on this track. The Company will additionally focus on strengthening marketing.

On Friday 23 May, the first prevention and safety event of ČD, a.s., BESIP and SŽDC, s.o. entitled "Happy Homecoming" was held in Havlíčkův Brod. The visitors could see simulated train crashes involving people and cars, and action from the integrated rescue system teams.

On 28 May 2014, the Moody's rating agency downgraded the rating of České dráhy, a.s. from Baa2 with a stable outlook to Baa3 with a stable outlook.

June

On Sunday 15 June, ČD railjet non-traction vehicles started testing operations from Prague to Vienna. The available air-conditioned railway carriages from interstate EuroCity trains to Austria are being gradually transferred to the Prague – Plzeň – Cheb line. Since mid-June, ČD a.s. has operated multi-purpose Bbdgmee series vehicles on the Praha – Havlíčkův Brod – Brno and Brno – Přerov – Bohumín lines.

The first of a fleet of low-floor RegioPanter electrical vehicles was ceremonially handed over to the South-Moravian region on 20 June.

ČD, a.s. and its subsidiaries introduced new technologies and services at the Czech Raildays 2014 trade fair held in Ostrava.

A new paint shop was opened at the workplace of DPOV, a.s. in Nymburk.

Organisational Structure of the ČD Group

Jun 2014

Consolidated ČD Group

České dráhy, a. s.

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

General Directorate units:

- 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. (1.61 % ownership) — 98.39 %
- 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)
- 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

The overall financial results of the ČD Group in the first half of 2014 are significantly better compared to the same period of 2013, primarily due to the decline in costs that was positively reflected in the operating result and net profit after tax.

Despite the stagnation of total operating revenues, the revenues from principal operations of the group slightly increased by CZK 131 million (1%), primarily due to higher sales from passenger transport.

In respect of the expenses, the most significant savings were made in costs directly relating to services. The costs of traction energy and diesel decreased year-on-year by CZK 332 million (14%) thanks to more effective long-term procurement. The costs for the use of railway route were also lower in the freight transportation segment due to the fewer provided services and lower costs for purchased services. On the contrary, the costs of repairs, maintenance and the cleaning of railway vehicles increased year-on-year.

Significant savings were achieved in staff costs, which decreased year-on-year by CZK 297 million (5%). The group continued to successfully implement other savings measures focusing on the optimisation of the professional structure.

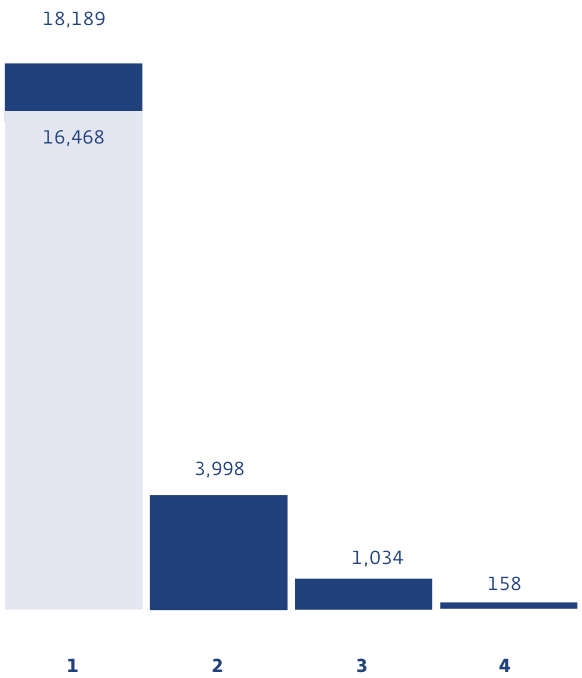
The depreciation was on a comparable level to 2013.

Given the significant savings in operating expenses, the group reported the EBITDA of CZK 4 billion, which is a year-on-year increase of CZK 639 million (19%) and the EBIT of CZK 1 billion, which is more than double year-on-year.

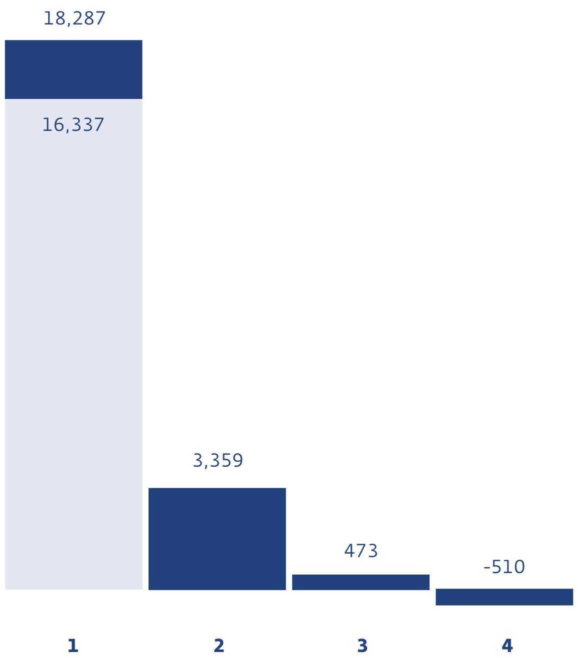
As compared to the previous year's loss, the group reported a net profit after tax of CZK 158 million for the first six months of 2014.

ČD Group's Results (CZK million)

First half of 2014



First half of 2013



1 Operating revenues
2 EBITDA
3 EBIT
4 Profit/loss after taxation
1 Revenues from principal operations

Structure of Assets (CZK million)

First half of 2014

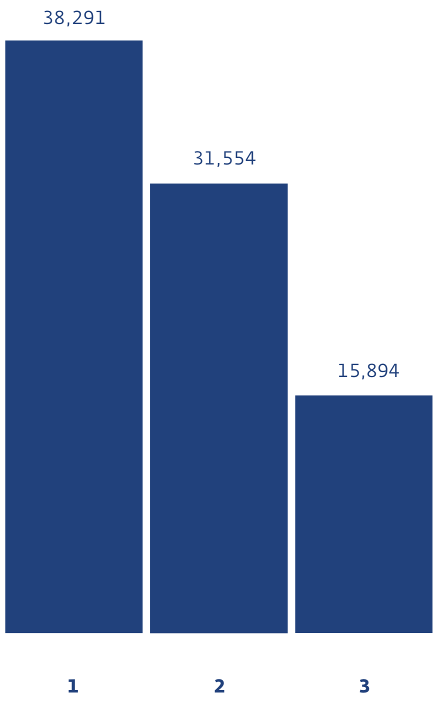
First half of 2013

1 Fixed assets **2** Other fixed assets **3** Current assets

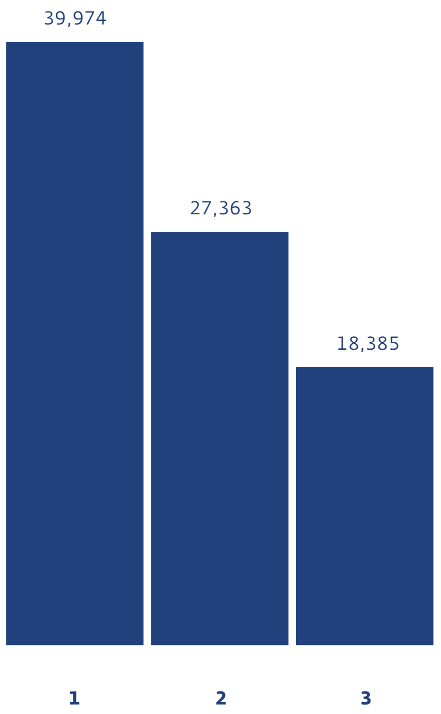
Total assets were on a comparable level year-on-year. A significant increase was reported in other fixed assets where derivative transactions in other fixed financial assets were revalued as a result of the devaluation of the Czech crown in November 2013. The balance of current assets did not change significantly year-on-year.

Structure of Liabilities (CZK million)

First half of 2014



First half of 2013



1 Equity

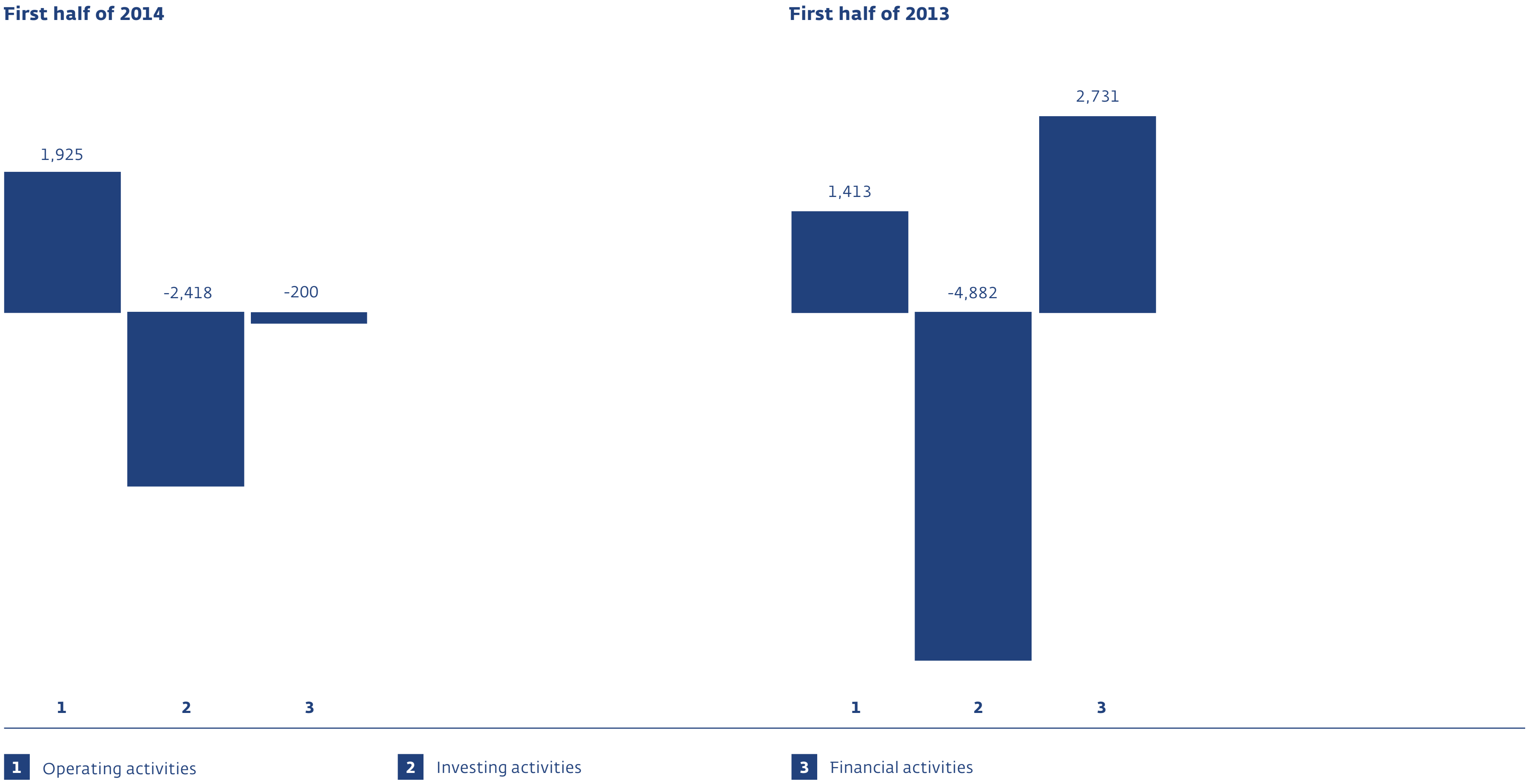
2 Long-term liabilities

3 Short-term liabilities

The year-on-year decline in equity was due to lower retained earnings by almost CZK 2 billion compared to prior periods. The increase in long-term liabilities was caused by the issue of domestic bonds in 2013 with the nominal value of CZK 4 billion and devaluation of the Czech crown which increased the liabilities denominated in EUR. In the secured part of the debt, this increase was compensated by an increase in financial derivatives on the side of the assets.

The volume of short-term liabilities decreased year-on-year primarily due to the fact that less of financial sources from the promissory note programme and overdrafts were used in the first half of 2014 than in the first half of 2013, thanks to the financial sources from the issued bonds in the second half of 2013.

Cash Flows (CZK million)



The net cash flow from operating activities increased, primarily due to a significant improvement in operating activities.

The net cash flows from investment activities decreased by half year-on-year as a result of different timing of investment outflows.

Given the reduced investment activities and increased cash resources from operating activities, the volume of net cash flows from financing activities decreased year-on-year.

VI.I Financial Results of Segments of Principal Activities

[in CZK mil.]		Passenger transport	Administration of assets	Freight transport	Other	Elimination and reconciliation	Total
Revenue from principal operations	1st half of 2014	10,180	0	6,315	0	-27	16,468
	1st half of 2013	9,748	0	6,660	0	-71	16,337
Purchased consumables and services	1st half of 2014	-4,210	-245	-3,221	-953	703	-7,926
	1st half of 2013	-4,295	-205	-3,576	-1,189	744	-8,521
Staff costs	1st half of 2014	-3,345	-138	-1,852	-647	50	-5,932
	1st half of 2013	-3,324	-120	-2,134	-702	61	-6,219
EBITDA from continuing operations	1st half of 2014	**2,242**	**19**	**1,394**	**310**	33	**3,998**
	1st half of 2013	**1,833**	**123**	**1,218**	**320**	-135	**3,359**
Depraciation/amortization	1st half of 2014	-2,107	-119	-504	-165	-69	-2,964
	1st half of 2013	-1,972	-117	-624	-176	3	-2,886
EBIT from continuing operations	1st half of 2014	**135**	**-100**	**890**	**145**	-36	**1,034**
	1st half of 2013	**-139**	**6**	**594**	**144**	-132	**473**
Profit (loss) for the period	1st half of 2014	**-262**	**-89**	**540**	**139**	-170	**158**
	1st half of 2013	**-644**	**21**	**236**	**149**	-272	**-510**

As of January 2014 the methodology of reporting the segments changed. The individual segments are now reported according to the IFRS accounting standards. The elimination and reconciliation column states only eliminations of intragroup relations. For comparison the data for 2013 were adjusted accordingly.

VI.I.I Passenger Transportation

The passenger transportation segment managed to maintain positive operational results. The EBITDA increased year-on-year by CZK 409 million (22%) and the EBIT was CZK 135 million in the first half of 2014, which is more than double.

The results were positively impacted primarily by an increase in revenues from principal operations. Revenues increased year-on-year by CZK 432 million (4%) due to increased sales from domestic and international passenger transportation, and higher sales from the use of passenger coaches abroad. The revenues were impacted by a slight increase of tariffs and the positive impact of the CZK/EUR exchange rate.

The positive impact on operations also resulted from a decrease in costs of CZK 85 million (2%), which was primarily due to the lower costs of traction energy – electricity and diesel – thanks to a more effective procurement and lower prices of these inputs.

Staff costs remained on a comparable level year-on-year.

Despite the increase in depreciation of CZK 135 million (7%), the passenger transport segment reported positive EBIT and a decrease in the total loss in the segment of CZK 382 million, from CZK -644 million in the first half of 2013 to CZK -262 million in the first half of 2014.

The analysis of the passenger transport segment corresponds to a segment analysis in the notes to the interim consolidated financial statements under IFRS.

VI.I.II Freight Transportation

In spite of the decline in freight transportation revenues, the savings in operating expenses led to EBITDA in the freight transportation segment of CZK 1.4 billion, which is a year-on-year increase of CZK 176 million (14%) and EBIT of CZK 890 million, which is a year-on-year increase of CZK 296 million (50%).

The decline in revenues from principal operations of CZK 345 million (5%) was due to growing competition between the transporters in the transport of brown and hard coal and iron and engineering products that led to a loss of certain transports. The company managed to replace only some of these by newly acquired transports.

The decline in revenues was compensated by significant savings in operating expenses, primarily in purchased consumables and services which decreased year-on-year by CZK 355 million (10%), and staff costs which decreased by CZK 282 million (13%). Cost savings were made primarily as a result of an ongoing restructuring, an increase in the work productivity, and an increase in the effectiveness of partial activities of the company. The year-on-year decline in transportation performance additionally resulted in a decrease in the costs directly dependant on the services (consumption of traction energy and fuel and payment for the use of the railway route).

The freight transportation segment reported a net profit of CZK 540 million in the first half of 2014 compared to CZK 236 million in the first half of 2013, which is more than double.

The analysis of the freight transportation segment corresponds to a segment analysis in the notes to the interim consolidated financial statements according to IFRS.

VI.I.III Administration of Assets

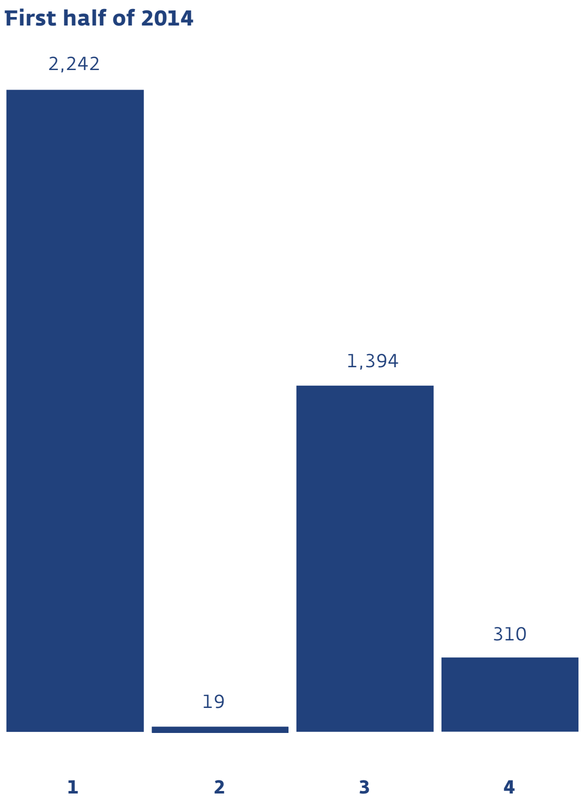
The EBITDA indicator of the Administration of Assets segment amounted to CZK 19 million, which is a year-on-year decline of CZK 104 million (85%). This result is primarily impacted by the failure to sell redundant assets.

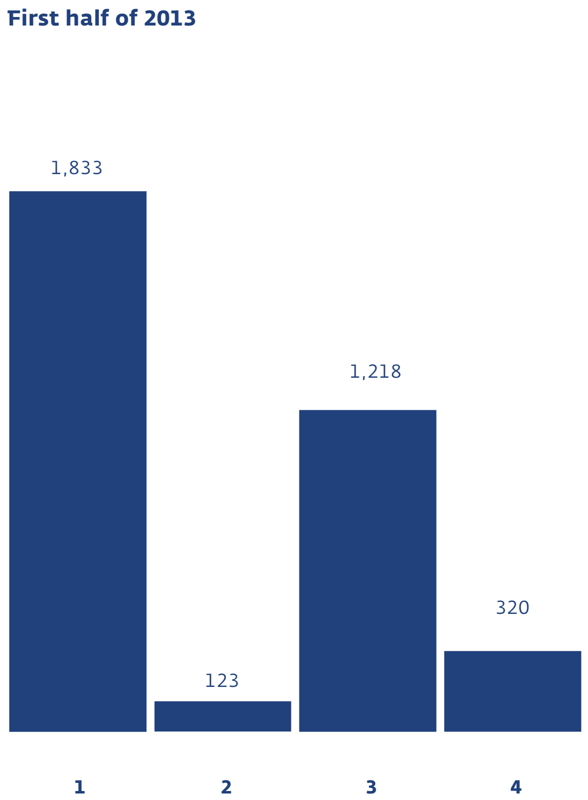
The administration of assets is preparing for the sale of the "Railway Stations" division and the subsequent completion of the property settlement with the state – the sale of real estate owned by ČD, a.s. on which parts of the railway route are placed (predominantly land owned by ČD, a.s. in railway stations with rails owned by the state and administered by SŽDC, s.o.).

In respect of the sale of the "Railway Stations" division, investments made by ČD, a.s. in railway station buildings were minimised. One exception was the continued preparation of the renovation of the Třinec railway station into a modern transportation terminal. This is a joint investment between ČD, a.s. and town of Třinec with the financial support from EU funds. In addition, the Company is preparing the renovation of buildings in the České Budějovice railway station.

The analysis of the Administration of Assets segment corresponds to the segment analysis in the notes to the interim consolidated financial statements under IFRS.

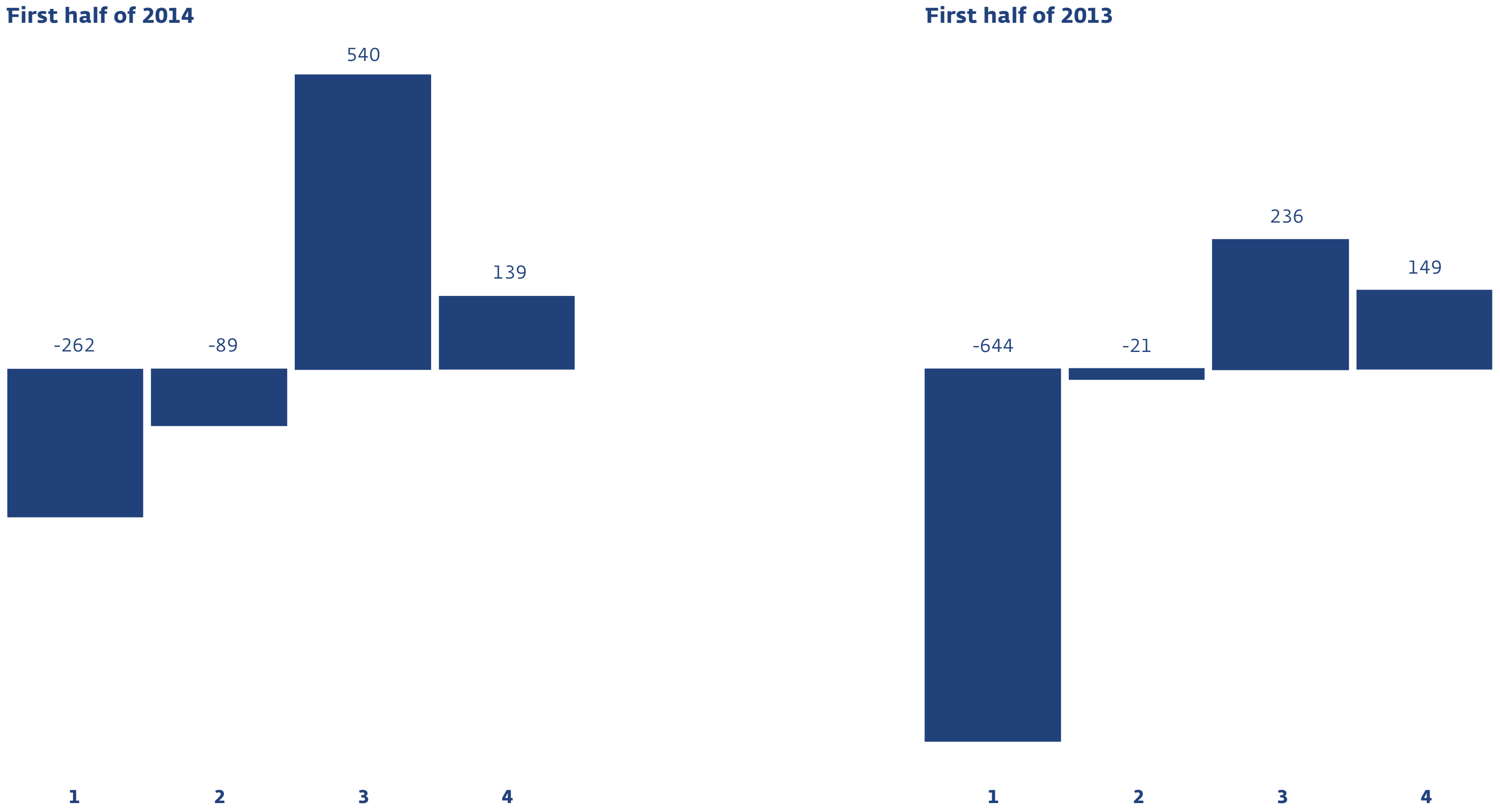
EBITDA by Segments (CZK million)





1 Passenger transport **2** Administration of assets **3** Freight transport **4** Others

Profit (loss) for the period by Segment (CZK million)



1 Passenger transport **2** Administration of assets **3** Freight transport **4** Others

VI.II Investments

Total investments of the ČD Group amounted to CZK 2.5 billion in the first half of 2014. The most significant investments were in passenger and freight transportation.

VI.II.I Passenger Transport

Investment in railway vehicles, largely comprising the modernisation of existing vehicles and the purchase of new vehicles, amounted to CZK 1.9 billion in the first half of 2014. Investments were financed using both internal and external funds, primarily the funds obtained from the issue of bonds placed in July 2013.

Regional Transport

In the first half of 2014, ČD, a.s. invested CZK 193 million (net of subsidies from Regional Operational Programmes - ROP - at the amount of CZK 506 million) in the purchase of new railway vehicles and the modernisation or renovation of existing railway vehicles for regional transport. As compared to the first half of 2013, the amount of investment in regional transport decreased due to the termination of projects that used funding from ROP that were terminated in 2013 and were directed solely on regional transport. In the first half of 2014, the last pieces from the supply of 31 two-carriage motor vehicles of 844 series, 15 three-carriage electric vehicles of 440/640 series and 4 two-carriage electrical vehicles of 650 series were supplied. ČD, a.s. used subsidies from ROP at the total amount of CZK 506 million in the first half of 2014 to partially finance these vehicles.

(CZK million)	Regional transportation	Long-distance transportation	Commercial transportation	Total
Investments in railway vehicles		**First half of 2014**		
New railway vehicles	-174*	300	5	**1,901**
Renovation of railway vehicles	367	1,161	241	
Investments in railway vehicles		**First half of 2013**		
New railway vehicles	2,037*	8	4	**3,940**
Renovation of railway vehicles	602	933	356	

* net of subsidies from ROP; for comparison the data for 2013 were adjusted accordingly

Long-Distance Transport

Due to the decrease in investments in regional transport, investments in long-distance transport increased year-on-year. In the first half of 2014, a total of CZK 1.5 billion was invested, which is a year-on-year increase of 55 %. 3 multi-system electrical locomotives of 380 series, 13 modernised passenger Bdbmsee/Bdbmrsee series coaches, 14 Bmee series modernised passenger railway vehicles, 2 seven-set non-traction trains Viaggio Comfort (railjet) and 34 passenger vehicles, which were purchased by ČD, a.s. from ÖBB, were supplied. The vehicles and locomotives are additionally used in the commercial transport that ČD, a.s. operates at its own risk.

Commercial Transport

Commercial transport predominantly includes the operation of SC, IC, and EC category trains and some other activities such as the lease of historical and special trains. As compared to the previous half of the year, investments in commercial transport decreased and amounted to CZK 246 million in the first half of 2014.

Investments Relating to Railway Vehicles

Other investments included the modernisation of electrical locomotives as part of periodical repairs and the modernisation of railway vehicles and their construction units in order to increase reliability and safety and improve the comfort of travelling. These investments were made in both regional and long-distance transportation. They primarily included the modernisation of electrical locomotives from 363 series to 362 series by an increase of speed from 120 km to 140 km/h, and investments in the adjustment of passenger coaches where their technical improvements primarily involved adjustments leading to an increase in the comfort of travelling, reliability and the safety of operations.

Other Investments

Other investments (CZK million)	**First half of 2014**	**First half of 2013**
Construction	21	29
Other	69	-76*
Total	**90**	**-47**

* net of subsidies from ROP; for comparison the data for 2013 were adjusted accordingly

VI.II.II Freight Transportation

ČD Cargo', a.s.'s investments in the first half of 2014 primarily focused on the renewal of rolling stock which accounted for 78 % of investments of the total amount of CZK 373 million. These primarily involved the technical improvements and inspection repairs of principal lines of wagons and the general repair of locomotives.

Other investments focused primarily on purchase and development of existing IT systems, manipulation technology and machinery and construction repairs of the ČD Cargo, a.s.'s real estate.

In the second half of 2014 it is expected that the investment plan will be fulfilled more progressively.

Investments in railway vehicles (CZK million)	**First half of 2014**	**First half of 2013**
New railway vehicles	0	0
Renovation and component repairs of railway vehicles	290	555*
Total	**290**	**555**

* including the modernisation of traction vehicles of 363.5 series

Other investments (CZK million)	**First half of 2014**	**First half of 2013**
Construction	16	12
Other	67	61
Total	**83**	**73**

ČD Group

Rating

On 28 May 2014, Moody's rating agency downgraded the rating of České dráhy, a.s. from Baa2 with a stable outlook to Baa3 with a stable outlook. The rating remains within the investment zone with the range of Aaa – Baa3 of the Moody's rating scale.

Group Risk Management

Since the first half of 2013, when ČD, a.s. successfully completed the implementation of active risk management in the ČD Group, ČD, a.s. has proceeded according to the principles defined by the Risk Management Policy of ČD, a.s., the Risk Management Strategy in ČD, a.s. and the ČD Group Manual for Risk Management. The principal objective of the single risk management system is to limit the negative influence of identified risks on the result of operations 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 (KPI) of business plans contributed to an increase in the quality of regular reporting to 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 business objectives of individual entities of the company and the ČD Group in advance.

Repayment of the principal of loans guaranteed by the state
EUROFIMA

In the first half of 2014, ČD, a.s. repaid principals of EUR 25.4 million and EUR 19.6 million as of 4 February 2014 and 12 May 2014, respectively. ČD, a.s. borrowed both amounts from EUROFIMA in 2003 for the purchase of new passenger coaches.

Investment loan for the purchase of 680 series vehicles – Pendolino

On 25 May 2014, ČD a.s. made the next-to-last repayment of the syndicated loan principal of EUR 5.1 million.

Sale of Railway Stations to SŽDC

Negotiations are currently being conducted regarding the sale of railway station buildings from the property of ČD, a.s. to SŽDC, s.o. The transfer was approved by the council of economic ministers which dealt with this transfer and is further subject to approval by the Czech Government and the European Commission.

ČD Cargo, a.s.

Investors of ČD Cargo, a.s. used the possibility of a premature repayment of the first issue of bonds of CZK 342 million out of the total amount of CZK 1 billion.

In May 2014 ČD Cargo, a.s. leased modernised traction vehicles of 363.5 series – III. tranche for CZK 690 million under leaseback arrangements.

Scrapping

In the Railway Vehicles Depot in Česká Třebová, a workplace for the liquidation of railway vehicles was formed with the intention of liquidating railway vehicles and using the proceeds from the scrapping for the ČD Group.

Employees

During the first half of 2014, the ČD Group reported the number of employees in average FTE of 24,231, ie a year-on-year decrease of 1,324 employees (5%).

In passenger transportation, 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 categories, 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 timetable, use of synergic effects in the Group, optimisation of administrative activities and increase in work productivity.

In freight transportation, 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 2014

Interim Statement of Financial Position (Balance Sheet) as of 30 June 2014

	30 June 2014 CZK thousand (unaudited)	31 Dec 2013 CZK thousand (audited)	30 June 2013 CZK thousand (unaudited)
Property, plant and equipment	73,852,486	74,197,376	74,206,632
Investment property	2,172,035	2,162,067	2,100,062
Intangible assets	545,139	571,745	560,998
Investments in joint ventures and associates	178,110	200,864	191,286
Deferred tax asset	17,292	12,022	6,373
Trade receivables	12,204	0	1,587
Other financial assets	1,557,412	1,619,722	1,048,768
Other assets	54,516	58,530	92,256
Total non-current assets	**78,389,194**	**78,822,326**	**78,207,962**
Inventories	1,156,644	1,128,138	1,240,398
Trade receivables	3,059,762	3,409,896	3,567,907
Tax receivables	1,807	1,191	4,103
Other financial assets	277,367	181,942	149,261
Other assets	1,731,980	1,092,974	1,569,105
Cash and cash equivalents	1,063,935	1,755,935	787,266
Assets held for sale	58,535	59,161	196,306
Total current assets	**7,350,030**	**7,629,237**	**7,514,346**
TOTAL ASSETS	**85,739,224**	**86,451,563**	**85,722,308**

Interim Statement of Financial Position (Balance Sheet) as of 30 June 2014 (continued)

	30 June 2014 CZK thousand (unaudited)	**31 Dec 2013** CZK thousand (audited)	**30 June 2013** CZK thousand (unaudited)
Share capital	20,000,000	20,000,000	20,000,000
Reserve and other funds	16,231,734	16,315,150	16,593,373
Retained earnings	1,295,505	1,196,207	2,643,550
Equity attributable to equity holders of the parent company	**37,527,239**	**37,511,357**	**39,236,923**
Non-controlling interests	763,825	741,544	737,365
Total equity	**38,291,064**	**38,252,901**	**39,974,288**
Loans and borrowings	29,449,395	29,896,632	25,699,059
Deferred tax liability	644,517	538,538	508,674
Provisions	248,028	213,071	248,281
Other financial liabilities	618,457	420,663	344,760
Other liabilities	593,740	520,291	562,555
Total non-current payables	**31,554,137**	**31,589,195**	**27,363,329**
Trade payables	5,603,179	6,582,557	5,846,479
Loans and borrowings	4,952,539	4,688,281	7,508,073
Tax payables	88,662	56,628	137,347
Provisions	1,902,318	2,016,357	1,586,936
Other financial payables	597,873	408,951	630,772
Other payables	2,749,452	2,856,693	2,675,084
Total current payables	**15,894,023**	**16,609,467**	**18,384,691**
TOTAL LIABILITIES	**85,739,224**	**86,451,563**	**85,722,308**

Interim Statement of Profit or Loss for the Six Months Ended 30 June 2014

	Period ended 30 June 2014 CZK thousand (unaudited)	Period ended 30 June 2013 CZK thousand (unaudited)
CONTINUING OPERATIONS		
Revenue from principal operations	16,468,439	16,336,643
Other operating income	1,720,592	1,949,541
Purchased consumables and services	-7,926,450	-8,520,953
Employee benefit costs	-5,932,187	-6,218,724
Depreciation and amortisation	-2,964,487	-2,885,848
Other operating losses, net	-331,640	-187,455
Profit before interest and tax	**1,034,267**	**473,204**
Financial expenses	-612,209	-473,308
Other losses, net	-49,265	-190,590
Share of income of associates and joint ventures	6,914	249
Profit (loss) before tax	**379,707**	**-190,445**
Income tax expense	-221,443	-319,905
Profit (loss) for the period from continuing operations	**158,264**	**-510,350**
DISCONTINUED OPERATIONS		
Profit from discontinued operations	0	0
Profit (loss) for the period	**158,264**	**-510,350**
Attributable to equity holders of the parent company	135,955	-523,595
Attributable to non-controlling interests	22,309	13,245

Interim Statement of Comprehensive Income for the Six Months Ended 30 June 2014

	Period ended 30 June 2014 CZK thousand (unaudited)	Period ended 30 June 2013 CZK thousand (unaudited)
Profit (loss) for the period	158,264	-510,350
Foreign exchange rate gains or losses from the transfer of foreign branches	-1,827	1,156
Cash flow hedging	-108,414	187,384
Relating income tax	-9,730	1,561
Other comprehensive income for the period (items that can be reclassified to profit or loss), net of tax	**-119,971**	**190,101**
Total comprehensive income for the year	**38,293**	**-320,249**
Attributable to equity holders of the parent company	15,984	-333,494
Attributable to non-controlling interests	22,309	13,245

Interim Statement of Changes in Equity for the Six Months Ended 30 June 2014

	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 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)						
Balance at 1 January 2014	**20,000,000**	**16,315,150**	**1,196,207**	**37,511,357**	**741,544**	**38,252,901**
(audited)						
Profit for the period	0	0	135,955	135,955	22,309	158,264
Other comprehensive income for the period, net of tax	0	-119,971	0	-119,971	0	-119,971
Allocation to the reserve fund	0	36,657	-36,657	0	0	0
Dividends paid	0	0	0	0	-28	-28
Other	0	-102	0	-102	0	-102
Balance at 30 June 2014	**20,000,000**	**16,231,734**	**1,295,505**	**37,527,239**	**763,825**	**38,291,064**
(unaudited)						

Interim Cash Flow Statement for the Six Months Ended 30 June 2014

	Period ended 30 June 2014 CZK thousand (unaudited)	**Period ended 30 June 2013** CZK thousand (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) for the year before tax	379,707	-190,445
Dividend income	-113	-1,926
Financial expenses	612,209	473,308
Profit from the sale and disposal of non-current assets	-83,603	-222,968
Depreciation and amortisation of non-current assets	2,964,487	2,885,848
Impairment of non-current assets	-30,204	78,308
Impairment of trade receivables	28,589	25,840
Foreign exchange rate gains	6,731	245,259
Other	62,762	2,421
Cash flow from operating activities before changes in working capital	**3,940,565**	**3,295,645**
Decrease (increase) in trade receivables	309,975	-216,502
Decrease (increase) in inventories	-65,678	-59,944
Decrease (increase) in other assets	-719,901	-662,610
Increase (decrease) in trade payables	-1,065,555	-55,661
Increase (decrease) in provisions	-81,732	-131,057
Increase (decrease) in other payables	274,801	-234,013
Total changes in working capital	**-1,348,090**	**-1,359,787**
Cash flows from operating activities	**2,592,475**	**1,935,858**
Interest paid	-557,982	-464,874
Income tax paid	-109,055	-58,163
Net cash flows from operating activities	**1,925,438**	**1,412,821**

Interim Cash Flow Statement for the Six Months Ended 30 June 2014 (continued)

	Period ended 30 June 2014 CZK thousand (unaudited)	**Period ended 30 June 2013** CZK thousand (unaudited)
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Payments for property, plant and equipment	-2,430,238	-5,254,618
Proceeds from disposal of property, plant and equipment	64,304	466,976
Payments for investment property	-612	-7,988
Costs of acquisition of intangible assets	-58,017	-92,650
Received interest	6,916	6,524
Received dividends	0	103
Net cash flows used in investment activities	**-2,417,647**	**-4,881,653**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans and borrowings	3,337,769	5,345,290
Repayments of loans and borrowings	-3,537,532	-2,476,075
Impacts of changes in equity *)	0	-137,786
Dividends paid	-28	0
Net cash flow from financing activities	**-199,791**	**2,731,429**
Net increase in cash and cash equivalents	**-692,000**	**-737,403**
Cash and cash equivalents at the beginning of the reporting period	1,755,935	1,524,669
Cash and cash equivalents at the end of the reporting period	**1,063,935**	**787,266**

*) 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 2014

1 General information

1.1 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 in Prague 1, Nábř. L. Svobody 1222.

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.

1.2 Organisational Structure and Bodies of the Parent Company

Organisational Structure of the Parent Company

The Parent Company is organised into sections overseen directly by the Chief Executive Officer (CEO) or Deputy CEOs:

Section of the Company’s CEO;
Section of the Company’s Deputy CEO for Regional Integration;
Section of the Company’s Deputy CEO for Passenger Transport;
Section of the Company’s Deputy CEO for Economy and Finance;
Section of the Company’s Deputy CEO for Asset Administration; and
Section of the Company’s Deputy CEO for Corporate Projects and Logistics.

Bodies of the Parent Company

At the meeting of the Steering Committee held on 19 June 2014, Milan Feranec was elected a member of the Supervisory Board with immediate effect. On the same day, he was appointed Chairman of the Supervisory Board at the meeting of the Supervisory Board with immediate effect.

In accordance with the Risk Management Policy of České dráhy, a.s., members of the Risk Management Committee are designated Deputy CEOs and Managers of Divisions. During the six months ended 30 June 2014, organisational changes were made, and the composition of the Risk Management Committee is as follows: Libor Müller remains as Chairman, other members include Pavel Krtek, Michal Štěpán, Martin Ďurina, and Daniela Kovalčíková.

1.3 Consolidation Group

In the interim consolidated financial statements for the six months ended 30 June 2014, ČD Interport, s.r.o. was removed from the consolidation group. The management of ČD Cargo, a.s. decided to sell its equity investment in the subsidiary ČD Interport, s.r.o. The 51% equity investment was sold on 15 January 2014.

2 Statement of compliance and principal accounting policies

The interim consolidated financial statements for the six months ended 30 June 2014 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 2013.

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 2013.

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

3 Seasonal character of activities

In the first half of 2014, passenger transport of the Parent Company stagnated year-on-year and sales from transport activities increased compared to 2013. The increase in sales was due to sales promotion measures regarding tariffs and to favourable weather in the spring of 2014 as compared to 2013 (in 2013, the amount of sales was negatively impacted by floods in the Czech Republic and Central Europe at the beginning of June and extremely cold weather in the spring with an impact on travelling for leisure). Concurrently, the growth in the number of passengers and sales from suburban, long-distance and international transport continued (the growth in sales was also impacted by a change in the CZK/EUR exchange rate, primarily in respect of the ČD's share from the sales of tickets abroad). In the second half of 2014, we anticipate a partial year-on-year increase in sales from passenger transport, however not in the same amount as in the first half of the year.

The sales of ČD Cargo, a.s. are affected by various seasonal impacts and economic cycles in commodities that are beyond the influence of the railway industry. In addition to fluctuations in the consumption of coal, these primarily include seasonal sales of grains and other agricultural products that primarily depend on the quantity and quality of harvest in the prior year and political decisions on the food trade. Other impacts include the consumption of fuel for road vehicles which follows economic cycles. Last, but not least, we should mention fluctuations in prices of scrap metal and seasonal changes in the construction industry which is interconnected with almost all commodities transported by rail. Recently, the impact of the global economy has increased – performance and sales of the Company are impacted by events abroad and overseas. In addition, mention should be made of the impact of force majeure (such as floods).

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:

(CZK '000)		30 June 2014		30 June 2013
	SŽDC	**ČEZ Group**	**SŽDC**	**ČEZ Group**
Expenses	2,343,879	321,747	2,271,587	420,494
Income	352,492	262,312	428,148	478,588

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

(CZK '000)		30 June 2014		31 Dec 2013		30 June 2013
	SŽDC	**ČEZ Group**	**SŽDC**	**ČEZ Group**	**SŽDC**	**ČEZ Group**
Receivables (line "Trade receivables")	239,829	74,400	263,074	76,463	235,152	123,327
Payables (line "Trade payables")	1,082,853	173,129	1,104,871	229,195	979,131	205,194
Prepayments made (line "Other assets", current)	25,076	2,105	32,177	2,774	43,540	2,182
Received prepayments (line "Other payables", current)	254,056	2,425	197,445	249	91,160	3,050
Estimated payables (line "Trade payables")	28,024	50	51,442	1,568	64,679	1
Estimated receivables (line "Trade receivables")	46,652	0	59,462	23	16,435	0

5 Income taxation

The income tax reported in the statement of profit or loss as of 30 June 2014 of CZK (221,443) thousand includes the tax payable of CZK (128,628) thousand and deferred tax of CZK (92,815) 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 2014 *)	Passenger transportation	Administration of assets	Freight transportation	Other	Elimination	Total
Revenue from principal operations						
Revenue from passenger transportation	3,579	0	0	0	-15	3,564
Payments from orderers	6,601	0	0	0	0	6,601
Other	0	0	6,315	0	-12	6,303
	10,180	**0**	**6,315**	**0**	**-27**	**16,468**
Purchased consumables and services						
Traction costs	-1,310	0	-722	0	20	-2,012
Payment for the use of the railway route	-912	0	-759	0	-25	-1,696
Other purchased consumables and services	-1,988	-245	-1,740	-953	708	-4,218
	-4,210	**-245**	**-3,221**	**-953**	**703**	**-7,926**
Staff costs						
Payroll costs	-2,430	-100	-1,310	-466	79	-4,227
Social security and health insurance	-787	-34	-431	-152	12	-1,392
Statutory social costs	-12	-1	-84	-16	-121	-234
Statutory social costs - benefits arising from the collective agreement	-116	-3	-27	-13	80	-79
	-3,345	**-138**	**-1,852**	**-647**	**50**	**-5,932**
Other operating income and expenses	121	378	152	1 430	-693	1,388
Intracompany income and expenses	-47	53	0	-6	0	0
Overhead costs – operating	-457	-29	0	486	0	0
Depreciation and amortisation	-2,107	-119	-504	-165	-69	-2,964
Other income and expenses	-472	6	-350	74	-134	-876
Overhead costs – financial and other	75	5	0	-80	0	0
Profit (loss) for the period from continuing operations	**-262**	**-89**	**540**	**139**	**-170**	**158**
Profit (loss) for the period from discontinued operations	0	0	0	0	0	0
Profit (loss) for the period	**-262**	**-89**	**540**	**139**	**-170**	**158**
Profit attributable to non-controlling interests	0	0	0	0	22	22
Profit (loss) attributable to owners of the parent company	-262	-89	540	139	-192	136

*) In January 2014, the segment reporting methodology changed. Individual segments are reported in values according to IFRS. The "Elimination" column includes only intracompany eliminations. The comparative period was adjusted accordingly.

(CZK million)

Period ended 30 June 2013 *)	Passenger transportation	Administration of assets	Freight transportation	Other	Elimination	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	6,660	0	-48	6,612
	9,748	**0**	**6,660**	**0**	**-71**	**16,337**
Purchased consumables and services						
Traction costs	-1,493	0	-873	0	21	-2,345
Payment for the use of the railway route	-794	0	-935	0	-26	-1,755
Other purchased consumables and services	-2,008	-205	-1,768	-1,189	749	-4,421
	-4,295	**-205**	**-3,576**	**-1,189**	**744**	**-8,521**
Staff costs						
Payroll costs	-2,411	-88	-1,541	-507	92	-4,455
Social security and health insurance	-782	-28	-489	-166	13	-1,452
Statutory social costs	-15	-1	-90	-17	-121	-244
Statutory social costs - benefits arising from the collective agreement	-116	-3	-14	-12	77	-68
	-3,324	**-120**	**-2,134**	**-702**	**61**	**-6,219**
Other operating income and expenses	203	432	268	1,728	-869	1,762
Intracompany income and expenses	-35	45	0	-10	0	0
Overhead costs – operating	-464	-29	0	493	0	0
Depreciation and amortisation	-1,972	-117	-624	-176	3	-2,886
Other income and expenses	-622	6	-358	131	-140	-983
Overhead costs – financial and other	117	9	0	-126	0	0
Profit (loss) for the period from continuing operations	**-644**	**21**	**236**	**149**	**-272**	**-510**
Profit (loss) for the period from discontinued operations	0	0	0	0	0	0
Profit (loss) for the period	**-644**	**21**	**236**	**149**	**-272**	**-510**
Profit attributable to non-controlling interests	0	0	0	0	13	13
Profit (loss) attributable to owners of the parent company	-644	21	236	149	-285	-523

*) In January 2014, the segment reporting methodology changed. Individual segments are reported in values according to IFRS. The "Elimination" column includes only intracompany eliminations.

7 Property, plant and equipment

In the six months ended 30 June 2014, the Group acquired property, plant and equipment of CZK 2,375,827 thousand (as of 31 December 2013: CZK 8,708,557 thousand).

In 2014, the Parent Company provided no prepayments.

Principal additions reported by the Parent Company include the acquisition of 380 series railway vehicles, complete traction units, Bmz series, and modernisation of Bdbmsee, Bdbmrsee, Bmee series railway vehicles. 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 115,552 thousand were disposed of by the Group in the six months ended 30 June 2014 (31 December 2013: CZK 298,602 thousand).

The most significant impairment loss as of 30 June 2014 relates to the 680 series tilting trains (Pendolino) in the amount of CZK 595,387 thousand (31 December 2013: CZK 609,233 thousand).

During the interim period ended 30 June 2014, the Parent Company acquired property, plant and equipment financed using the subsidies of CZK 506,552 thousand.

8 Intangible assets

In the six months ended 30 June 2014, the Group acquired intangible assets of CZK 68,938 thousand (31 December 2013: CZK 149,612 thousand).

The acquisition of intangible assets by the Parent Company includes the POP, the PARIS portal, MAVIS, SAP and IS DISOD software. Other significant additions include the extension of the operational and sales information system of ČD Cargo, a.s. – PROBIS which was put to use in 2013.

9 Inventories

The decrease in the value of inventories to the net realisable value as of 30 June 2014 amounts to CZK 153,720 thousand (31 December 2013: CZK 118,482 thousand).

10 Cash and cash equivalents

(CZK '000)	30 June 2014	31 Dec 2013	30 June 2013
Cash on hand and cash in transit	82,446	64,450	93,139
Cash at bank	831,629	1,551,485	564,445
Short-term securities	149,860	140,000	129,682
Total	**1,063,935**	**1,755,935**	**787,266**

11 Loans and borrowings

The Parent Company has concluded loan contracts with EUROFIMA. In the first half of 2014, the total principal of EUR 25,413 thousand was paid as of the due date on 4 February 2014 and principal of EUR 19,585 thousand on 12 May 2014. The principal totalling EUR 105,000 thousand remains to be paid to EUROFIMA in line with the relevant due dates from 6 March 2015 to 3 April 2017.

As of 25 May 2014, the Parent Company repaid the next-to-last payment of the syndicated loan principal of EUR 5,124 thousand. The maturity date of the total loan is 25 November 2014.

As of 30 June 2014, the Parent Company increased the balance of issued promissory notes and overdraft loans as compared to the balance as of 31 December 2013 by CZK 2 billion.

In April 2014, the promissory notes programme of the Parent Company was increased from CZK 5 to 8 billion and the volume of firm subscription commitment as part of the approved total volume of the promissory notes programme was increased from CZK 3 to 5 billion.

ČD Cargo, a.s. leased modernised 363.5 series traction vehicles – III. tranche for CZK 690 million under leaseback arrangements.

Pursuant to requests for a premature repayment of parts of the first issue of bonds of ČD Cargo, a.s. in the total final nominal value of CZK 341.7 million, this amount was repaid on 20 June 2014.

Výzkumný Ústav Železniční, a.s. repaid the commercial loan provided by Chládek & Tintěra of CZK 61,200 thousand in the interim reporting period.

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 19,824,487 thousand (31 December 2013: CZK 20,221,310 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 as of 30 June 2014 is CZK (9,265) thousand.

During the interim reporting period, ČD Cargo, a.s. concluded three new currency forwards with the fair value of CZK (9,851) thousand as of 30 June 2014. In addition, it concluded new commodity derivatives for the hedging of diesel prices with the fair value of CZK 607 thousand as of 30 June 2014.

14 Dividends

ČD travel, s.r.o. decided to pay out dividends from ordinary shares outside the Group in the amount of CZK 28 thousand in the interim reporting period. The dividends were paid out by the end of June 2014.

15 Provisions

The Parent Company increased the provision for legal disputes by CZK 51 million during the interim reporting period.

During the interim reporting period, ČD Cargo a.s. released the provision of CZK 322 million for the use of railway routes and decreased the provision for restructuring by CZK 80 million. At the same time, it recognised a provision of approximately CZK 403 million for the anticipated loss in relation to the operations of the logistics area in Lovosice. As a result of an agreement with SŽDC on the settlement of a legal dispute regarding traffic closures, the due amount of CZK 164 million was rebilled to operating expenses against the release of the corresponding provision.

16 Significant events during the interim reporting period

On 28 May 2014, the Moody's rating agency downgraded the rating of České dráhy, a.s. from Baa2 with a stable outlook to Baa3 with a stable outlook. The rating remains in the investment range between Aaa – Baa3 of the Moody's rating scale.

The arbitration proceedings relating to the legal action brought by ŠKODA TRANSPORTATION a.s. against the Parent Company are ongoing. The verbal proceedings at the arbitration court are supposed to be held in September 2014.

17 Post balance sheet events

The Parent Company is currently holding discussions on the sale of railway station buildings from the assets of ČD, a.s. to SŽDC, s.o. The transfer was approved by the council of economic ministers which dealt with this transfer and is subject to the approval of the Czech government and the European Commission.

On 10 July 2014, LEO Express filed a legal action for the compensation of damage of CZK 418,869 thousand which was allegedly caused to LEO Express by ČD, a.s. and its pricing policy. At the moment it is not clear whether the court will deal with this legal action on the merits. ČD, a.s. have not yet made any comments regarding this legal action, and were not invited by the court to make relevant process steps.

18 Approval of the consolidated financial statements

These interim consolidated financial statements were approved and authorised for publication on 1 September 2014.

Prospects through the End of 2014

The primary objective of the ČD Group will involve maintaining the rating from the Moody's rating agency which is in the investment zone on the level of Baa3 with a stable outlook.

For the second half of 2014, the ČD Group anticipates stable development. However, the operations of the group may be significantly impacted by fluctuations in the EUR/CZK exchange rate since part of the loans of ČD, a.s. are denominated in EUR and sales from freight transportation are also predominantly collected in EUR.

In spite of the competition on the Prague – Ostrava line, ČD will continue to develop a proactive customer approach with a focus on becoming a leader in quality and customer satisfaction.

During 2014, freight transport will continue the restructuring process which was initiated in prior years with the objective of gradually increasing the effectiveness of company capacities in relation to the optimisation and organisation of partial technological processes in order to meet the principal target of sustainable operations in the segment of individual vehicle transports.

Legal Disputes

Ongoing Administrative, Legal and Arbitration Proceedings

1. Legal Dispute with ŠKODA TRANSPORTATION a.s.

On 9 April 2004, České dráhy, a.s. and ŠKODA TRANSPORTATION a.s. concluded 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).

Concurrently, ŠKODA TRANSPORTATION a.s. was to procure the resolution of the relevant railway authorities on the issuance of the certificate of competence for the operations of locomotives in the Czech Republic including the relevant approvals for operations in Germany, Austria, Hungary, Slovakia and Poland. The supply of locomotives was delayed by more than four years. The delay of ŠKODA TRANSPORTATION a.s. with the supply of relevant approvals for operations abroad is continuing. ČD, a.s. and ŠKODA TRANSPORTATION a.s. are involved in a legal dispute regarding this case at the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic:

- ŠKODA TRANSPORTATION a.s. seeks the payment of outstanding or delayed partial payments of the purchase price – amounts of approximately CZK 216 million plus default interest; and
- In a counter-action, ČD, a.s. makes a claim for the payment of approximately CZK 660 million as a contractual fine with the supply of locomotives (contractual fines are calculated according to the situation before September 2012). Another part of the contractual fine of approximately CZK 208 million was offset by ČD, a.s. against part of the purchase price claimed by ŠKODA TRANSPORTATION a.s.

The verbal hearing at the arbitration court is scheduled to take place in September 2014.

2. Proceedings with the Anti-Monopoly Office

The Railway Freight Transportation Market

In May 2009, the Chairman of the Anti-Monopoly Office reduced the fine imposed on České dráhy, a.s. for abusing its position on the market from CZK 270 million to CZK 254 million. According to the Anti-Monopoly Office, ČD, a.s. 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 Economic Competition, as amended, and based on the Treaty on the Functioning of the European Union. ČD, a.s. 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 ČD, a.s. Subsequently, ČD, a.s. 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, ČD, a.s. has not yet paid the fine. The proceedings have not yet been completed.

Prague – Ostrava Line

In January 2012, the Anti-Monopoly Office initiated proceedings against ČD, a.s. regarding the alleged abuse of ČD, a.s.'s dominant position on the Prague – Ostrava line in the form of inadequately low (predatory) prices in response to an entry of a new competitor railway transporter. The proceedings with the Anti-Monopoly Office are continuing and ČD, a.s. has not yet received any statement of objections. It is currently impossible to anticipate when and with what outcome the proceedings will be completed.

Viaggio Comfort (railjet) trains

The administrative proceedings relating to the conclusion of amendment no. 1 to the contract for the production, putting into operation and supply of Viaggio Comfort trains of ČD, a.s. concluded between ČD, a.s. and Siemens, s.r.o. (file no. S370/2012,S338/2013/VZ), which relates to the "reconfiguration" which involved an increase in the seating capacity in certain vehicles. One new passenger coach was additionally ordered and individual coaches were rearranged as part of the supply as follows: 8 trains with 8 coaches were to be supplied first and, subsequently, 7 trains with 7 coaches were to be supplied afterwards, ie overall the supply was to include 113 passenger coaches with an increased seating capacity instead of 112 coaches.

On 11 December 2013, the Anti-Monopoly Office issued a first-instance ruling on these administrative proceedings in which it stated that ČD, a.s. was not authorised to award a contract for the reconfiguration under a negotiated procedure without publication to Siemens ČR, as the reconfiguration allegedly changed the character of all railjet trains according to the Anti-Monopoly Office and consequently that was not an additional supply from the same supplier. The Anti-Monopoly Office imposed a fine on ČD, a.s. of CZK 25 million which is not yet effective. ČD, a.s. filed an appeal against the ruling of the Anti-Monopoly Office to the Chairman of the Anti-Monopoly Office which has not yet been ruled on.

Administrative proceedings relating to the use of Taurus locomotives as part of the cooperation between ČD, a.s. and ÖBB

The administrative proceedings launched in October 2013 at the initiative of ŠKODA TRANSPORTATION a.s. regarding the use of Taurus locomotives as part of the cooperation between ČD, a.s. and ÖBB in the period of the 2013/2014 train timetable. The Anti-Monopoly Office issued a first-instance ruling in line with the petition of ŠKODA TRANSPORTATION a.s. and applied the Public Procurement Act to the cooperation of transporters in international transport. According to the first-instance ruling, ČD, a.s. perpetrated four administration violations of law and was imposed a fine of CZK 1 million. Concurrently, a ban was imposed on the supplies under the Agreement on the mutual locomotive services concluded in 2008 by ČD, a.s. and ÖBB, as amended by Appendix 1 effective from 1 March 2014 to 13 December 2014. ČD, a.s. does not agree with the conclusions of the Anti-Monopoly Office and will file a remedial measure – appeal.

The administrative proceedings initiated in March 2014 ex officio that relates to the use of Taurus locomotives as part of the cooperation between ČD. a.s. and ÖBB, but relates to the entire period of the Agreement on the mutual locomotive services concluded in 2008 between ČD, a.s. and ÖBB, ie since 2008. In respect of the first-instance ruling in the above proceedings, it can be anticipated that a ruling will be issued that will state the breach of Act No. 137/2006 Coll., Public Procurement Act, as amended, and a fine will be imposed.

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

SŽDC, s.o. has filed a legal action against ČD Cargo, a.s. 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, a.s. 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. On 23 May 2014, the proceedings were interrupted.

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

SŽDC, s.o. has filed a legal action against ČD Cargo, a.s. 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, a.s. (traffic closures). The effective ruling was issued by the High Court on 15 January 2014 and ČD Cargo, a.s. is obliged to pay the claimed amount. On 11 April 2014, ČD Cargo, a.s. filed an appeal against the ruling of the High Court to the Supreme Court.

5. Legal Action by LEO Express against ČD, a.s. for the compensation of damage amounting to CZK 418,869,000

On 10 July 2014, LEO Express filed a legal action for the compensation of damage amounting to CZK 418,869,000 which was allegedly caused to LEO Express by ČD, a.s. and its pricing policy. LEO Express filed no petition for the issuance of a preliminary ruling, it only filed the legal action for the compensation of the damage. LEO Express filed a request for an exemption from the legal fee which was rejected. It subsequently filed an appeal against the ruling which rejected its request for the exemption from legal fees. As a result of this fact, it is not apparent whether the court will deal with this legal action on merits. ČD a.s. has not made any comments to this legal action, and was not invited by the court to make relevant process steps.

Information on the ČD Group

The ČD Group includes the parent company ČD, 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., ČD Logistics, a.s., Terminal Brno, a.s., ČD-DUSS Terminál, a.s., 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 transportation, and additional and related activities – international business representation in freight transportation, 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

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České dráhy