

# 2015

Interim Report  
České dráhy Group





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# Responsibility for the Interim Report of the ČD Group

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## 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 2015, and its financial performance and cash flows for the six months then ended.

In Prague on 31 August 2015



Pavel Krtek  
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 consolidated financial indicators (CZK million)	Jan – Jun 2015	Jan – Jun 2014	Difference	INDEX
<b>ČD Group</b>				
EBITDA (from continued operations)*	3,802	3,998	-196	95
EBIT (from continued operations)**	862	1,034	-172	83
Profit/loss for the period	102	158	-56	65
Total assets	89,162	85,739	3,423	104
CAPEX	2,633	2,489	144	106
Depreciation and amortisation	2,940	2,964	-24	99
Leverage (%) – external funding/assets	57.3	55.3	2.0	104
Current liquidity (%) – short-term assets/short-term liabilities	50.8	46.2	4.6	110
ROCE (%) – EBIT/(total assets – short-term liabilities)	1.3	1.5	-0.2	85
Average FTE	24,037	24,231	-194	99
<b>Passenger transport (ČD, a.s.) ***</b>				
Number of passengers (mil.)	85.5	85.4	0.1	100
Traffic performance (mil. person-kilometres)	3,485	3,384	101	103
Transport performance (mil. train-kilometres)	59.5	59.6	-0.1	100
Average traffic distance (km)	40.8	39.6	1.2	103
Occupancy ratio (%)	26.3	25.4	0.9	104
<b>Freight transport (ČD Cargo, a.s.)</b>				
Traffic volume (mil. tonnes)	32.9	34.2	-1.3	96
Traffic performance (mil. tariff tonne-kilometres)	5,462	5,837	-375	94
Transport performance (mil. train-kilometres)	10.7	11.0	-0.3	97
Average traffic distance (km)	166	172	-6	97
<b>DPOV, a.s.</b>				
SOP – Average actual repair period (days)	53.6	70.8	-17.2	76
ODKP – Average commission repair period (days)	52.3	68.2	-15.9	77
Weighted average calculated from (SOP) – (ODKP)	1.4	2.6	-1.2	54

## Note

\* EBITDA = profit (loss) before interest and tax from continuing operations (EBIT) and depreciation and amortisation from continuing operations

\*\* EBIT = profit (loss) before interest and tax from continuing operations

\*\*\* The financial information on the passenger transport of ČD, a.s. does not include free-of-charge and fixed fee transportation services in 2014 and fixed fee transportation services in 2015.

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# Opening Statement from the Chairman of the Board of Directors

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Dear Ladies and Gentlemen,

For the first six month of 2015, the České dráhy Group reported a profit of CZK 102 million. Primarily passenger transport developed positively where the Company increased revenues and performance year-on-year. This segment performed well, as of 30 June 2015, despite continuing investments in rolling stock and related increased depreciation. This was because passengers appreciate the quality of services. Primarily as a result of a large number of traffic closures, the number of passengers in the first quarter slightly decreased; however, the Company managed to reverse this trend and the number of transported passengers returned to figures comparable with the prior year. Thanks to higher revenues and savings in overhead costs, the Company managed to reduce the loss in the passenger transport segment from CZK 262 million as of 30 June 2014 to CZK 78 million as of 30 June 2015, which is a more than 70% year-on-year improvement.

Given the strong competition and the related decrease in profitability in the segment of complete trains, freight transport's performance was not as successful as in the prior year. This situation was further fuelled by the growth in road freight transport by trucks due to cheaper fuel. The Company's revenues decreased year-on-year and reported a profit of CZK 216 million as of 30 June 2015.

Other key subsidiaries performed well and there is no reason to anticipate that the situation of the ČD Group should dramatically change by the end of 2015. Our primary objective is to provide quality services to customers and increase operational profitability. It is not easy on a liberalised market, nevertheless, I believe that the interim results are satisfactory.



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

# Principal Events in the First Half of 2015

## January

During January and February, the Company gradually started to use passenger vehicles purchased from the previous operator ÖBB on selected domestic routes.

On 21 January, the first train from Kazakhstan loaded with phosphorus and operated by ČD Cargo arrived in Břeclav at the Fosfa railway siding.

On 31 January, the first testing train with containers housing dismantled Dacia cars passed through the Czech Republic on its way from Ciurmești, Romania to Hamburg.

## February

On 2 February, a continuous traffic closure was initiated in the Prague main station, as Správa železniční dopravní cesty, s. o. is renovating the existing roofing over the first to fourth platform. While the traffic closure was in place, the timetable was adjusted for regional and long-distance passenger trains.

ČD concluded two contracts for the modernisation of 93 cars for the international Prague – Dresden – Berlin – Hamburg line, the cars will be modernised by Pars Nova, a. s., from the ŠKODA Transportation group.

ČD concluded a framework contract with ŠKODA Vagonka, a. s. for the supply of up to eleven electric two-car units of 650 series – RegioPanter.

On 18 February, ČD put into operation the first train car with cinema for kids; other train cars will be put into operation, so that seven cars are in use before the change in the timetable in June. They will be formed into sets of five pairs of the Praha – Ostrava – Návsi/Žilina express line trains. For all trains with children cinema, there will be a new sign in timetables, giving

notification that this service is provided in trains. Passengers with kids may already use the kid cinema in railjet trains on the Praha – Pardubice – Brno – Břeclav – Vienna – Graz line.

## March

The Company started modernisation of train cars of Bp series for long-distance transport (for Praha – České Budějovice, Praha – Plzeň, Praha – Hradec Králové lines).

On 1 March, ČD started operating a new ČD Bus line from Ostrava to Krakow (it also stops at the Krakow airport). It is able to cover the 170 km route between Ostrava and Krakow in 2 hours and 20 minutes. The regular bus line between Ostrava and Krakow and back operates daily over the main tourist season (until 31 October). The transporter is Arriva Morava, the winner of the tender from autumn 2014. It will use modern buses MAN Lions Coach with a capacity of 49 seats, air-conditioning, wi-fi, TV and a toilet. Tickets with reserved seating will be required for this bus.

On 4 March, crushed stone was loaded, for the first time, onto a Dumpcar train in Žďárec u Skutče. This was the first transportation in these vehicles where ČD Cargo also operated the unloading of bulk cargo.

In the “Public administration institution for extraordinary activity or in favour of disabled people” category, the ČD project entitled “I order my transport from the comfort of my home” received a prize for the simplification and increase in the quality of transport orders and assistance for persons with mobility limitations using an open application available on the website and at all cash desks in the Czech Republic.

On 18 March, ČD Cargo used the Vectron locomotive for the first time (manufactured by Siemens and supplied by Lokotrain) with the train operating between Břeclav and Bratislava.

On 27 March, a final assessment of ČD Cargo's management was organised in relation to the receipt of the SQAS certificate – system for the assessment of safety and quality in transportation of dangerous objects.

## April

On 1 April, ČD introduced one of its first modernised train car of Bbdgnee 236 series for the long-distance trains of EuroCity, InterCity, Express trains and Rast trains intended for the transport of disabled passengers at the Prague main train station; ČD gradually modified these vehicles according to the requirements of its customers. The vehicles, which provide passengers with comfortable travel in an air-conditioned interior, are equipped with 230 V sockets for the power supply of small electronic devices and wheelchair accessible toilets or lifting platforms that allow safe boarding for wheelchair bound people.

ČD launched the pilot operation of a new application relating to transportation orders for groups of travelling passengers and passengers with bikes, with at least 6 people or more, who use the discount for groups. The purpose of the new application is to account, ahead of time, for the movement of groups of passengers from one location to another, eg less crowded trains, etc.

On 13 April, ČD started operating passenger trains to the Leoš Janáček airport in Ostrava, which is the first airport in the Czech Republic that has a train connection and offers a comfortable combination of air and rail transportation. Ten pairs of trains per day currently use 471 series (CityElefant) trains. Starting with a new timetable for 2015/2016, new RegioPanter vehicles will serve the airport, ČD purchases them with the financial support of the Moravskoslezsko regional operational programme.

ČD Cargo was the general partner of the Czech Logistics Day that was held on 16 April in the CTPark Prague North's premises – an entirely new professional discussion forum focusing on the issues of the Czech logistics development.

ČD started offering redundant real estate through a new website that is better organised and adjusted for use on smart phones and tablets.

## May

Moody's rating agency issued a report according to which the rating of ČD, a.s. remains in the investment range with the existing Baa3 rating, with a stable outlook. The agency monitors the activities of the Company on an ongoing basis throughout the year.

ČD was an official partner of the ice-hockey IIHF world championship in 2015, it transported both hockey teams that preferred trains to airplanes and their fans. The number and capacity of trains to Ostrava and Prague were increased.

For the twelfth time, the Cinema train of České dráhy was dispatched as part of the accompanying programme of the ZLÍN FILM FESTIVAL. It started its route at the Břeclav train station. Over a period of three weeks, it crossed seventeen towns across the Czech Republic and on 29 May it headed to the opening of the 55<sup>th</sup> year of the Zlín festival where it returned for the closing ceremony on 4 June. In 2015, the offer has extended to include weekend film projections with an accompanying entertainment programme.

ČD extended the network of cash desks with payment terminals to 66 stations to the total of 255 train stations and completed the installation of another 87 payment terminals for non-cash payments. It is possible to pay for the fare using entirely new methods at 66 stations. Another 21 payment terminals extended the number of cash desks at stations where terminals have been installed. For this reason, it is currently possible to pay for the fare using the payment card at 255 train stations in the Czech Republic. As a result, third of sales of ČD for fare tickets is non-cash, either from purchases in the e-shop or non-cash purchase at cash desks at train stations.

## June

On 15 June, as part of the June change in the timetable, a direct connection of Prague and Ostrava was launched on business days using one pair of InterCity 513/514 (Opava) trains. Passengers travelling from the Silesian metropolis can get to Prague without changing trains in 3.5 hours. In addition to air-conditioned trains with the possibility of chargers for passengers' small electronic devices, the train set includes a buffet car with wi-fi. The train offers sections for passengers with children below 10 years of age and spaces for the transportation of bikes. A pleasant benefit for families with kids is the possibility to use kids' cinema.

On 25 June, the most modern train unit of 660/661 series (InterPanter) manufactured by Škoda Vagonka, a. s. was ceremonially launched at the VUZ testing circuit in Velim. In 2014, ČD ordered a total of 14 of these modern train units intended for interregional and long-distance passenger transport – ten five-car and four three-car electric units.

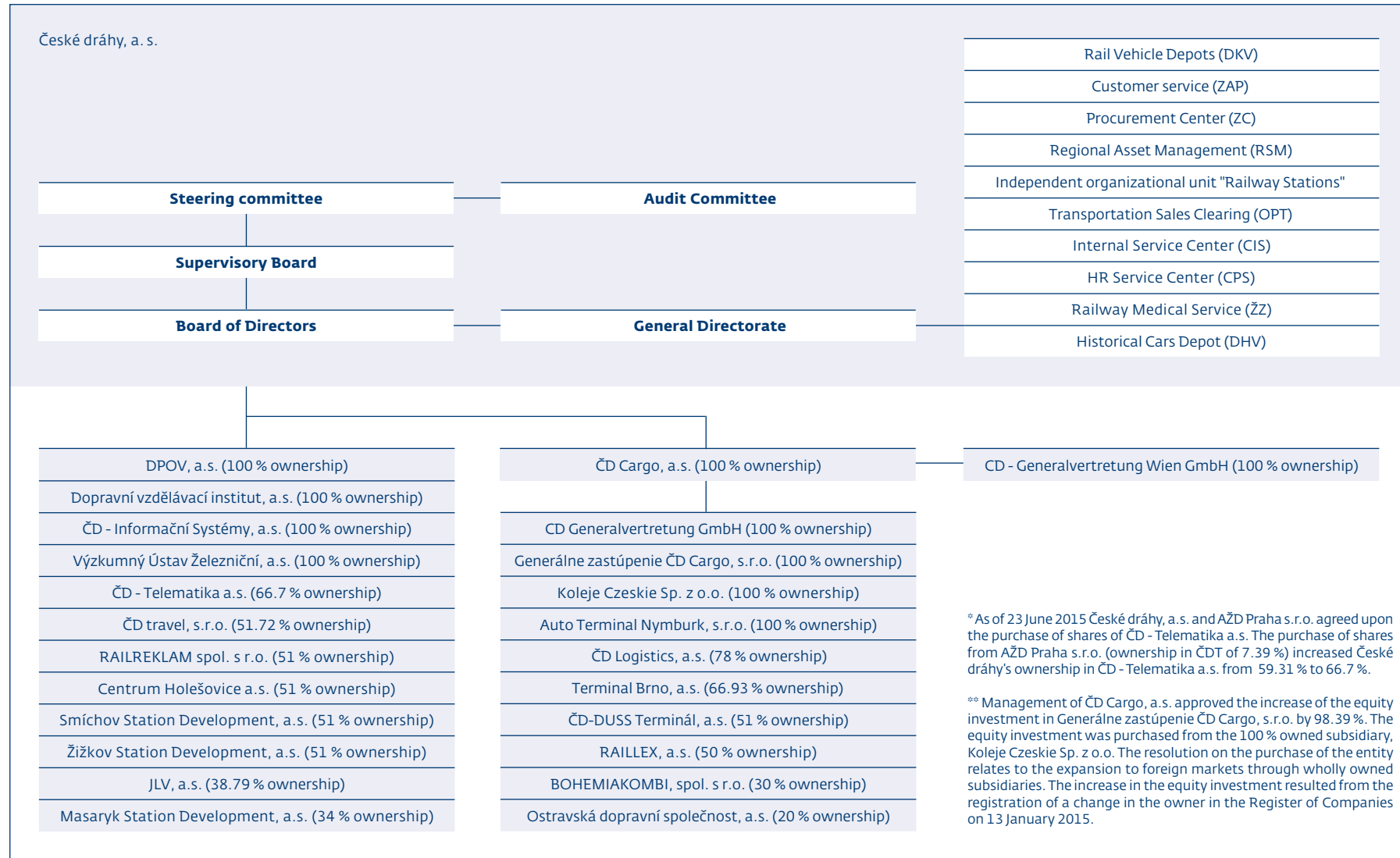
The idos.cz search engine has been connected directly with the ČD e-shop, for the purchase of both domestic and international tickets.



# Organisational Structure of the ČD Group

as of 30 June 2015

Consolidated ČD Group



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# Financial Results of the ČD Group

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In the first half of 2015, the ČD Group reported a net profit of CZK 102 million.

Total results of the ČD Group in the first half of 2015 slightly declined year-on-year. The EBITDA decreased by CZK 196 million (4.9 %), the EBIT decreased by CZK 172 million (16.6 %) and the net profit after tax decreased by CZK 56 million (35.4 %). Revenues in passenger transportation increased, however revenues decreased in freight transportation, which was on the other hand partially compensated by savings in service-related costs.

In passenger transport, sales increased year-on-year by CZK 245 million (2.4 %) and traffic performance by 101 million passenger kilometres (3 %), mainly in the international transport of passengers. On the contrary, domestic transport declined primarily due to extensive traffic closures. Freight transport revenues decreased by CZK 422 million (6.7 %) and traffic performance by 375 million tariff tonne-kilometres (6 %). The reason for the decline was the strengthening competition in intermodal and intramodal transport.

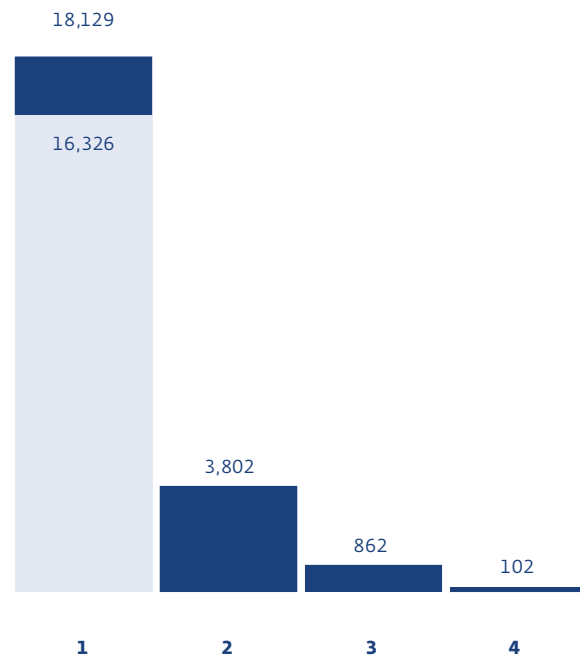
Total operating expenses of the ČD Group increased year-on-year by CZK 137 million (1 %), due to an increase in the costs of repairs and maintenance of railway vehicles and increased costs for substitute bus transport that resulted from extensive traffic closures as a result of ongoing renovations of railway infrastructure by Správa železniční dopravní cesty, s.o.

Staff costs increased year-on-year by CZK 154 million (2.6 %), mainly due to an increase in the extra work in the provision of transportation services during traffic closures and an increase in performance bonuses for employees with high-risk jobs that were approved in the Company collective agreement for 2015.

The lower net profit additionally reflected the increase in financial costs, primarily the interest expenses relating to the provision of financing of the ČD Group.

### ČD Group's Results (CZK million)

#### First half of 2015

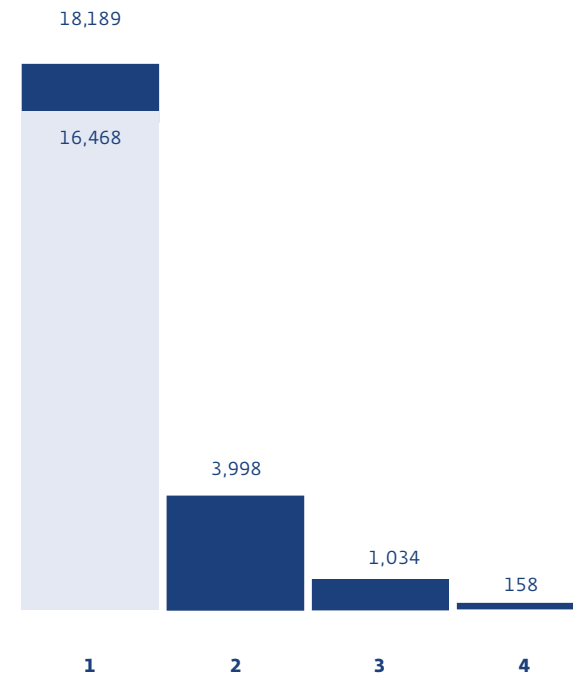


**1** Operating revenues

**2** EBITDA

**1** Revenues from principal operations

#### First half of 2014

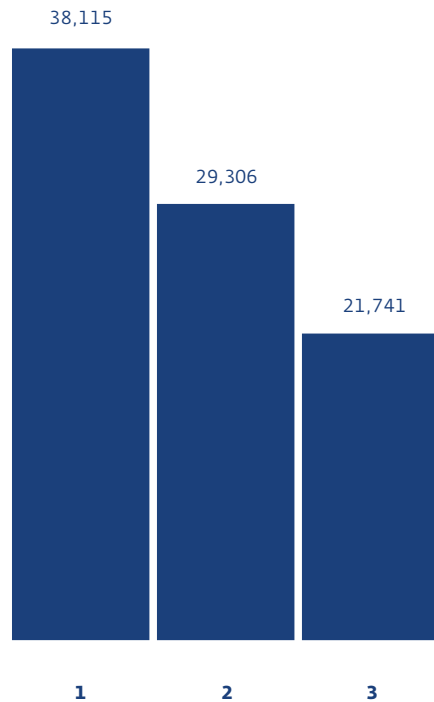
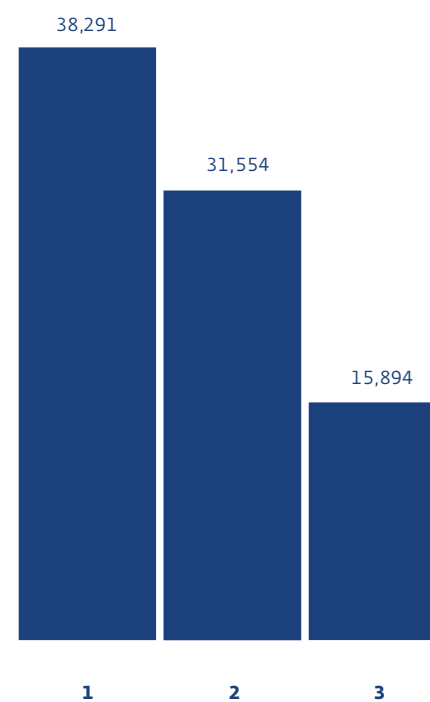


**3** EBIT

**4** Profit/loss after taxation

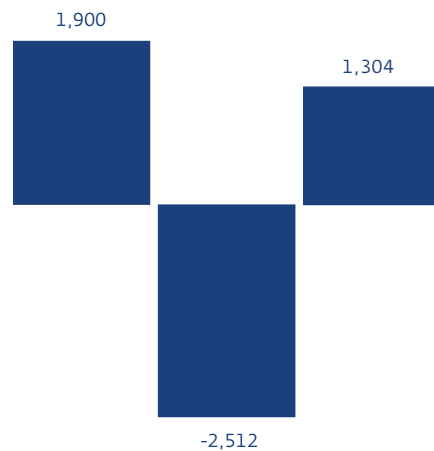
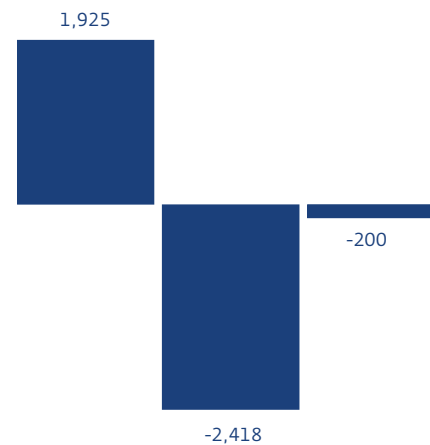
**Structure of Assets** (CZK million)**First half of 2015****First half of 2014****1** Fixed assets**2** Other fixed assets**3** Current assets

Total assets increased by CZK 3.4 billion (4%) year-on-year. The most significant increase was reported in current assets, which reflected the proceeds from the issued bonds at the total nominal value of EUR 115.2 million executed on 3 June 2015.

**Structure of Liabilities** (CZK million)**First half of 2015****First half of 2014****1** Equity**2** Long-term liabilities**3** Short-term liabilities

Equity remained on a comparable level year-on-year. A significant change was reported in long-term and short-term liabilities. Long-term liabilities decreased year-on-year by CZK 2.2 billion (7.1 %). In March 2015, the loan from EUROFIMA of EUR 45 million was repaid. As compared to the first half of 2014, the finance lease payables decreased as well as the volume of bonds with long-term maturity, ie longer than 1 year. The long-term

liabilities reflected the proceeds from issued bonds at the nominal value of EUR 115.2 million executed on 3 June 2015. The increase in short-term liabilities of CZK 5.8 billion (36.8 %) was due to the transfer of the bonds issued in 2011 and due on 24 June 2016 of the total nominal value of EUR 300 million from long-term to short-term liabilities.

**Cash Flows** (CZK million)**First half of 2015****First half of 2014****1****2****3****1****2****3****1** Operating activities**2** Investing activities**3** Financial activities

The net cash flows from operating activities were on comparable levels year-on-year.

The net cash flows from investment activities increased by CZK 94 million year-on-year (3.9%), due to ongoing investments.

The increase in net cash flows from financing of CZK 1.5 billion was impacted by the issue of bonds on 3 June 2015. Concurrently, payables to EUROFIMA were partially settled – repayment of a part of the loan of EUR 45 million and part of the finance leases was settled.

## VI.1 Financial Results of Business Segments of Principle Activities

(in CZK mil.)		Passenger transport	Asset management	Freight transport	Other	Elimination	Total
<b>Revenue from principal operations</b>	1st half of 2015	10,425	0	5,893	0	8	16,326
	1st half of 2014	10,180	0	6,315	0	-27	16,468
<b>Purchased consumables and services</b>	1st half of 2015	-4,294	-187	-3,109	-1,203	762	-8,031
	1st half of 2014	-4,210	-245	-3,221	-953	703	-7,926
<b>Staff costs</b>	1st half of 2015	-3,421	-126	-1,940	-660	61	-6,086
	1st half of 2014	-3,345	-138	-1,852	-647	50	-5,932
<b>EBITDA</b> from continuing operations	1st half of 2015	<b>2,534</b>	<b>91</b>	<b>973</b>	<b>316</b>	-112	<b>3,802</b>
	1st half of 2014	<b>2,242</b>	<b>19</b>	<b>1,394</b>	<b>310</b>	33	<b>3,998</b>
<b>Depreciation/amortization</b>	1st half of 2015	-2,155	-116	-546	-158	35	-2,940
	1st half of 2014	-2,107	-119	-504	-165	-69	-2,964
<b>EBIT</b> from continuing operations	1st half of 2015	<b>379</b>	<b>-25</b>	<b>427</b>	<b>158</b>	-77	<b>862</b>
	1st half of 2014	<b>135</b>	<b>-100</b>	<b>890</b>	<b>145</b>	-36	<b>1,034</b>
<b>Profit (loss) for the period</b>	1st half of 2015	<b>-78</b>	<b>-18</b>	<b>216</b>	<b>143</b>	-161	<b>102</b>
	1st half of 2014	<b>-262</b>	<b>-89</b>	<b>540</b>	<b>139</b>	-170	<b>158</b>

### VI.I.I Passenger Transportation

The results of the passenger transportation improved year-on-year. The EBITDA increased year-on-year by CZK 292 million (13 %).

The improvement resulted from the year-on-year increase in revenues primarily in international transport. A significant increase was in the low-cost offer segment and in sales to Austria (of more than 30 %) due to the use of new railjet vehicles and the offer of new tariffs. In addition, the sale of international tickets abroad increased year-on-year primarily at the Austrian national transporter ÖBB. Revenues from domestic transport decreased slightly, mainly due to significant traffic closures on account of ongoing renovations of railway infrastructure.

The positive results reflected the decrease in overhead costs and the lower level of provisioning as compared to the first half of 2014. On the contrary, operating expenses increased slightly by CZK 84 million (2 %), primarily due to higher costs of repairs and maintenance of railway vehicles and traffic closures that required the use of a higher number of employees including the provision of replacing bus transport.

Despite the year-on-year increase in depreciation of CZK 48 million (2.3 %), due to the continuing renewal of the rolling stock, the EBIT almost tripled year-on-year and the net loss of the segment decreased by 70.2 % from CZK 262 million to CZK 78 million.

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

### VI.I.II Freight Transportation

Despite the decline in revenues and traffic performance in freight transport, the segment reported a profit of CZK 216 million in the first half of 2015.

The decline in revenues of CZK 422 million (6.7 %) was impacted by the revenues decline of the parent company ČD Cargo, a.s. and also its subsidiaries. The principal negative factor was strong competition on the fully liberalised railway freight transportation market that increased the pressure on the decrease in unit prices in the segment of complete trains and subsequently impacted the profitability of the entire segment. As a result of a lower price of oil on global markets, the share of road freight transport grew at the expense of the transport of single wagon shipments on the railway.

The decline in revenues was partially compensated by a decrease in the costs directly relating to performance, which decreased year-on-year by CZK 112 million (3.5 %). This, together with savings and optimisations in other cost issues, helped generate profit in the freight transport segment.

Given the decline in revenues, the EBITDA decreased by CZK 421 million (30.2 %) year-on-year. The above factors and the increase in depreciation, due to higher investments, was reflected in the decrease in the EBIT of CZK 463 million (52 %).

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



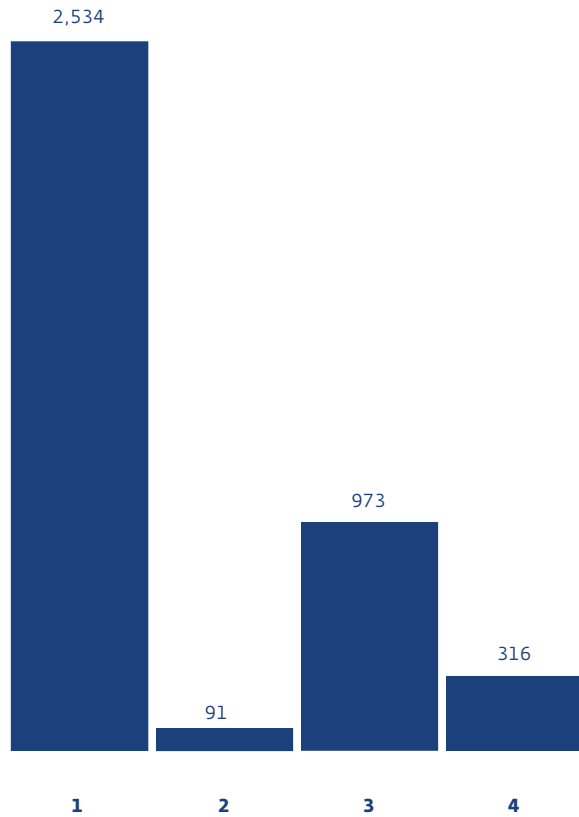
**VI.I.III Asset Management**

The Asset management segment reported a reduction in the loss of CZK 71 million, which is almost 80 %. The result was positively impacted by higher revenues from the sale of redundant assets and reduced operating expenses.

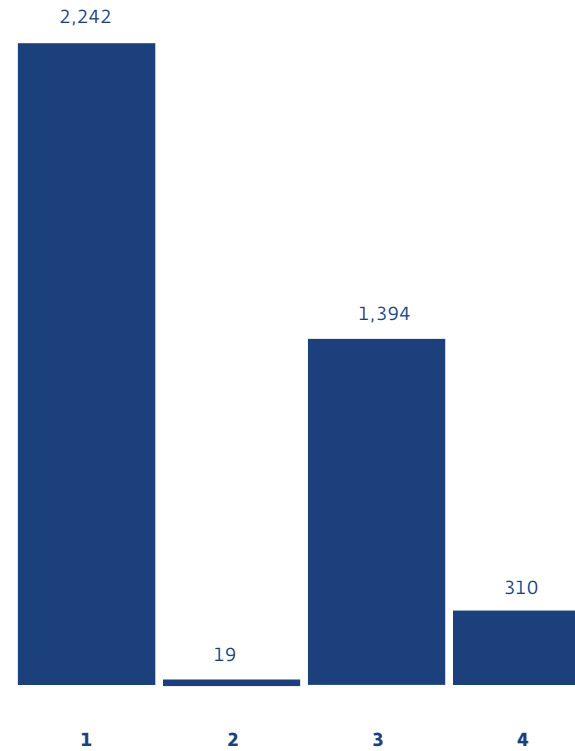
The analysis of the Asset Management segment corresponds with the segment analysis in the notes to the interim consolidated financial statements under IFRS.

### EBITDA by Segments (CZK million)

#### First half of 2015



#### First half of 2014



**1** Passenger transport

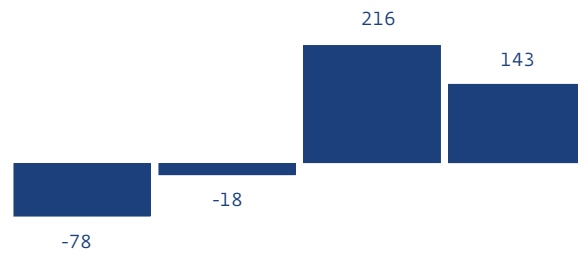
**2** Asset Management

**3** Freight transport

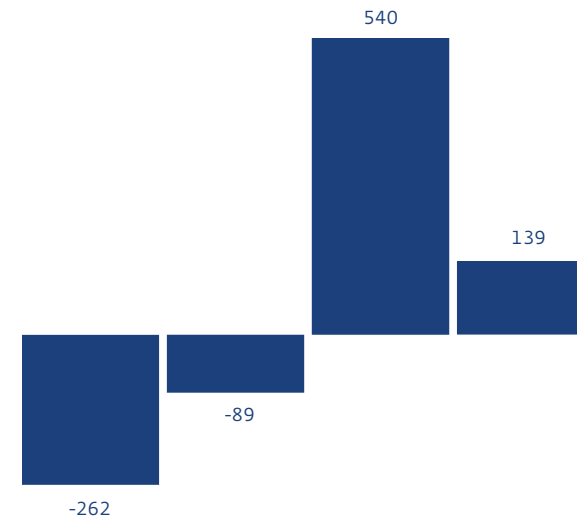
**4** Others

### Profit (loss) for the Period by Segment (CZK million)

#### First half of 2015



#### First half of 2014



1

2

3

4

1

2

3

4

1 Passenger transport

2 Asset Management

3 Freight transport

4 Others

## VI.II Investments

Total investments of the ČD Group amounted to CZK 2.6 billion in the first half of 2015, which is a year-on-year increase of 6 %. The most significant investments were in passenger and freight transportation.

### VI.II.I Passenger Transport

#### Regional Transport

In the first half of 2015, ČD invested CZK 594 million in regional transport. The last two pieces of new two-system electric units from the supply of 7 units for the regional transport in the South Moravian region were delivered.

#### Long-Distance Transport

In the first half of 2015, ČD invested CZK 1.2 billion. The last two passenger vehicles from the 15 -piece series of modernised railway cars of ABpee series and 50 passenger vehicles from the Austrian national transporter ÖBB were supplied.

#### 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. In the first half of 2015, no investments were made in commercial transport and no railway vehicles used in the commercial transport were supplied.

(CZK million)	Regional transportation	Long-distance transportation	Commercial transportation	Total
<b>Investments in railway vehicles</b>	<b>First half of 2015</b>			
New railway vehicles	409	283	0	<b>1,833</b>
Renovation of railway vehicles	40	811	0	
Components	145	145	0	
<b>Investments in railway vehicles</b>	<b>First half of 2014</b>			
New railway vehicles	-174*	300	5	<b>1,901</b>
Renovation of railway vehicles	367	1,161	241	

\* net of subsidies from regional operating programme

**Investments Relating to Railway Vehicles**

Other investments included the modernisation of electric locomotives as part of periodical repairs and the modernisation of railway cars 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 electric locomotives from 363 series to 362 series by increasing their speed from 120 km/h 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 travel.

### Other Investments

Other investments (CZK million)	First half of 2015	First half of 2014
Construction	9	21
Other	48*	69
<b>Total</b>	<b>57</b>	<b>90</b>

\*net of subsidies from the OPD1 programme in the amount of CZK 82 million

### VI.II.II Freight Transportation

In the year-on-year comparison, approximately CZK 180 million was invested in the freight transport segment in the first half of 2015. The investments of ČD Cargo in the first half of 2015 primarily focused on the renovation of the existing rolling stock, which accounted for 80 % of total investment expenditures of CZK 555 million. These primarily included technical improvements and inspection repairs of the principal set of freight wagons and main general repairs of locomotives.

Investments in railway vehicles (CZK million)	First half of 2015	First half of 2014
New railway vehicles	0	0
Renovation of railway vehicles and component repairs of railway vehicles	445	290
<b>Total</b>	<b>445</b>	<b>290</b>

Other investments primarily focused on the acquisition and development of existing information systems, construction modifications of real estate and renovation of handling technology and investment in machinery.

Other investments (CZK million)	First half of 2015	First half of 2014
Construction	40	16
Other	70*	67
<b>Total</b>	<b>110</b>	<b>83</b>

\*net of subsidies from the OPD1 programme in the amount of CZK 27 million

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# ČD Group

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On 3 June 2015, České dráhy, a.s. issued a EUR 115.2 million dual tranche debt private placement, consisting of a EUR 37.7 million bearer bond with a coupon of 1.89 % p.a. and maturity of 7 years and a EUR 77.5 million bearer bond with a coupon of 3.00 % p.a. and maturity of 20 years. The lead manager of the private placement was Erste Group Bank AG.

Resolution of the Czech Government No. 509 dated 24 June 2015 revoked the authorisation for the activities in the Steering Committee of České dráhy for Lukasz Kryński with effect as of 24 June 2015. Through this resolution, David Koppitz was authorised to be active in the Steering Committee of České dráhy as of 25 June 2015.

As of 23 June 2015 České dráhy, a.s. and AŽD Praha s.r.o. agreed upon the purchase of shares of ČD - Telematika a.s. The purchase of shares from AŽD Praha s.r.o. (ownership in ČDT of 7.39 %) increased České dráhy's ownership in ČD - Telematika a.s. from 59.31 % to 66.7 %.

Management of ČD Cargo, a.s. decided to increase the equity investment in Generálne zastúpenie ČD Cargo, s.r.o. by 98.39 %. The equity investment was purchased from the 100 % owned subsidiary, Koleje Czeskie Sp. z o.o. The resolution on the purchase of the entity relates to the expansion to foreign markets through wholly owned subsidiaries. The increase in the equity investment resulted from the registration of a change in the owner in the Register of Companies on 13 January 2015.

The subsidiary ČD Cargo, a.s. continues implementing restructuring measures with the objective of achieving balanced results from the segment of single wagon business by 2017 and maintaining the profitability of the segment of complete trains. The Company has already started new projects in order to further increase the effectiveness of its capacities and activities across the company, without a significant negative impact on the offer of transportation. In addition, the company adopted business measures that primarily aim to discontinue the decline in revenues and obtain a larger volume of transported goods.

# Employees

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During the first half of 2015, the ČD Group reported the average FTE of 24,037, ie a year-on-year decrease of 194 employees (1 %).

The development in the number of employees in passenger transport was constant due to the stabilisation and optimisation of the organisational structure and internal rationalisation of activities. Changes in the staffing levels were made in order to optimise the staff and aging structure, primarily in jobs that are decisive for the passenger transport. A predominant part of employees discontinued their employment by

agreement either due to the claim for age related pension eligibility, loss of health capability or due to redundancy. Employees were dismissed across all categories, ie both employees providing for operations and administrative employees.

In freight transportation, the optimisation and rationalisation of organisational and technology procedures continued with the objective of achieving optimum work productivity. On an ongoing basis, the aging structure changes in operational jobs while the principle of rational staffing of individual workplaces was implemented.



# Interim Consolidated Financial Statements

# Interim Consolidated Financial Statements for the Six Months Ended 30 June 2015

## Interim Statement of Financial Position (Balance Sheet) as of 30 June 2015

	30 June 2015 CZK thousand (unaudited)	31 Dec 2014 CZK thousand (audited)	30 June 2014 CZK thousand (unaudited)
Property, plant and equipment	74,413,827	74,999,328	73,852,486
Investment property	2,105,947	2,140,185	2,172,035
Intangible assets	542,094	594,896	545,139
Investments in joint ventures and associates	181,274	187,875	178,110
Deferred tax asset	20,829	5,858	17,292
Trade receivables	0	0	12,204
Other financial assets	838,172	1,812,882	1,557,412
Other assets	23,788	106,998	54,516
<b>Total non-current assets</b>	<b>78,125,931</b>	<b>79,848,022</b>	<b>78,389,194</b>
Inventories	1,322,435	1,199,967	1,156,644
Trade receivables	2,715,314	3,127,474	3,059,762
Tax receivables	22,352	60	1,807
Other financial assets	978,667	125,807	277,367
Other assets	1,228,557	1,151,710	1,731,980
Cash and cash equivalents	4,734,932	4,042,971	1,063,935
Assets held for sale	33,361	49,454	58,535
<b>Total current assets</b>	<b>11,035,618</b>	<b>9,697,443</b>	<b>7,350,030</b>
<b>TOTAL ASSETS</b>	<b>89,161,549</b>	<b>89,545,465</b>	<b>85,739,224</b>

**Interim Statement of Financial Position (Balance Sheet) as of 30 June 2015** (continued)

	<b>30 June 2015</b> CZK thousand (unaudited)	<b>31 Dec 2014</b> CZK thousand (audited)	<b>30 June 2014</b> CZK thousand (unaudited)
Share capital	20,000,000	20,000,000	20,000,000
Reserve and other funds	16,136,006	16,046,019	16,231,734
Retained earnings	1,318,037	1,276,631	1,295,505
<b>Equity attributable to equity holders of the parent company</b>	<b>37,454,043</b>	<b>37,322,650</b>	<b>37,527,239</b>
Non-controlling interests	660,656	775,505	763,825
<b>Total equity</b>	<b>38,114,699</b>	<b>38,098,155</b>	<b>38,291,064</b>
Loans and borrowings	25,767,871	33,135,989	29,449,395
Deferred tax liability	814,067	751,416	644,517
Provisions	803,692	826,019	248,028
Other financial liabilities	1,324,239	1,183,234	618,457
Other liabilities	595,715	581,252	593,740
<b>Total non-current payables</b>	<b>29,305,584</b>	<b>36,477,910</b>	<b>31,554,137</b>
Trade payables	5,128,201	6,694,581	5,603,179
Loans and borrowings	12,048,329	3,646,394	4,952,539
Tax payables	21,140	88,951	88,662
Provisions	1,349,885	1,288,592	1,902,318
Other financial payables	701,943	654,401	597,873
Other payables	2,491,768	2,596,481	2,749,452
<b>Total current payables</b>	<b>21,741,266</b>	<b>14,969,400</b>	<b>15,894,023</b>
<b>TOTAL LIABILITIES</b>	<b>89,161,549</b>	<b>89,545,465</b>	<b>85,739,224</b>

**Interim Statement of Profit or Loss for the Six Months Ended 30 June 2015**

	<b>Period ended 30 June 2015</b> CZK thousand (unaudited)	<b>Period ended 30 June 2014</b> CZK thousand (unaudited)
<b>CONTINUING OPERATIONS</b>		
Revenue from principal operations	16,325,945	16,468,439
Other operating income	1,802,926	1,720,592
Purchased consumables and services	-8,030,610	-7,926,450
Employee benefit costs	-6,086,303	-5,932,187
Depreciation and amortisation	-2,940,123	-2,964,487
Other operating losses, net	-209,798	-331,640
<b>Profit before interest and tax</b>	<b>862,037</b>	<b>1,034,267</b>
Financial expenses	-709,976	-612,209
Other gains (losses), net	64,943	-49,265
Share of income of associates and joint ventures	-20,132	6,914
<b>Profit before tax</b>	<b>196,872</b>	<b>379,707</b>
Income tax expense	-95,303	-221,443
<b>Profit for the period from continuing operations</b>	<b>101,569</b>	<b>158,264</b>
<b>DISCONTINUED OPERATIONS</b>		
Profit from discontinued operations	0	0
<b>Profit for the period</b>	<b>101,569</b>	<b>158,264</b>
Attributable to equity holders of the parent company	82,021	135,955
Attributable to non-controlling interests	19,548	22,309

**Interim Statement of Comprehensive Income for the Six Months Ended 30 June 2015**

	<b>Period ended 30 June 2015</b> CZK thousand (unaudited)	<b>Period ended 30 June 2014</b> CZK thousand (unaudited)
Profit for the period	101,569	158,264
Foreign exchange rate losses from the transfer of foreign branches	-1,318	-1,827
Cash flow hedging	22,760	-108,414
Relating income tax	-13,975	-9,730
<b>Other comprehensive income for the period (items that can be reclassified to profit or loss), net of tax</b>	<b>7,467</b>	<b>-119,971</b>
<b>Total comprehensive income for the year</b>	<b>109,036</b>	<b>38,293</b>
Attributable to equity holders of the parent company	89,488	15,984
Attributable to non-controlling interests	19,548	22,309

**Interim Statement of Changes in Equity for the Six Months Ended 30 June 2015**

	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
<b>Balance at 1 January 2014</b>	<b>20,000,000</b>	<b>16,315,150</b>	<b>1,196,207</b>	<b>37,511,357</b>	<b>741,544</b>	<b>38,252,901</b>
(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
<b>Balance at 30 June 2014</b>	<b>20,000,000</b>	<b>16,231,734</b>	<b>1,295,505</b>	<b>37,527,239</b>	<b>763,825</b>	<b>38,291,064</b>
(unaudited)						
<b>Balance at 1 January 2015</b>	<b>20,000,000</b>	<b>16,046,019</b>	<b>1,276,631</b>	<b>37,322,650</b>	<b>775,505</b>	<b>38,098,155</b>
(audited)						
Profit for the period	0	0	82,021	82,021	19,548	101,569
Other comprehensive income for the period, net of tax	0	7,467	0	7,467	0	7,467
Allocation to the reserve fund	0	51,554	-51,554	0	0	0
Dividends paid	0	0	0	0	-1,492	-1,492
Impact of a change in the consolidation group <sup>*)</sup>	0	30,966	10,939	41,905	-132,905	-91,000
<b>Balance at 30 June 2015</b>	<b>20,000,000</b>	<b>16,136,006</b>	<b>1,318,037</b>	<b>37,454,043</b>	<b>660,656</b>	<b>38,114,699</b>
(unaudited)						

<sup>\*)</sup>"Impact of a change in the consolidation group" includes the impact of an increase in the equity investment of the parent company in ČD - Telematika a.s .

**Interim Cash Flow Statement for the Six Months Ended 30 June 2015**

	<b>Period ended 30 June 2015 CZK thousand (unaudited)</b>	<b>Period ended 30 June 2014 CZK thousand (unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit for the year before tax</b>	<b>196,872</b>	<b>379,707</b>
Dividend income	1,709	-113
Financial expenses	709,976	612,209
Profit from the sale and disposal of non-current assets	-127,662	-83,603
Depreciation and amortisation of non-current assets	2,940,123	2,964,487
Impairment of non-current assets	-10,942	-30,204
Impairment of trade receivables	15,713	28,589
Foreign exchange rate gains (losses)	-113,472	6,731
Other	19,107	62,762
<b>Cash flow from operating activities before changes in working capital</b>	<b>3,631,424</b>	<b>3,940,565</b>
Decrease (increase) in trade receivables	399,267	309,975
Decrease (increase) in inventories	-107,155	-65,678
Decrease (increase) in other assets	-189,133	-719,901
Increase (decrease) in trade payables	-1,051,337	-1,065,555
Increase (decrease) in provisions	36,740	-81,732
Increase (decrease) in other payables	-110,157	274,801
<b>Total changes in working capital</b>	<b>-1,021,775</b>	<b>-1,348,090</b>
<b>Cash flows from operating activities</b>	<b>2,609,649</b>	<b>2,592,475</b>
Interest paid	-579,106	-557,982
Income tax paid	-130,252	-109,055
<b>Net cash flows from operating activities</b>	<b>1,900,291</b>	<b>1,925,438</b>

**Interim Cash Flow Statement for the Six Months Ended 30 June 2015** (continued)

	<b>Period ended 30 June 2015</b> CZK thousand (unaudited)	<b>Period ended 30 June 2014</b> CZK thousand (unaudited)
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>		
Payments for property, plant and equipment	-2,550,802	-2,430,238
Proceeds from disposal of property, plant and equipment	110,950	64,304
Payments for investment property	-14,224	-612
Costs of acquisition of intangible assets	-68,178	-58,017
Received interest	10,112	6,916
<b>Net cash flows used in investment activities</b>	<b>-2,512,142</b>	<b>-2,417,647</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loans and borrowings	3,151,518	3,337,769
Repayments of loans and borrowings	-1,846,214	-3,537,532
Dividends paid	-1,492	-28
<b>Net cash flows from financing activities</b>	<b>1,303,812</b>	<b>-199,791</b>
<b>Net increase in cash and cash equivalents</b>	<b>691,961</b>	<b>-692,000</b>
Cash and cash equivalents at the beginning of the reporting period	4,042,971	1,755,935
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>4,734,932</b>	<b>1,063,935</b>

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# Notes to the Summarised Interim Consolidated Financial Statements for the Six Months Ended 30 June 2015

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# 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 transportation. Other activities of the Group predominantly include assets administration (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 Company is organised into sections overseen directly by the Chairman of the Board of Directors, Vice-Chairman and members of the Board of Directors:

- Section of the Chairman of the Board of Directors responsible for economy, finance and management;
- Section of the Vice-Chairman of the Board of Directors responsible for the cooperation with regions and investments;
- Section of a member of the Board of Directors responsible for passenger transportation;
- Section of a member of the Board of Directors responsible for technology, maintenance and assets;
- Section of a member of the Board of Directors responsible for projects and international relations;

and departments managed by the Board of Directors.

### Bodies of the Parent Company

Resolution of the Czech Government No. 509 dated 24 June 2015 revoked the authorisation for the activities in the Steering Committee of České dráhy for Lukasz Kryński with effect as of 24 June 2015. Through this resolution, David Koppitz was authorised to be active in the Steering Committee of České dráhy as of 25 June 2015.

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### 1.3 Consolidation Group

On 23 June 2015, České dráhy, a.s. concluded a "Contract for the Transfer of Securities" of ČD - Telematika a.s. with AŽD Praha s.r.o. The purchase of shares from AŽD Praha s.r.o. increased the equity investment of České dráhy, a.s. in ČD - Telematika a.s. from 59.31 % to 66.70 %. The acquisition cost of the equity investment amounted to CZK 91,000 thousand.

## 2 Statement of Compliance and Principal Accounting Policies

The interim consolidated financial statements for the six months ended 30 June 2015 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 2014.

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 2014.

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 2015, passenger transport of the Parent Company stagnated year-on-year and sales from transport activities increased slightly compared to 2014. The number of passengers and revenues increased primarily in international transport. In domestic transport, the revenues were impacted by a number of negative factors, particularly in the first quarter (eg the impact of lower fuel prices whereby regular commuters opted for individual transport instead; the impact of weather conditions on leisure activities; the decrease in the number of student commuters due to demographic changes, the major impact of interruptions since April 2015 and others). However, the growth in the number of passengers and revenues from selected long-distance and suburban services continued. In the second half of 2015, we anticipate a stabilisation of the development and a slight increase in the passenger transport revenues.

The revenues of ČD Cargo, a.s. are affected by various seasonal impacts and economic cycles in commodities that are beyond the influence of the railway transporter. 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. It is also necessary to note 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 revenues of the company are impacted by events abroad and overseas. In addition, the impact of force majeure (such as floods) should be noted.

## 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 2015		30 June 2014	
	SŽDC	ČEZ Group	SŽDC	ČEZ Group
Expenses	2,121,770	317,921	2,343,879	321,747
Income	582,714	214,968	352,492	262,312

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

(CZK'000)	30 June 2015		31 Dec 2014		30 June 2014	
	SŽDC	ČEZ Group	SŽDC	ČEZ Group	SŽDC	ČEZ Group
Receivables (line "Trade receivables")	337,432	52,680	253,296	74,392	239,829	74,400
Payables (line "Trade payables")	1,247,657	171,709	1,512,920	177,803	1,082,853	173,129
Prepayments made (line "Other assets", current)	28,492	2,288	52,117	2,581	25,076	2,105
Received prepayments (line "Other payables", current)	158,090	3,018	257,380	2,404	254,056	2,425
Estimated payables (line "Trade payables")	155,471	0	37,734	129	28,024	50
Estimated receivables (line "Trade receivables")	11,594	0	70,736	0	46,652	0

## 5 Income Taxation

The income tax reported in the statement of profit or loss as of 30 June 2015 of CZK (95,303) thousand includes the tax payable of CZK (62,074) thousand and deferred tax of CZK (33,229) 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 2015	Passenger transportation	Asset Management	Freight transportation	Other	Elimination	Total
<b>Revenue from principal operations</b>						
Revenue from passenger transportation	3,679	0	0	0	-6	3,673
Payments from orderers	6,746	0	0	0	0	6,746
Other	0	0	5,893	0	14	5,907
	<b>10,425</b>	<b>0</b>	<b>5,893</b>	<b>0</b>	<b>8</b>	<b>16,326</b>
<b>Purchased consumables and services</b>						
Traction costs	-1,224	0	-679	0	18	-1,885
Payment for the use of the railway route	-905	0	-735	0	-25	-1,665
Other purchased consumables and services	-2,165	-187	-1,695	-1,203	769	-4,481
	<b>-4,294</b>	<b>-187</b>	<b>-3,109</b>	<b>-1,203</b>	<b>762</b>	<b>-8,031</b>
<b>Staff costs</b>						
Payroll costs	-2,449	-90	-1,366	-464	47	-4,322
Social security and health insurance	-810	-29	-451	-157	12	-1,435
Statutory social costs	-13	-1	-84	-19	-115	-232
Statutory social costs - benefits arising from the collective agreement	-149	-6	-39	-20	117	-97
	<b>-3,421</b>	<b>-126</b>	<b>-1,940</b>	<b>-660</b>	<b>61</b>	<b>-6,086</b>
Other operating income and expenses	266	384	129	1,757	-943	1,593
Intracompany income and expenses	-41	45	0	-4	0	0
Overhead costs – operating	-401	-25	0	426	0	0
Depreciation and amortisation	-2,155	-116	-546	-158	35	-2,940
Other income and expenses	-486	6	-211	15	-84	-760
Overhead costs – financial and other	29	1	0	-30	0	0
<b>Profit (loss) for the period from continuing operations</b>	<b>-78</b>	<b>-18</b>	<b>216</b>	<b>143</b>	<b>-161</b>	<b>102</b>
Profit (loss) for the period from discontinued operations	0	0	0	0	0	0
<b>Profit (loss) for the period</b>	<b>-78</b>	<b>-18</b>	<b>216</b>	<b>143</b>	<b>-161</b>	<b>102</b>
Profit attributable to non-controlling interests	0	0	0	0	20	20
Profit (loss) attributable to owners of the parent company	-78	-18	216	143	-181	82

(CZK million)

Period ended 30 June 2014	Passenger transportation	Asset Management	Freight transportation	Other	Elimination	Total
<b>Revenue from principal operations</b>						
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
	<b>10,180</b>	<b>0</b>	<b>6,315</b>	<b>0</b>	<b>-27</b>	<b>16,468</b>
<b>Purchased consumables and services</b>						
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
	<b>-4,210</b>	<b>-245</b>	<b>-3,221</b>	<b>-953</b>	<b>703</b>	<b>-7,926</b>
<b>Staff costs</b>						
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
	<b>-3,345</b>	<b>-138</b>	<b>-1,852</b>	<b>-647</b>	<b>50</b>	<b>-5,932</b>
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
<b>Profit (loss) for the period from continuing operations</b>	<b>-262</b>	<b>-89</b>	<b>540</b>	<b>139</b>	<b>-170</b>	<b>158</b>
Profit (loss) for the period from discontinued operations	0	0	0	0	0	0
<b>Profit (loss) for the period</b>	<b>-262</b>	<b>-89</b>	<b>540</b>	<b>139</b>	<b>-170</b>	<b>158</b>
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

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## 7 Property, Plant and Equipment

In the six months ended 30 June 2015, the Group acquired property, plant and equipment of CZK 1,680,914 thousand (as of 31 December 2014: CZK 6,033,594 thousand).

In 2015, the Parent Company provided no prepayments.

Principal additions reported by the Parent Company include the acquisition of complete non-traction vehicles, supply of two-system vehicles and purchase of passenger vehicles from ÖBB. Other principal additions include inspections and modernisations of railway vehicles in ČD Cargo, a.s. and acquisition of the ETCS security mechanism in Výzkumný Ústav Železniční, a.s.

Property, plant and equipment with the net book value of CZK 106,915 thousand were disposed of by the Group in the six months ended 30 June 2015 (31 December 2014: CZK 306,863 thousand).

The most significant impairment loss as of 30 June 2015 relates to the 680 series tilting trains (Pendolino) in the amount of CZK 567,695 thousand (31 December 2014: CZK 581,541 thousand).

During the interim period ended 30 June 2015, the Parent Company acquired property, plant and equipment financed using the subsidies of CZK 233 thousand.

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## 8 Intangible Assets

In the six months ended 30 June 2015, the Group acquired intangible assets of CZK 53,623 thousand (31 December 2014: CZK 252,735 thousand).

The acquisition of intangible assets by the Parent Company includes the PARIS, SAP, IS DISOD portals and In-karta system. Other significant additions include the extension of the operational and sales information system of ČD Cargo, a.s. – PROBIS which was put into use in 2013.

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## 9 Inventories

The decrease in the value of inventories to the net realisable value as of 30 June 2015 amounts to CZK 52,165 thousand (31 December 2014: CZK 78,865 thousand).

## 10 Cash and Cash Equivalents

(CZK'000)	30 June 2015	31 Dec 2014	30 June 2014
Cash on hand and cash in transit	77,679	55,853	82,446
Cash at bank	2,154,617	3,737,118	831,629
Short-term securities	2,502,636	250,000	149,860
<b>Total</b>	<b>4,734,932</b>	<b>4,042,971</b>	<b>1,063,935</b>

## 11 Loans and Borrowings

On 3 June 2015, the Parent Company issued a EUR 115.2 million dual tranche debt private placement, consisting of a EUR 37.7 million bearer bond with the coupon of 1.89 % p.a. and maturity of 7 years and a EUR 77.5 million bearer bond with the coupon of 3.00 % p.a. and maturity of 20 years. The lead manager of the private placement was Erste Group Bank AG.

The Parent Company has concluded loan contracts with EUROFIMA. In the first half of 2015, the total principal of EUR 45,000 thousand was repaid on 6 March 2015. The principal totalling EUR 60,000 thousand remains to be repaid to EUROFIMA in line with the relevant due dates from 7 April 2016 to 3 April 2017.

During the first half of 2015, the Parent Company used no new loan principals. Given the June private placement of EUR 115.2 million, the Parent Company has sufficient liquidity and consequently no overdrafts or promissory notes are used.

On 24 June 2016, the bonds of EUR 300 million issued by the Parent Company on 24 June 2011 will be due. For this reason, these bonds are reported in short-term payables as of 30 June 2015 (the balance sheet line 'Loans and borrowings') as they are due in a period shorter than one year from the date of these interim consolidated financial statements.

## 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 10,094,803 thousand (31 December 2014: CZK 12,673,850 thousand). A significant portion of the obligations related to expenses include investments in railway vehicles.

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## 13 Derivative Financial Instruments

During the interim reporting period, the Parent Company concluded new derivative transactions for the hedging of diesel prices. The total fair value of these commodity swaps as of 30 June 2015 is CZK 7,530 thousand. In addition, the Parent Company concluded cross-currency interest rate swaps to hedge the bonds issued on 3 June 2015, the fair value of which amounts to CZK (74,686) thousand as of 30 June 2015.

The fair value of cross-currency interest rate swaps as of 30 June 2015 concluded in order to hedge the Eurobonds issued on 24 June 2011 (due within 12 months) is fully reported in 'Other current financial assets'. The fair value of these derivatives as of 30 June 2015 reported in current financial assets amounts to CZK 746 million, it amounted to CZK 903 million as of 31 December 2014 (of which CZK 854 million reported in 'Other non-current financial assets').

During the interim reporting period, ČD Cargo, a.s. concluded two new currency forwards with the fair value of CZK 7,641 thousand as of 30 June 2015. In addition, it concluded one commodity swap for the hedging of diesel prices with the fair value of CZK 70 thousand as of 30 June 2015.

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## 14 Dividends

ČD travel, s.r.o. decided to pay out dividends from ordinary shares outside the Group in the amount of CZK 177 thousand in the interim reporting period. The dividends were paid out by the end of June 2015.

ČD-DUSS Terminál, a.s. decided on the payment of dividends from ordinary shares outside the Group of CZK 1,315 thousand in the interim period. Dividends were paid out by the end of June 2015.

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## 15 Significant Events during the Interim Reporting Period

In May 2015, the Moody's rating agency published a report according to which the rating of České dráhy, a.s. remains in the investment range of Baa3 with a stable outlook. The agency monitors the activities of the Parent Company on an ongoing basis throughout the year.

In 2014, the audit bodies of the Czech Ministry of Finance initiated an audit of the use of subsidies by the Parent Company which has been continuing in 2015. The Parent Company has been asked to return the subsidy from the Severovýchod regional operational programme in the aggregate amount of CZK 272 million. Legal steps are being taken to reverse the assessed return of the subsidy. In respect of the Severozápad, Střední Morava, Jihovýchod regional operational programmes, no payment assessment have been issued yet. The volume of the subsidies that have been subject to the audit is CZK 1,791,727 thousand. Sanctions in the form of the return of the subsidy may amount up to 25 % of this amount in line with the underlying conditions. The Parent Company does not agree with the conclusion of the audits and is pursuing the relevant procedural defence.



The arbitration proceedings relating to the legal action brought by ŠKODA TRANSPORTATION a.s. against the Parent Company are ongoing. On 13 July 2015, parties to the dispute provided their final written petitions in the proceedings. It is currently impossible to anticipate when and how the arbitration court will resolve the dispute.

On 10 July 2014, LEO Express filed a legal action seeking compensation for damage amounting to CZK 418,869 thousand that was allegedly caused by ČD to LEO Express through its pricing policy. Currently, the legal proceedings are ongoing and the parties to the legal dispute are presenting their statements.

In April 2015, RegioJet filed a legal action against the Parent Company for the return of approximately CZK 7 billion and default interest due to allegedly prohibited public support. The assets involving the 'assets required to maintain rails and their operability' ("mrtvá dopravní cesta" in Czech), which were transferred by ČD to SŽDC in 2008 for CZK 12 billion, were allegedly overstated by this amount. ČD provided its statement to the legal action indicating that it does not agree with the assertions made in the legal action and considers it to lack merit. However, it is inherently impossible to anticipate the outcome of the legal dispute. Through a ruling dated 12 May 2015, ČD was asked by the court to provide its statement; the court also officially sent the legal action on the same date.

RegioJet sent a pre-trial call to ČD for the payment of the compensation for the detriment dated 10 April 2015 in which it seeks the payment of CZK 716,977 thousand. The alleged detriment was caused by ČD's illegal activities in operating the Praha – Ostrava track, involving the application of dumping prices. ČD refused to pay the detriment. No legal action has been filed yet.

## 16 Post Balance Sheet Events

On 14 July 2015, České dráhy, a.s. concluded a Contract for the Transfer of Securities of ČD - Telematika a.s. with the Confederation of Railroad Unions (Odborové sdružení železničářů). The purchase of shares from the Confederation of Railroad Unions (a 2.48 % equity investment in ČDT) resulted in an increase of the equity investment of České dráhy, a.s. in ČD - Telematika a.s. from 66.7 % to 69.18 %.

Resolution of the Czech Government No. 633 dated 29 July 2015 revoked the authorisation for the activities in the Steering Committee of České dráhy for Lukáš Wagenknecht with effect as of 29 July 2015. Through this resolution, Pavel Kouřil was authorised to be active in the Steering Committee of České dráhy as of 30 July 2015.

## 17 Approval of the Consolidated Financial Statements

These interim consolidated financial statements were approved on 25 August 2015.

# Anticipated Development by the End of 2015

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In the second half of 2015, the ČD Group does not anticipate any events that would significantly impact the operations of passenger and freight transport. The Group will continue to focus on the growth in its operational profitability and maintaining the rating of the ČD Group in the investment range.

# Legal Disputes

## 1. Legal Dispute with ŠKODA TRANSPORTATION a.s.

On 9 April 2004, České dráhy, a.s. ("ČD") and ŠKODA TRANSPORTATION a.s. ("ŠT") concluded a purchase contract for the supply of 20 three-system electric locomotives of ŠKODA TRANSPORTATION a.s. (the "Purchase Contract"). The agreed purchase price for the supply of the locomotives, which should have taken place during 2008 and 2009, is approximately CZK 2.7 billion (net of VAT), ie CZK 133,800,000 net of VAT per locomotive.

Concurrently, ŠT was to procure the resolution of the relevant railway authorities on the provision of the certification 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 so called 'equivalents of the certification of competence'). The supply of locomotives was delayed by more than four years (the locomotives were supplied on an ongoing basis in 2013 – 2014, with the last locomotive being supplied on 25 February 2014). In ČD's opinion, ŠT's delay in supplying the relevant approvals for operations of the locomotives in Germany and Austria is still ongoing at present. As such, ŠT's delay has lasted more than five years which is substantially longer than the originally determined period for honouring the whole contract. ČD and ŠT are involved in a dispute regarding this case at the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic.

In the pending arbitration proceedings, ŠT is seeking payment in the total amount of CZK 1,433,130,528.85, plus accrued default interest.

In the arbitration, ČD is seeking the payment of the total amount of CZK 938,232,680, plus accrued default interest, and the provision of appropriate approvals for operations of the locomotives on the railways on the territory of Germany and Austria.

On 13 July 2015, the parties to the dispute provided their final written petitions in the

proceedings. It is currently impossible to anticipate when and how the arbitration court will resolve the dispute.

## 2. The Railway Freight Transportation Market

In May 2009, the Chairman of the Anti-Monopoly Office reduced the fine imposed on ČD, 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. On the basis of the remedies filed by ČD, the court revoked the ruling of the Chairman of the Anti-Monopoly Office, the principal reasons for the revocation being:

- i) The Anti-Monopoly Office acted illegally in obtaining the expert statement from the Transport Research Centre regarding the definition of the relevant market, thereby infringing upon ČD's procedural rights (the definition of the relevant market was key to making all the follow-up conclusions, namely in relation to the existence of the dominant position and its abuses); and
- ii) The Anti-Monopoly Office did not evidence the application of dumping prices and since this conclusion was of vital importance to the contested ruling of the Chairman of the Anti-Monopoly Office, the matter has been referred back to the Anti-Monopoly Office which now has to re-open it and/or supply additional evidence. The Anti-Monopoly Office has filed a remedy – cassation complaint against this decision.

## 3. 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 still continuing, the Anti-Monopoly Office is currently collecting supporting documents for

its ruling and it will subsequently either issue a statement of objections, which will formally open the proceedings against ČD, or it will not issue the statement of objections and will discontinue the proceedings.

#### **4. Proceedings Conducted in respect of the Deployment of Taurus Locomotives as Part of Cooperation between ČD, a.s. and ÖBB**

The Anti-Monopoly Office referred to the cooperation pursued in 2014 on the basis of an amendment to the contract of 2008 – deployment of Taurus locomotives – by ČD and ÖBB in operating international railway transportation under international treaties as a public contract and imposed on ČD a fine of CZK 1 million and a ban on the activities for the fact that, in the Anti-Monopoly Office's judgement, ČD failed to award this "contract" through an appropriate type of tender proceedings. ČD has filed an administrative legal action against this ruling; since the administrative legal action has no suspensory effect, ČD has paid the fine (currently in the stage of a court review, not by the Anti-Monopoly Office).

In addition, another dispute regarding the deployment of Taurus locomotives based on the contract of 2008 is being addressed by the Anti-Monopoly Office. The dispute has not been effectively finalised and there is a risk of a fine of CZK 2 million being imposed (the dispute is in the stage of an appeal filed by ČD).

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

SŽDC, s.o. 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 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.

The ruling of the High Court in Prague, ref. no. 3 Cmo 422/2012-250, approved court settlement on the basis that the defendant ČD Cargo is obliged to pay to the plaintiff, ie SŽDC, a total of CZK 314,024,813.26 in full settlement of the litigated claims.

#### **6. 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). 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.

SŽDC has concluded a settlement agreement with ČD Cargo under which ČD Cargo undertakes to pay CZK 164,152,088.28 to SŽDC.

#### **7. 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. Currently, court proceedings are being held in which parties to the dispute are presenting their comments.

### **8. Viaggio Comfort Trains (railjet)**

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 “reconfigurations” 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 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 who upheld the first-instance ruling. ČD, a.s. paid the fine and filed a remedy – administrative action against the Anti-Monopoly’s ruling which has not yet been ruled on.

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

In April 2015, RegioJet filed a legal action for the return of approximately CZK 7 billion and default interest due to allegedly prohibited public support. The assets involving the ‘assets required to maintain rails and their operability’ (“mrtvá dopravní cesta” in Czech), which were transferred by ČD to SŽDC in 2008 for CZK 12 billion, were allegedly

overstated by this amount. ČD provided its statement to the legal action indicating that it does not agree with the assertions made in the legal action and considers it to lack merit. However, it is inherently impossible to anticipate the outcome of the legal dispute. Through a ruling dated 12 May 2015, ČD was asked by the court to provide its statement; the court also officially sent the legal action on the same date.

### **10. RegioJet’s Call for the Payment of Compensation for Detriment**

RegioJet sent a pre-trial call to ČD, a.s. for the payment of the compensation for the detriment dated 10 April 2015, in which it is seeking the payment of CZK 716,977,278. The alleged detriment was caused by ČD’s illegal activities in operating the Praha – Ostrava track, involving the application of dumping prices. ČD refused to pay the detriment. No legal action has been filed yet.

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

#### **The Severovýchod Regional Operational Programme – the Modern Connection of the Královéhradecký and Pardubický Regions Project**

A payment assessment for CZK 272 million was issued without any prior tax proceedings taking place. The Office of the Regional Council highlighted the possibility of seeking a waiver of 75 % of the payment. ČD does not agree with the conclusions of the audits and has appealed the payment assessment.

#### **The Severozápad Regional Operational Programme – Modern Railway Vehicles for the Ústecký Region**

Proceedings for the breach of budgetary discipline according to the Tax Code No. 803/2014/OŘP were commenced by way of announcement of 18 February 2015. ČD provided its statement on 5 March 2015 and added more comments to its statement on 11 May 2015. The Office of the Regional Council informally indicated its intent to extend

the budgetary discipline breach proceedings to include undelayed vehicles. The audit body determined the 25 % rate in respect of the discrepancy. The contract for the subsidy, as amended, sets out the possibility of imposing the levy at a lower rate, it can thus be anticipated that the Office of the Severozápad Regional Council will potentially determine the discrepancy at the 25 % rate, ie in the amount of CZK 238 million in relation to all 01-07 vehicles. The levy would amount to CZK 95.2 million in such a case (the share of the subsidy is 40%). No payment assessment has been issued yet.

#### **The Střední Morava Regional Operational Programme – Modern Railway Vehicles for the Olomoucký Region**

The discrepancy was determined at the 25 % rate in respect of the vehicle value. The contract for the subsidy, as amended, sets out the possibility of imposing the levy at a lower rate, it can thus be anticipated that the Office of the Střední Morava Regional Council will also determine the discrepancy at the 25 % rate, ie in the amount of CZK 108 million in relation to all 13-15 vehicles. The levy would then amount to approximately CZK 43.2 million (the share of the subsidy was 40 %). No payment assessment has been issued yet.

#### **The Jihovýchod Regional Operational Programme – Modern Railway Vehicles for the Vysočina Region**

Both the Office of the Regional Council and the audit body determined the discrepancy at CZK 11,897,930.25 (the amount of yet unclaimed penalties), the levy should thus amount to approximately CZK 4.8 million (the share of the subsidy was 40 %). Determining the discrepancy at a percentage rate (eg 25 % or 100 % of the purchase price of motor vehicles) is not yet being considered, since not even the audit body or the regional council have indicated that such a procedure would be applied. No tax proceedings have commenced, no payment assessment has been issued.

No audit has yet been initiated in respect of other ROP projects but it can be anticipated.

The financial impacts of all the pending proceedings referred to above and yet unopened cases can be summarised as follows:

- If all the regional councils (except for the Severovýchod Regional Council) determined the levy at 25 % of the provided funding and the levy in respect of the 841 series vehicles was determined as equal to the amount reflecting the unclaimed contractual penalty, the aggregate amount of the levies may amount up to CZK 556 million. If the Severovýchod Regional Council waived the announced 75 % of the levy, the aggregate amount would be approximately CZK 352 million.
- Even if the individual regional councils determined the levy at 25 % of the provided subsidies, it can be argued (and ČD actively uses this argumentation) that the levy should be decreased to the amount of the actual financial impacts of ČD's alleged mistakes (ie to the value of contractual penalties that were affected by the relevant amendments to the purchase contracts).
- It cannot be fully ruled out that, mainly in relation to the programmes where the audit body's statement is not yet available, the regional councils will determine the levy at 100 % of the subsidy (ie they would proceed on the same basis as the Severovýchod Regional Council as part of the payment assessment of 4 June 2015), in which case the aggregate amount of the levies may reach substantially higher amounts than indicated above.

ČD does not agree with the conclusion of the audits and is pursuing the relevant procedural defence.

# Information on the ČD Group

The České dráhy 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 České dráhy 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.

## Identification and Contact Details

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České dráhy