Interim Report of the České dráhy Group

2016

Passengers transported:	85.6 mil.

České dráhy
National carrier

České dráhy
National carrier

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1

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 2016, and its financial performance and cash flows for the six months then ended.

In Prague on 31 August 2016

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

This report was not audited.

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KEY INTERIM INDICATORS FOR THE ČD GROUP

Key Interim Indicators for the CD Group

IFRS consolidated financial indicators (CZK million)	1-6 2016	1-6 2015*	Difference	INDEX
ČD Group				
EBITDA (from continued operations)**	4,406	3,834	572	**115**
EBIT (from continued operations) ***	1,403	958	445	**146**
Profit/loss for the period	375	102	273	**368**
Total assets	89,404	89,162	242	**100**
CAPEX	3,120	2,633	487	**118**
Depreciation and amortisation	3,003	2,875	128	**104**
Leverage (%) - external funding/assets	58.8	57,3	1,6	**103**
Current liquidity (%) - short-term assets/short-term liabilities	117.7	50.8	66.9	**232**
ROCE (%) - EBIT/(total assets - short-term liabilities)	1,8	1.4	0,4	**129**
Average FTE	23,777	24,037	(260)	**99**
Passenger transport (CD, a.s.) ******				
Number of passengers (mil.)	85.6	85.5	0.1	**100**
Traffic performance (mil. person-kilometres)	3,556	3,485	71	**102**
Transport performance (mil. train-kilometres)	60.4	59.5	0.9	**102**
Average traffic distance (km)	41.5	40.8	0.7	**102**
Occupancy ratio (%)	26.3	26.3	0	**100**
Freight transport (ČD Cargo, a.s.)				
Traffic volume (mil. tonnes)	32.1	32.9	(0.8)	**98**
Traffic performance (mil. tariff tonne-kilometres)	5,417	5,468	(51)	**99**
Transport performance (mil. train-kilometres) *********	10.6	10.8	(0.2)	**98**
Average traffic distance (km)	169	166	3	**102**

* Some financial information for the period ended 30 June 2015 was adjusted; for more details refer to the note 7 of the interim consolidated financial statements.
** EBITDA equals profit (loss) before interest and tax from continuing operations (EBIT) plus depreciation and amortisation from continuing operations
*** EBIT equals profit (loss) before interest and tax from continuing operations
**** The financial information on the passenger transport of ČD does not include fixed fee transportation services. The passenger transport performance includes only performance realized on the railway routes.
***** Transport performance does not include locomotive trains' journeys.

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OPENING STATEMENT

FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Ladies and Gentlemen,

In the first half of 2016 the ČD Group performed better compared to same period in the prior year. Net profit reported in compliance with the International Financial Reporting Standards increased to CZK 375 million compared to CZK 102 million reported in prior year. The result reflects a slight increase in revenues from passenger transportation, as well as the disposal of redundant assets and better results of freight transport. I consider both Moody's rating improvement to the Baa2 level with a stable outlook, successful issuance of bonds in the amount of EUR 400 million and the subsequent repayment of EUR 300 million Eurobonds issued back in 2011 as extraordinary achievements of this half-year period.

Revenue from passenger transport rose by CZK 152 million compared to the first six months of 2015. Transportation performance increased along with the number of passengers (85.6 million). The passenger transport segment ended up in loss of CZK 342 million, which was however caused by higher cost of vehicle repair and maintenance, as well as the acquisition of new trains and the higher depreciation expenses related to that and also by higher staff costs.

Investment activity continued in both passenger and freight transportation. In comparison with the same period of the last year, we as a Group spent more on investments by CZK 3.12 billion.

Net result of the second most important segment, the freight transportation, reported in compliance with the International Financial Reporting Standards, amounted to CZK 427 million. The performance was adversely affected by shift of cargo to the road transport because of diesel price drop and also by fierce competition squeezing margin. The year-on-year revenue decline of CZK 116 million and the drop in performance by 51 million tariff tonne-kilometres were fully compensated by the freight's carrier improved efficiency. The additional discount on fees for use of the railway routes aided the problematic segment of single wagon shipments. Hence the overall freight transportation segment's result improved year-on-year by CZK 211 million.

Other subsidiaries also reported positive results. ČD Group 2016 performance for the period is considered satisfying.

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

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PRINCIPAL EVENTS

IN THE FIRST HALF OF 2016

2015

January

- České dráhy acquired the ISO 50001 certificate for energy management from Bureau Veritas. České dráhy was one of the few companies that, within a few months, fulfilled the new requirements of the Law on Energy Management, which was imposed on large companies from 5 December 2015.

- České dráhy signed a contract with Pars nova for modernization of twelve Bmto series double-decker personal vehicles for suburban transportation. The interior will be refurbished, the seats will be revitalized along with their upholstery, electric plugs for charging electronic devices will be installed, as well as Wi-Fi Internet connection and the audio-visual information system.

- The first new InterPanter unit has been deployed on the fast train line between Brno, Prague and Česká Třebová. It offers its passengers comfort of a higher quality train including air conditioning and Wi-Fi internet connection. During the first half of 2016 these modern express units have been replacing all obsolete „leatherette" units that had been so far deployed on this fast train line.

February

- České dráhy completed a repair of Turnov station hall. Once again the building has its original division and its bright painted walls bring out the Bohemian paradise themed murals created by the local artist and graphic designer Karel Vik. The reconstruction was carried out during full station's operation from June 2015 to February 2016.

- The company Pars nova Šumperk completed a prototype of a multifunctional vehicle for the route Prague – Děčín – Berlin - Hamburg, which is operated in cooperation of national carriers České dráhy and Deutsche Bahn. The vehicle will undergo testing and certification, followed by a trial operation.

March

- Passenger vehicles from early 90s used by fast trains on Prague – Hradec Králové line are being replaced by high-capacity EC / IC vehicles. The new vehicles offer their passengers air conditioning, choice of seats behind each other or opposite each other with a table, and electric outlets for charging mobile phones, laptops and other electronic devices.

- The bus line ČD BUS from Ostrava to Krakow is operating again from the 23 March. The two hours and ten minutes bus ride provides the fastest direct connection from the North Moravian metropolis to Krakow, a popular tourist destination. The fare starts at CZK 248 (EUR 9). Just like in the last year, people travelling from different parts of the country can take an advantage of a bus; there are train connections provided from/to Prague, Vienna, Bratislava, and Budapest.

- Simple control via touch screen of the mobile device, tiled main page of the train's portal, language mutations and more, these are the features of the new SC Pendolino's portal, which was installed in March.

April

- The transport terminal in Uherský Brod, a part of which is a completely refurbished station hall of České dráhy, was opened to the public. Renovation was realised by the national carrier on its own expense with total cost of CZK 14 million.

- České dráhy will equip up to 663 railway vehicles with the mobile element of the railway safety system ETCS Level 2. Thanks to the communication between track and train equipment the security on the Czech tracks will be further improved.

- České dráhy announced three public tenders for selection of a supplier of up to fifty comfortable fast passenger vehicles for interstate trains with maximum speed of at least 200 km per hour, up to thirty modern wheelchair accessible motor units for domestic fast train connections, and up to twenty modern wheelchair accessible electric units for intrastate fast train connections.

- České dráhy announced European tender for a ten-year lease of ten express multi-system electric locomotives for the speed of 200 km per hour. The lease of the locomotives is connected with the upcoming expansion of number of trains operating at a speed of 160 km per hour and with the deployment of ČD locomotives on the route Prague – Hamburg, where trains run at 200 km per hour.

- České dráhy launched Wi-Fi in all seven Railjet units in the end of April.

- The Preventive Railroad Safety Train headed to the Moravian-Silesian and Zlín regions. Students could have visited it at train stations Ostrava-Svinov (April 26 and 27), Opava East (April 28 and 29) and Otrokovice (May 4 and 5).

May

- Moody's rating agency improved investment rating of České dráhy from Baa3 to Baa2.

- The national carrier launched a web portal www.pohledzvlaku.cz that offers a remarkable insight into the job of a train driver and his view of the Czech railways. This is currently available for the first four tracks.

- On 25 May České dráhy issued bonds with nominal value of EUR 400 million, maturing in seven years with coupon of 1.875% per annum. These bonds are due on 25 May 2023. The Company will use a part of this new issue to refinance the existing EUR 300 million Eurobonds issued in 2011 with an annual interest rate of 4.5%.

- České dráhy in cooperation with city Třinec opened the new Třinec transfer terminal. The station offers new check-in facilities and waiting room for passengers. There is a quiet zone and a new parking area. The bus stops are an integral part of the new terminal. České dráhy spent approximately CZK 38 million on the station building reconstruction. ROP Moravskoslezsko provided substantial support to the national carrier in the amount of CZK 12 million. The total cost of the transfer terminal is CZK 72 million.

June

- The CEOs of the European national railway companies met in Lugano, Switzerland to sign a declaration of mutual cooperation in development of railway transportation. The common objective is to increase the railway competitiveness towards other means of transport. This intention is fully in line with the European Commission Transport Policy valid till 2050, the „Roadmap to an integrated European transport space – development of a competitive and efficient transport system".

- The train timetable valid for summer required only minor traffic adjustments. Further changes concern primarily expanding services in trains, in relation to the introduction of modern units.

- ČD participated in an exposition of railway technology Czech Raildays in Ostrava. The national carrier introduced upgraded vehicles for long distance routes and a completely new unit – InterPanter. The first public presentation of the reborn motor vehicle Silver Arrow was a big attraction.

- České dráhy, SŽDC and ČD Cargo executive directors signed the memorandum on cooperation in pursuit of a fundamental improvement of the connection between Prague and Munich.

- České dráhy and SŽDC signed a contract for transfer of train stations worth CZK 3.3 billion. SŽDC thus gained approximately 1,500 station buildings, including 316 employees that take care of them. The physical transfer of the assets took place on 1 July.

- Blanka Havelková, who was leading the education department in České dráhy, and worked closely with DVI, replaced Jan Bitter as the head of DVI that offers services in railway education and training.

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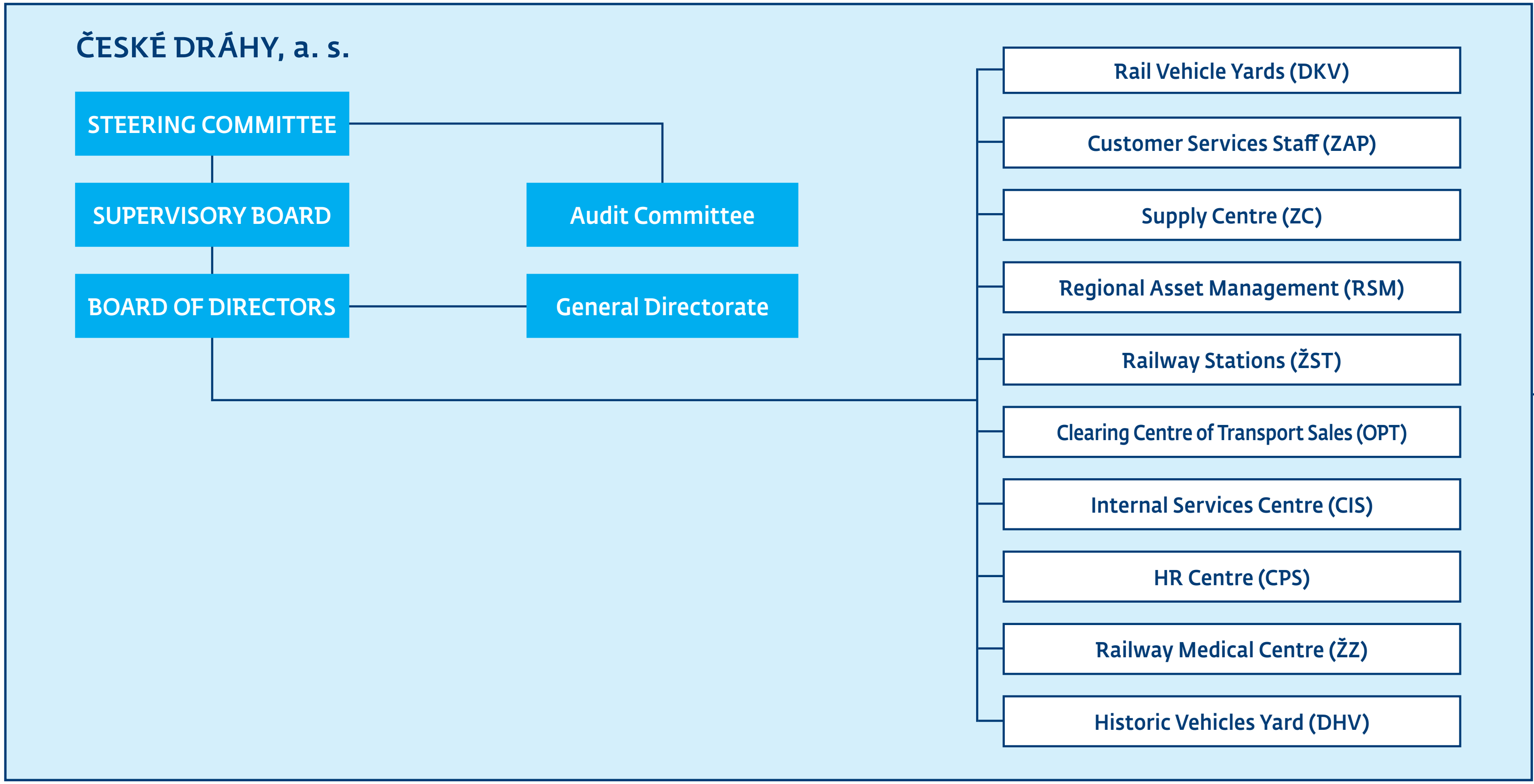
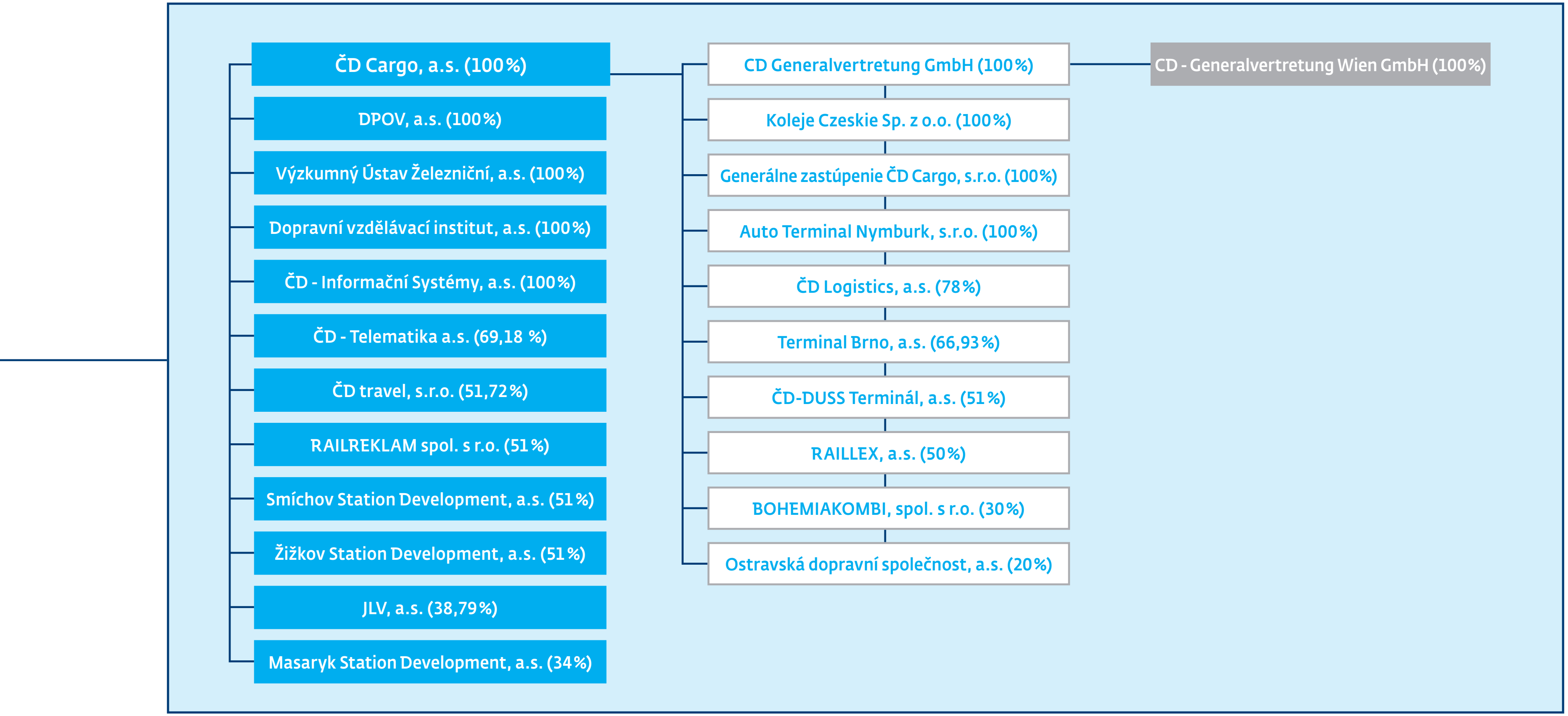
ORGANISATIONAL STRUCTURE

OF THE ČD GROUP



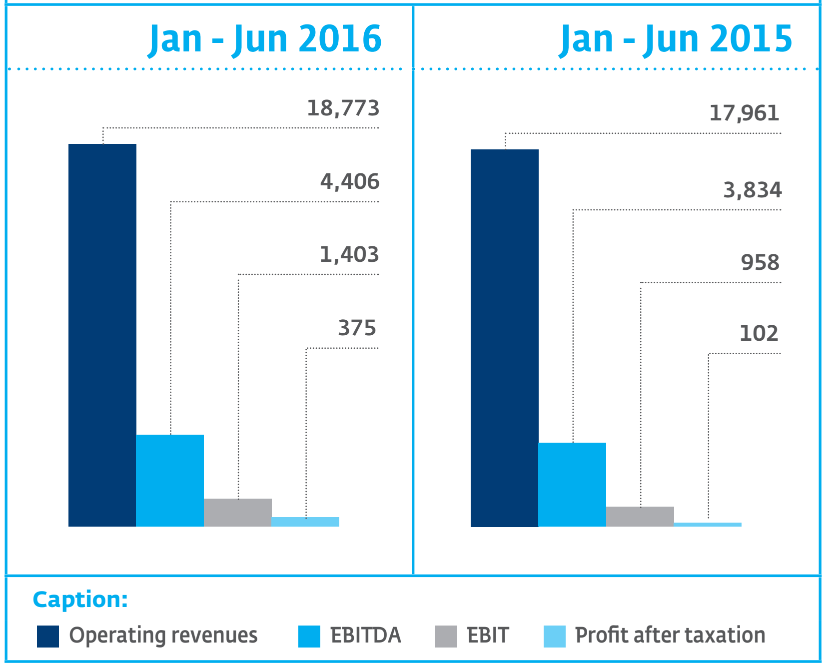
as of 30 June 2016



6 FINANCIAL RESULTS

OF THE ČD GROUP

ČD Group's Financial Results

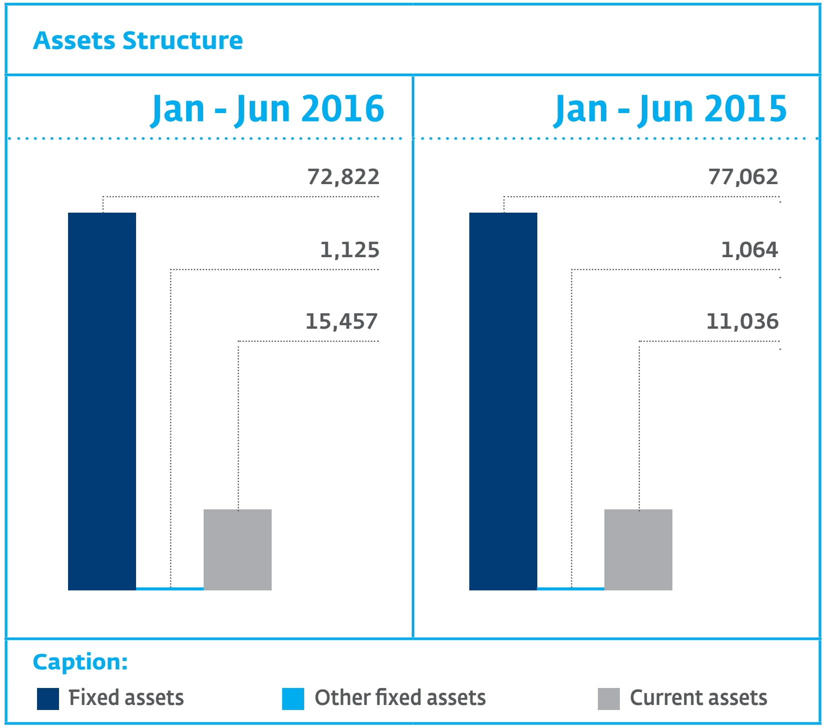


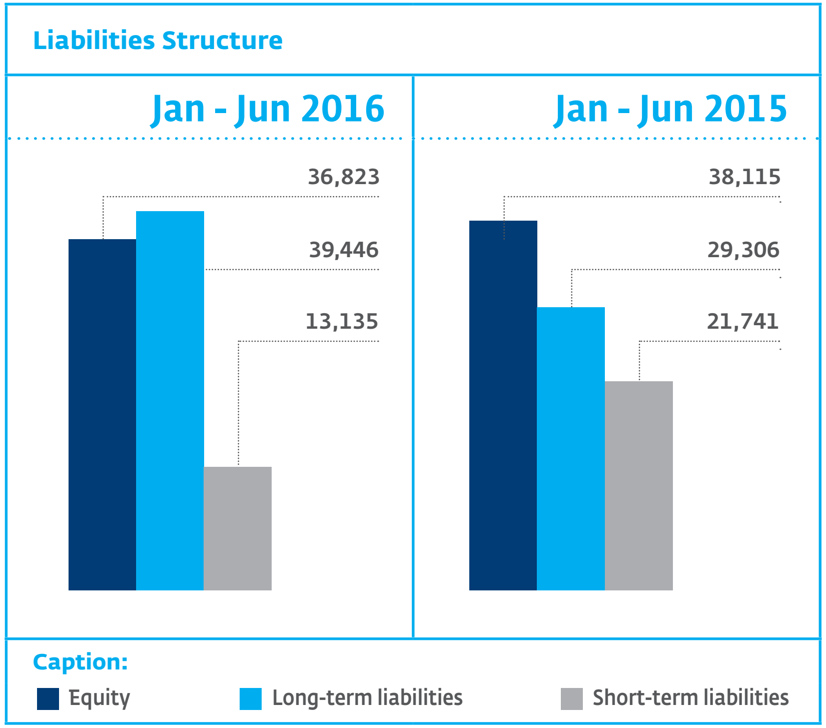
In comparison with the first half of the last year, ČD Group managed to increase its net profit by CZK 102 million to CZK 375 million. There has been a 4.5% increase in total operating revenue (to CZK 18.77 billion); the total revenue from principal activity (i.e. from passenger and freight transportation) remained on the same level (CZK 16.33 billion). Revenues from passenger transportation increased; a significant fixed assets disposal took place (the land near Prague Masarykovo train station); some subsidiaries managed to increase their sales. Revenue from freight transportation slightly fell which was compensated by decrease of costs; hence this business unit substantially contributes to the ČD Group's profitability.

There has been an increase of both passenger transport revenues of CZK 152 million (1.5%) and in traffic performance of 71 million person-kilometres (2%). The Group managed to increase international sales, while sales of domestic transportation fell slightly. Freight transportation reported both decrease in sales of CZK 116 million (2%) and performance by 51 million tariff tonne-kilometres (0.9%). The primary reason was strong competition of road transportation in the single wagon shipments segment and competitive pressure on margins in the complete trains segment.

The total cost base of the ČD Group has been growing slowly, specifically: purchased consumables and services year-on-year by CZK 186 million (2.35%), employee benefit costs by CZK 146 million (2.43%) and depreciation by CZK 128 million (4.45%) due to the increased investment activity in renewal of rail vehicles. Financial result decreased by CZK 86 million year-on-year, primarily due to lower exchange rate gains.

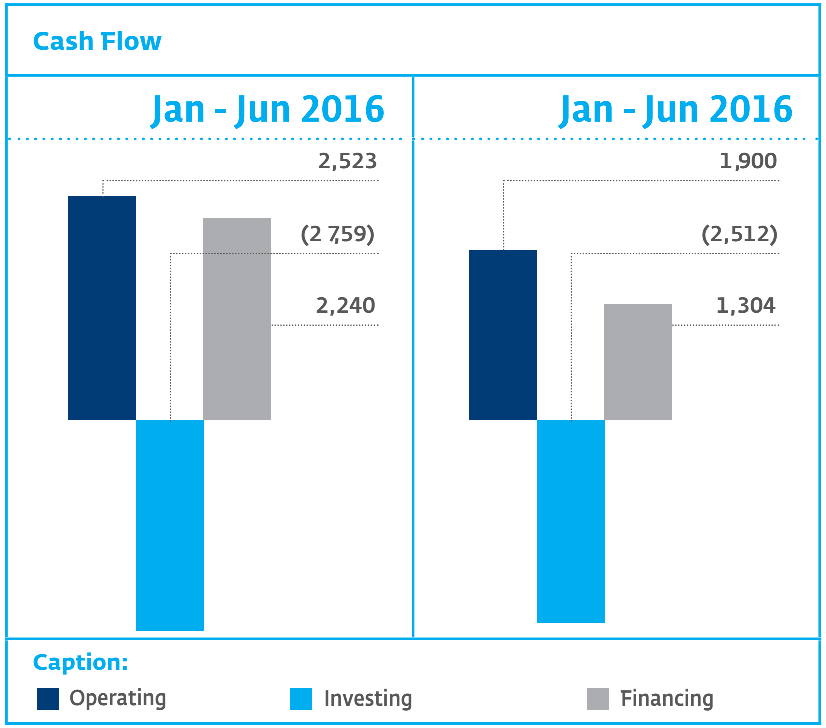
ČD group operating profit before depreciation and amortization (EBITDA) increased by CZK 572 million (14.9%), operating income (EBIT) increased by CZK 445 million (46.5%) and net profit after tax rose by CZK 273 million (267.6%).





Changes in the structure of assets are mainly related to the disposal of the part of business to SŽDC, s.o. (see note 7 to the consolidated financial statements) for CZK 3.31 billion. The respective fixed assets were reclassified to the current assets held for sale as of 30 June 2016. Current assets also increased due to higher cash and cash equivalents balance which increased due to the Eurobonds issue realised in May 2016.

The equity slightly decreased year-on-year due to the net loss ČD Group reported in 2015. Changes in the structure of long term and short term liabilities are primarily resulting from the May 2016 issue of Eurobonds repayable in seven years in the total amount of EUR 400 million, which are classified as long term liabilities. These bonds replaced EUR 300 million Eurobonds due in June 2016, which were classified as short term liabilities (maturing up to one year).



Year-on-year higher net cash flow from operating activities is mainly caused by higher profit before tax, depreciation and amortization and unrealized foreign exchange losses. Net cash outflows from investing activities rose by CZK 257 million due to continuous investment activity. Lower year-on-year balance of settled financial liabilities contributed to the increase in net cash inflows from financing activities by CZK 936 million.

Results of Segments of Principal Activities

(In CZK mil.)		Passenger transport	Asset management	Freigh transport	Other	Elimination*	Total
Revenue from principal operations	Jan - June 2016	10,577	-	5,777	-	-24	16,330
	Jan - June 2015	10,425	-	5,893	-	8	16,326
Purchased consumables and services	Jan - June 2016	(4,417)	(88)	(2,868)	(1,635)	910	(8,098)
	Jan - June 2015	(4,294)	(68)	(3,109)	(1,203)	762	(7,912)
Staff costs	Jan - June 2016	(3,584)	(56)	(1,894)	(686)	65	(6,155)
	Jan - June 2015	(3,421)	(49)	(1,940)	(661)	62	(6,009)
EBITDA from continuing operations	Jan - June 2016	2,504	288	1,246	405	(37)	4,406
	Jan - June 2015	2,534	78	973	359	(111)	3,834
Depreciation/amortization	Jan - June 2016	(2,278)	(47)	(535)	(158)	15	(3,003)
	Jan - June 2015	(2,155)	(51)	(546)	(158)	35	(2,875)
EBIT from continuing operations	Jan - June 2016	226	241	711	247	(22)	1,403
	Jan - June 2015	379	27	427	201	(76)	958
Profit (loss) for the period	Jan – June 2016	(342)	231	427	170	(111)	375
	Jan - June 2015	(78)	(18)	216	143	(161)	102

* Include eliminations of intercompany transactions

The Segment analysis corresponds with segment reporting as presented in the notes to IFRS consolidated financial statements.

Passenger transportation

The passenger transportation segment generated an operating profit before depreciation and amortization (EBITDA) of CZK 2.5 billion in the first half of 2016, i.e. on the same level as in the last year.

Number of passengers, transport performance and revenues from the principal activity went up slightly (by 1.5%). International transportation was performing better, mainly due to delivery of the long-term contract with Deutsche Bahn to operate EC trains on the route Prague – Hamburg. České dráhy are continuing an extensive rail vehicles fleet renewal, especially in the long-haul transport (modernization of cars, deployment of new units for the long-haul transportation, announcement of new public tenders). In terms of passenger services, the Wi-Fi service is further extended, the on-board portal is installed, the new e-shop is being prepared. Discounts and promotion campaigns are used in higher extent.

Year-on-year cost base increase resulted in decline of the operating and net profits. Cost of diesel fuel and electricity fell. Other items such as the cost of repairs or cost of international performance, however grew. Overall, the cost of purchased consumables and services increased by CZK 123 million (2.9%), employee benefit costs grew by CZK 163 million (4.8%) and depreciation and amortization were higher by CZK 123 million (5.7%).

All of the aforementioned effects resulted in the operating profit (EBIT) in the amount of CZK 226 million for the first half of 2016. This represents a 40% decrease compared to the first half of 2015. Net loss for the segment of passenger transportation year on year increased from CZK 78 million to CZK 342 million.

Freight transportation

Freight transportation segment generated in the first half of 2016 net profit of CZK 427 million, which is year-on-year better result by CZK 211 million.

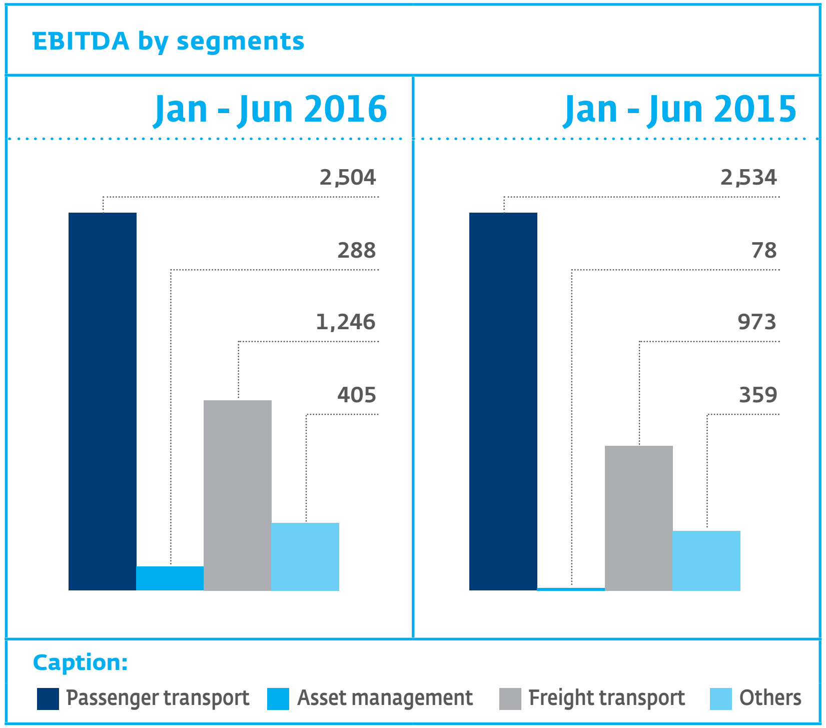
Such outstanding result was achieved despite a slight decline in revenues from the principal activity that was driven by a decline of oil price which pushed part of the transportation to the roads. There was also an adverse effect of the Chinese economy slowdown leading to the reduction of train numbers for all combined transport operators. Also, low purchase prices of scrap metal and electricity led to reduced demand for transportation of metallurgical materials and energy coal, which are still the key commodities for ČD Cargo.

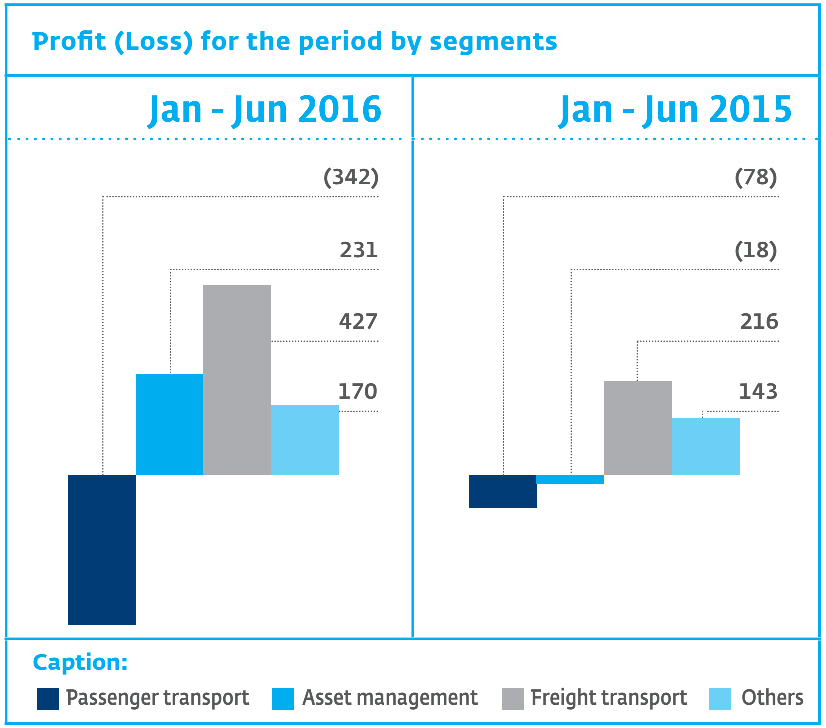
The drop in sales was fully compensated by reduction of cost of purchased consumables and services, which decreased by CZK 241 million (7.8%). It was primarily due to the reduction in costs directly related to transport performance, but also due to the increase of discount from the railway usage fee for single wagon shipments. Strategic projects such as fleet management and development of internal repair centre did contribute to the cost reduction. The ongoing optimization of the number and structure of employees resulting from streamlining operations had positive effect of CZK 46 million (2.4%) saving of personnel expenses.

Operating profit before depreciation and amortization (EBITDA) increased by CZK 273 million (28.1%) compared to the first half of 2015, reaching CZK 1,245 million. The factors mentioned above, as well as a reduction in depreciation and amortization, are reflected in CZK 284 million (66.5%) improvement of the operating profit (EBIT)

Asset management

The asset management unit reported substantial improvement of its results year-on-year. The first half of 2015 the unit lost CZK 18 million. The first half of 2016 ended up with profit of CZK 231 million. The improvement is a result of revenues from disposal of land near the railway station Prague Masarykovo nádraží.


EBITDA by segments
Jan - Jun 2016
2,504
288
1,246
405
Jan - Jun 2015
2,534
78
973
359
Caption:
Passenger transport
Asset management
Freight transport
Others


Profit (Loss) for the period by segments
Jan - Jun 2016
(342)
231
427
170
Jan - Jun 2015
(78)
(18)
216
143
Caption:
Passenger transport
Asset management
Freight transport
Others

Investments

The total value of ČD Group investments again increased in year-on-year comparison. The investments amounted to CZK 3.12 billion, which is 18% increase compared to the previous first half year. Investments in passenger and freight transportation are among the most significant.

PASSENGER TRANSPORT

The annual increase of CZK 519 million was reported by the passenger transportation segment. Increased investments were realised primarily in the long-haul transport, and these were influenced by the final settlement (inflationary increase) in the amount of CZK 628 million for twenty 380 series locomotives, which became payable on the basis on the arbitration decision.

(CZK million)	Regional transportation	Long-haul transportation	Total
Investments in railway vehicles		**First half of 2016**	
New railway vehicles	(224)*	1,038**	
Renovation of railway vehicles	41	738	2,349
Component repairs of railway vehicles	378	378	
Investments in railway vehicles		**First half of 2015**	
New railway vehicles	409	283	
Renovation of railway vehicles	40	811	1,833
Component repairs of railway vehicles	145	145	

* despite the RegioPanter units were acquired in 2015, from the cash flow perspective the ROP subsidy was received only in the first half of 2016
** OPD1 subsidy deducted

[1] „The investments' values are presented from the cash flow perspective „

Regional transport

Given the considerable investment in regional transport realised in recent years, which was associated with the regional operating programs (ROP), in 2016 ČD invested mainly in the long-haul transportation. The most recent investment in new railway vehicles for regional services were the two RegioPanter units purchased in 2015 using the grant from ROP Moravia-Silesia for the railway route to the Airport Leoš Janáček Ostrava-Mošnov. ČD received the respective subsidy (CZK 224 million) in the first half of 2016.

In the first half of 2016 ČD invested in the regional transport approximately CZK 41 million in the technical enhancement of the existing vehicles, especially focused on safety and comfort (the most significant item is the modernization of series 810/809 railcars).

Long-haul transport

Apart from the above mentioned settlement for 380 series locomotives, ČD invested in eight new InterPanter electric units for the route R19 Prague – Česká Třebová – Brno, following the acquisition of the same units realised in the second half of the last year for the route R13 Brno – Břeclav – Olomouc using the Operational Program Transport (OPD1).

Other significant long-haul investments reported in the first half of 2016 were the continuous supplies of modernised vehicles with the speed of 200 km per hour (the 1st and 2nd class, restaurant and multipurpose vehicles) for a joint project of ČD and Deutsche Bahn to service the international passenger route Prague – Berlin – Hamburg, and the ongoing fulfilment of the contract for modernization of Bp series vehicles (high-capacity air conditioned second class coaches) intended primarily for the route R10 Prague – Hradec Králové – Trutnov and the international route Prague – Bratislava – Budapest.

Other investments

Other investments (constructions, IT and other) in the passenger transportation segment include constructions of ČD property (especially repair and maintenance facilities), investments in machinery, equipment and IT investments, particularly for the promotion of passenger transport.

(CZK million)

Other investments	First half of 2016	First half of 2015
Constructions	33	9
Other	27	48*
Total	**60**	**57**

*net of CZK 10 million subsidies from ROP

FREIGHT TRANSPORTATION

In comparison with the last year's first half, there were CZK 120 million more spent on investment in freight transportation. Due to the elimination of intercompany transactions, this amount does not include acquisition of 23 used 163 series locomotives worth CZK 233 million from the parent company České dráhy, a.s., which significantly strengthened the fleet of power vehicles used for freight transportation. Investment growth is driven by need to massively invest in railway vehicles modernization, which is driven, besides other reasons, by the planned expansion into the foreign markets. Another major investment of the first half of 2016 is the acquisition of the first modern multi-system locomotive Vectron, which will be followed by additional four locomotives acquisitions before the year end. Furthermore, we invested in revision repairs of freight vehicles, locomotive repairs and technical enhancement of the existing railway vehicles fleet.

(CZK million)

Investments in railway vehicles	First half of 2016	First half of 2015
New railway vehicles	186	-
Renovation of railway vehicles and component repairs of railway vehicles	309	369
Total	**495***	**369**

* It does not include acquisition of 23 locomotive series 163 for CZK 233 million from the passenger transportation segment (from ČD, a.s.) because the intercompany transactions are eliminated

Other investments

Other investments are at a similar level as in the last year. The primary focus was on internal repair and maintenance capacities, which consists mainly of property improvements and technology and machinery resurgence.

(CZK million)

Other investments	First half of 2016	First half of 2015
Constructions	29*	40
Other	76	70**
Total	**105**	**110**

*net of subsidies from the ORZP of CZK 2.77 million

7 EMPLOYEES

During the first half of 2016 an average number of 23,777 FTE was reported by ČD Group, which is 260 employees less (1%) than in the same period of the last year.

The number of employees in passenger transportation was constant while stabilising and optimizing the organizational structure and internal rationalization of activities. Changes in employment took place with the aim to optimize personnel and age structure, especially in the occupations critical for passenger transportation. Vast majority of employees terminated the employment via agreement because they were retired or they encountered health issues or because of redundancy. Layoffs were carried across all categories of employees, i.e. both operation and back-office.

Optimization and rationalization of organizational technological processes in order to achieve optimal productivity continued in the freight transportation segment. There is on-going change of operational employees' age structure while respecting requirement to achieve rational occupancy of individual workplaces.

8

INTERIM CONSOLIDATED FINANCIAL

STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

Interim statement of financial position (balance sheet) as at 30 June 2016

	30 June 2016 CZK thousand (unaudited)	31 Dec 2015 CZK thousand (audited)	30 June 2015 CZK thousand (unaudited)
Property, plant and equipment	71,616,925	74,332,726	74,413,827
Investment property	726,478	1,957,502	2,105,947
Intangible assets	478,224	569,143	542,094
Investments in joint ventures and associates	185,706	188,077	181,274
Deferred tax asset	26,352	27,596	20,829
Other financial assets	883,306	735,677	838,172
Other assets	29,727	26,546	23,788
Total non-current assets	**73,946,718**	**77,837,267**	**78,125,931**
Inventories	1,336,532	1,248,767	1,322,435
Trade receivables	3,057,554	3,452,721	2,715,314
Tax receivables	39,768	24,745	22,352
Other financial assets	192,491	760,875	978,667
Other assets	1,510,784	1,461,431	1,228,557
Cash and cash equivalents	5,977,076	3,972,429	4,734,932
Assets held for sale	3,343,195	33,550	33,361
Total current assets	**15,457,400**	**10,954,518**	**11,035,618**
Total assets	**89,404,118**	**88,791,785**	**89,161,549**
Share capital	20,000,000	20,000,000	20,000,000
Reserve and other funds	16,010,070	15,760,054	16,136,006
Retained earnings	170,046	(161,526)	1,318,037
Equity attributable to equity holders of the parent company	**36,180,116**	**35,598,528**	**37,454,043**
Non-controlling interests	642,636	623,234	660,656
Total equity	**36,822,752**	**36,221,762**	**38,114,699**
Loans and borrowings	35,748,154	25,693,410	25,767,871
Deferred tax liability	1,016,413	887,530	814,067
Provisions	859,000	856,505	803,692
Other financial liabilities	1,267,105	1,510,850	1,324,239
Other payables	554,960	603,840	595,715
Total non-current payables	**39,445,632**	**29,552,135**	**29,305,584**
Trade payables	4,942,623	6,200,868	5,128,201
Loans and borrowings	3,841,004	11,498,193	12,048,329
Tax payables	16,959	12,140	21,140
Provisions	1,137,828	1,790,376	1,349,885
Other financial liabilities	536,576	684,109	701,943
Other payables	2,414,903	2,832,202	2,491,768
Liabilities directly associated with assets held for sale	245,841	0	0
Total current payables	**13,135,734**	**23,017,888**	**21,741,266**
Total liabilities	**89,404,118**	**88,791,785**	**89,161,549**

Interim statement of profit or loss for the period ended 30 June 2016

	Period ended 30 June 2016 CZK thousand (unaudited)	Period ended 30 June 2015 CZK thousand (unaudited)
CONTINUING OPERATIONS		
Revenue from operations	16,330,478	16,325,945
Other operating income *)	2,442,207	1,635,204
Purchased consumables and services *)	(8,098,183)	(7,911,658)
Employee benefit costs *)	(6,155,004)	(6,008,816)
Depreciation and amortisation *)	(3,003,068)	(2,875,400)
Other operating losses, net *)	(113,039)	(206,828)
Profit before interest and tax *)	**1,403,391**	**958,447**
Financial expenses	(688,596)	(709,976)
Other gains (losses), net *)	(75,689)	64,942
Share of profit of associates and joint ventures	12,635	(20,132)
Profit before tax *)	**651,741**	**293,281**
Income tax expense	(197,938)	(95,303)
Profit for the period from continuing operations *)	**453,803**	**197,978**
DISCONTINUED OPERATIONS		
Loss from discontinued operations *)	**(78,394)**	**(96,409)**
Profit for the period	**375,409**	**101,569**
Attributable to equity holders of the parent company	355,880	82,021
Attributable to non-controlling interest	19,529	19,548

Interim statement of comprehensive income for the period ended 30 June 2016

	Period ended 30 June 2016 CZK thousand (unaudited)	Period ended 30 June 2015 CZK thousand (unaudited)
Profit for the period	375,409	101,569
Foreign exchange losses on translation of foreign operations	(6,435)	(1,318)
Cash-flow hedges	237,207	22,760
Income tax relating to these items	(5,169)	(13,975)
Other comprehensive income from the period (items that may be reclassified to profit or loss), net of tax	**225,603**	**7,467**
Total comprehensive income for the period	**601,012**	**109,036**
Attributable to equity holders of the parent company	581,483	89,488
Attributable to non-controlling interests	19,529	19,548

*) After the change in presentation for the period ending 30 June 2015, see Note 7.

Interim statement of changes in equity for the period ended 30 june 2016

	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 as at 1 January 2015 (audited)	**20,000,000**	**16,046,019**	**1,276,631**	**37,322,650**	**775,505**	**38,098,155**
Profit for the period	-	-	82,021	82,021	19,548	101,569
Other comprehensive income for the period, net of tax	-	7,467	-	7,467	-	7,467
Allocation to the reserve fund	-	51,554	(51,554)	-	-	-
Dividends paid	-	-	-	-	(1,492)	(1,492)
Impact of a change in the consolidation group *)	-	30,966	10,939	41,905	(132,905)	(91,000)
Balance as at 30 June 2015 (unaudited)	**20,000,000**	**16,136,006**	**1,318,037**	**37,454,043**	**660,656**	**38,114,699**
Balance as at 1 January 2016 (audited)	**20,000,000**	**15,760,054**	**(161,526)**	**35,598,528**	**623,234**	**36,221,762**
Profit for the period	-	-	355,880	355,880	19,529	375,409
Other comprehensive income for the period, net of tax	-	225,603	-	225,603	-	225,603
Allocation to the reserve fund	-	24,308	(24,308)	-	-	-
Dividends paid	-	-	-	-	(127)	(127)
Other	-	105	-	105	-	105
Balance as at 30 June 2016 (unaudited)	**20,000,000**	**16,010,070**	**170,046**	**36,180,116**	**642,636**	**36,822,752**

*) "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 period ended 30 june 2016

	Period ended 30 June 2016 CZK thousand (unaudited)	Period ended 30 June 2015 CZK thousand (unaudited)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax for the period	**573,347**	**196,872**
Dividend income	(1,930)	1,709
Financial expenses	688,596	709,976
Gain from the sale and disposal of non-current assets	(367,892)	(127,662)
Depreciation and amortisation of non-current assets *)	3,003,068	2,875,400
Impairment of non-current assets	583,647	(10,942)
Impairment of trade receivables *)	(29,292)	15,707
Foreign exchange gains / (losses)	701,390	(113,472)
Other *)	(59,438)	83,836
Cash flow from operating activities before changes in working capital	**5,091,496**	**3,631,424**
Decrease (increase) in trade receivables	375,511	399,267
Decrease (increase) in inventories	(82,673)	(107,155)
Decrease (increase) in other assets	(246,206)	(189,133)
Increase (decrease) in trade payables	(866,769)	(1,051,337)
Increase (decrease) in provisions	(648,097)	36,740
Increase (decrease) in other payables	(399,997)	(110,157)
Total changes in working capital	**(1,868,231)**	**(1,021,775)**
Cash flow from operating activities	**3,223,265**	**2,609,649**
Interest paid	(623,398)	(579,106)
Income tax paid	(76,701)	(130,252)
Net cash flow from operating activities	**2,523,166**	**1,900,291**
CASH FLOW FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(3,086,973)	(2,550,802)
Proceeds from disposal of property, plant and equipment	352,488	110,950
Payments for investment property	(9,998)	(14,224)
Costs of acquisition of intangible assets	(22,850)	(68,178)
Interest received	8,327	10,112
Dividends received	108	-
Net cash flow from investing activities	**(2,758,898)**	**(2,512,142)**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from loans and borrowings	12,294,539	3,151,518
Repayments of loans and borrowings	(10,054,033)	(1,846,214)
Dividends paid	(127)	(1,492)
Net cash flow from financing activities	**2,240,379**	**1,303,812**
Net increase in cash and cash equivalents	**2,004,647**	**691,961**
Cash and cash equivalents at the beginning of the reporting period	3,972,429	4,042,971
Cash and cash equivalents at the end of the reporting period	**5,977,076**	**4,734,932**

*) After the change in presentation for the period ending 30 June 2015, see Note 7.

9

NOTES TO THE INTERIM CONSOLIDATED

FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2016

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1 General information

1.1. General information

The parent company České dráhy, a. s. (further as "the Company","ČD" or "the Parent company") was incorporated on 31 March 2002. The sole shareholder of the Company is the Czech Republic. The Company's share capital amounts up to 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. In addition, the Group has been engaged in other activities relating to its principal business activity.

The assets comprising railway routes are in the ownership of the State, not the Group. The management rights to these assets are executed by Správa železniční dopravní cesty, s.o. (further as "SŽDC"). SŽDC secures the operability and servicing of the railway routes and, since 1 July 2016, the management of the real estate property (railway stations).

1.2 Organisation structure of the parent company

The Company is organised into sections which are supervised 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 co-operation 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.

1.3 Consolidation group

No changes in the structure of the consolidation group occurred during the interim period of 6 months ending 30 June 2016.

2 Statement of compliance and principal accounting policies

The interim consolidated financial statements for the 6 months ended 30 June 2016 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 conjunction with the consolidated financial statements of the Group for the year ended 31 December 2015.

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

While preparing these interim consolidated financial statements, the Group used the same accounting policies that were used as a basis of preparation of the consolidated financial statements for the year ended 31 December 2015.

The Group applied no standards or interpretations adopted by the European Union before their effective date.

3 Seasonal character of activities

In the first half of 2016 compared to same period in 2015, passenger transport volume of the Parent Company reported a slight increase. Certain decrease in revenue was reported especially in international transportation, specifically in the share of foreign sales, which is beyond the objective influence of the Company. The decrease is caused by various adverse factors e.g. fuel prices, limited international mobility due to the current situation in Europe (migration and security crisis) as well as increased competition by bus transportation operators. In the segment of domestic transportation, the reported revenue is further influenced by interruptions in the railway operations or by the decrease in the number of student commuters due to demographic changes, etc. However, the growth in the number of passengers and revenue from selected long-distance and suburban services continued. We anticipate a slight increase in passenger transport revenue in the second half of 2016.

The revenue of ČD Cargo, a.s. is influenced by various seasonal factors 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 the harvest in the prior year and political decisions on the food trade. Other impacts include the consumption of fuel for road vehicles, which follows overall economy developement. It is also necessary to note fluctuations in the prices of scrap metal and seasonal changes in the construction industry, which are interconnected with almost all commodities transported by rail. Recently, the impact of the global economy has increased – performance and revenue of the Company are impacted by events happening abroad. 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 revenue of the Group resulting from transactions conducted with SŽDC and the ČEZ Group were as follows:

(CZK thousand)		30 June 2016		30 June 2015
	SŽDC	ČEZ Group	SŽDC	ČEZ Group
Expenses	2,078,604	300,539	2,121,770	317,921
Revenue	844,057	186,683	582,714	214,968

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

(CZK thousand)		30 June 2016		31 Dec 2015		30 June 2015
	SŽDC	ČEZ Group	SŽDC	ČEZ Group	SŽDC	ČEZ Group
Receivables (line „Trade receivables“)	304,346	35,620	340,967	78,454	337,432	52,680
Payables (line “Trade payables“)	1,085,885	133,093	1,437,759	190,748	1,247,657	171,709
Prepayments (line „Other assets“ current)	24,429	2,216	72,915	951	28,492	2,288
Advances received (line „Other payables“ current)	122,150	4,050	423,060	5,084	158,090	3,018
Estimated payables (line „Trade payables“)	145,806	-	54,853	26	155,471	-
Estimated receivables (line „Trade receivables“)	41,750	-	40,485	47	11,594	-

5 Income taxation

The income tax reported in the statement of profit or loss as at 30 June 2016 of CZK 197,938 thousand includes the current tax payable of CZK 75,809 thousand and deferred tax expense of CZK 122,129 thousand.

On the grounds of prudence, the Parent company does not account for deferred tax assets, which primarily has an impact on the effective tax rate.

6 Segments

(CZK million)

Period ending 30 June 2016	Passenger transportation	Asset management	Freight transportation	Other	Elimination	Total
Revenue from principal operations						
Revenue from passenger transportation	3,713	-	-	-	(5)	3,708
Payments from contractors	6,864	-	-	-	-	6,864
Other	-	-	5,777	-	(19)	5,758
	10,577	**-**	**5,777**	**-**	**(24)**	**16,330**
Purchased consumables and services						
Traction costs	(1,156)	-	(599)	-	16	(1,739)
Payments for use of the railway route	(922)	-	(642)	-	-	(1,564)
Other purchased consumables and services	(2,339)	(88)	(1,627)	(1,635)	894	(4,795)
	(4,417)	**(88)**	**(2,868)**	**(1,635)**	**910**	**(8,098)**
Staff costs						
Payroll costs	(2,564)	(40)	(1,325)	(499)	53	(4,375)
Social security and health insurance	(848)	(11)	(444)	(165)	12	(1,456)
Statutory social costs	(123)	(2)	(93)	(22)	-	(240)
Benefits arising from the collective agreement	(49)	(3)	(32)	-	-	(84)
	(3,584)	**(56)**	**(1,894)**	**(686)**	**65**	**(6,155)**
Other operating income and expenses	362	464	231	2,260	(988)	2,329
Intercompany income and expenses	(45)	(7)	-	52	-	-
Operating overheads	(389)	(25)	-	414	-	-
Depreciation and amortisation	(2,278)	(47)	(535)	(158)	15	(3,003)
Interest income	-	7	1	1	(1)	8
Interest expense	(577)	-	(111)	(1)	-	(689)
Tax expense	-	-	(152)	(49)	3	(198)
Other income and expenses	(58)	1	(22)	99	(91)	(71)
Financial and other overheads	67	4	-	(71)	-	-
Profit (loss) for the period from continuing operations	**(342)**	**253**	**427**	**226**	**(111)**	**453**
Loss for the period from discontinued operations	-	(22)	-	(56)	-	(78)
Profit (loss) for the period	**(342)**	**231**	**427**	**170**	**(111)**	**375**
Profit attributable to non-controlling interests	-	-	-	-	20	20
Profit (loss) attributable to owners of the parent company	(342)	231	427	170	(131)	355

(CZK million)

Period ending 30 June 2015	Passenge transportation	Asset management *)	Freight transportation	Other	Elimination	Total
Revenue from principal operations						
Revenue from passenger transportation	3,679	-	-	-	(6)	3,673
Payments from contractors	6,746	-	-	-	-	6,746
Other	-	-	5,893	-	14	5,907
	10,425	**-**	**5,893**	**-**	**8**	**16,326**
Purchased consumables and services						
Traction costs	(1,224)	-	(679)	-	18	(1,885)
Payments for the use of the railway routes	(905)	-	(735)	-	(25)	(1,665)
Other purchased consumables and services	(2,165)	(68)	(1,695)	(1,203)	769	(4,362)
	(4,294)	**(68)**	**(3,109)**	**(1,203)**	**762**	**(7,912)**
Staff costs						
Payroll costs	(2,449)	(35)	(1,383)	(482)	47	(4,302)
Social security and health insurance	(810)	(10)	(451)	(157)	12	(1,416)
Statutory social costs	(125)	(1)	(84)	(22)	3	(229)
Benefits arising from the collective agreement	(37)	(3)	(22)	-	-	(62)
	(3,421)	**(49)**	**(1,940)**	**(661)**	**62**	**(6,009)**
Other operating income and expenses	266	219	129	1,757	(943)	1,428
Intercompany income and expenses *)	(41)	1	-	40	-	-
Operating overheads	(401)	(25)	-	426	-	-
Depreciation and amortisation	(2,155)	(51)	(546)	(158)	35	(2,875)
Interest income	1	6	-	3	-	10
Interest expense	(576)	-	(133)	(1)	-	(710)
Tax expense	-	-	(52)	(42)	-	(94)
Other income and expenses	89	-	(26)	56	(85)	34
Financial and other overheads	29	1	-	(30)	-	-
Profit (loss) for the period from continuing operations	**(78)**	**34**	**216**	**187**	**(161)**	**198**
Loss for the period from discontinued operations *)	-	(52)	-	(44)	-	(96)
Profit (loss) for the period	**(78)**	**(18)**	**216**	**143**	**(161)**	**102**
Profit attributable to non-controlling interests	-	-	-	-	20	20
Profit (loss) attributable to owners of the parent company	(78)	(18)	216	143	(181)	82

*) After the change in presentation for the period ending 30 June 2015, see Note 7.

7 Discontinued operations and assets held for sale

Sale of operational unit

In May 2016, the Czech government decided to transfer part of the Company's assets to the Czech state, specifically to the Railway System Operator (Správa železniční dopravní cesty). The transfer encompasses railway station buildings, other railway construction and land related to those respective buildings.

On 24 June 2016, the Company entered into the Agreement on the sale of the operational unit with SŽDC, s.o. The actual sale will occur on 1 July 2016. The operational unit designated as "to be sold" is defined as the operational unit "Railway stations", i.e. its material, technological and personal capacities. The price is CZK 3,310 million.

Analysis of profit (loss) and cash flow from discontinued operations

(CZK thousand)	**Period ending 30 June 2016**	**Period ending 30 June 2015** -original figures	**Period ending 30 June 2015** – change of presentation	**Period ending 30 June 2015** – Total after change
Revenue from principal operations	-	-	-	-
Other operating income	199,853	-	167,722	167,722
Purchased consumables and services	(127,476)	-	(118,951)	(118,951)
Employee benefit costs	(79,439)	-	(77,488)	(77,488)
Depreciation and amortisation	(64,764)	-	(64,723)	(64,723)
Other operating losses	(6,567)	-	(2,970)	(2,970)
Loss before interest and tax	**(78,393)**	**-**	**(96,410)**	**(96,410)**
Financial expenses	(1)	-	-	-
Other income	-	-	1	1
Loss before tax	**(78,394)**	**-**	**(96,409)**	**(96,409)**
Income tax	-	-	-	-
Loss from discontinued operations	**(78,394)**	**-**	**(96,409)**	**(96,409)**
– Equivalent received	-	-	-	-
– Net assets transferred to SŽDC	-	-	-	-
– Related income tax recognized in expenses	-	-	-	-
Profit (loss) from the sale of discontinued operations	**-**	**-**	**-**	**-**
Total loss from discontinued operations	**(78,394)**	**-**	**(96,409)**	**(96,409)**

Based on the IFRS 5 requirement, the comparative figures in the statement of profit or loss related to the discontinued operations for the period ending 30 June 2015 were presented separately on the face of the financial statements.

(CZK thousand)	Period ending 30 June 2016	Period ending 30 June 2015
Cash flow from operating activities	(13,629)	(31,686)
Cash flow from investing activities	**(119,175)**	**(7,902)**
– Net proceeds from the sale of operational unitu	-	-
– Proceeds from sale of property, plant and equipment	-	-
– Purchases of property, plant and equipment	(119,175)	(7,902)
Cash flow from financing activities	-	-
Net cash flow from discontinued operations	**(132,804)**	**(39,588)**

Assets held for sale

(CZK thousand)	30 June 2016	31 Dec 2015	30 June 2015
Land	5,522	16,906	19,091
Buildings	167	16,644	14,270
Tangible assets	4,683	-	-
Assets related to sale of operational unit	3,332,823	-	-
Total	**3,343,195**	**33,550**	**33,361**

Following table presents the net assets related to the sale of the operational unit as at 30 June 2016:

(CZK thousand)	30 June 2016
Property, plant and equipment	2,117,802
Investment property	1,123,941
Inventories	597
Trade receivables	59,186
Other current financial assets	8,833
Other current assets	22,464
Total assets	**3,332,823**
Trade payables	96,257
Provisions	3,007
Other current financial liabilities	9,460
Other current liabilities	137,117
Total liabilities directly associated with assets held for sale	**245,841**
Net assets related to sale of operational unit	**3,086,982**

8 Property, plant and equipment

In the period of 6 months ending 30 June 2016 the Group acquired property, plant and equipment in the amount of CZK 3,309,147 thousand (as at 31 December 2015: CZK 5,016,647 thousand).

The Company's largest additions represent the acquisition of railway traction vehicles from series 380, 660, 661 and 064 and modernisation of vehicles series Bp, WRmz, Bmz, Ampz and Bhmpz. Other significant additions comprise cargo vehicle overhauls and purchase of 383 series locomotives and wheelsets by ČD Cargo, a.s.

Property, plant and equipment with the net book value of CZK 316,250 thousand were disposed by the Group in the period of 6 months ended 30 June 2016 (as at 31 December 2015: CZK 646,483 thousand).

The largest impairment loss relates to tilting trains series 680 (Pendolino) and locomotive series 380. As at 30 June 2016, the impairment charge for the 680 series and the 380 series amounted up to CZK 723,226 thousand (as at 31 December 2015: CZK 764,467 thousand) and CZK 622,759 thousand (as at 31 December 2015: CZK 0 thousand), respectively.

During the interim period ending 30 June 2016, the Parent company acquired property, plant and equipment financed via subsidies for CZK 1,253,911 thousand.

9 Intangible assets

In the period of 6 months ending 30 June 2016, the Group acquired intangible assets in the amount of CZK 37,669 thousand (as at 31 December 2015: CZK 219,585 thousand).

The acquisition of intangible assets by the Parent company consists of PARIS, SAP R/3, UNIPOK and IS OPT portals. Upgrade of SAP, ICAR and EROZA as well as IT security at ČD Cargo, a.s represent other significant additions.

10 Inventories

The decrease in the value of inventories to their net realisable value as at 30 June 2016 amounts to CZK 110,204 thousand (as at 31 December 2015: CZK 118,617 thousand)

11 Cash and cash equivalents

(CZK thousand)	30 June 2016	31 December 2015	30 June 2015
Cash in hand and cash in transit	97,455	102,603	77,679
Cash at bank	5,879,621	3,131,667	2,154,617
Short-term securities	-	738,159	2,502,636
Total	**5,977,076**	**3,972,429**	**4,734,932**

12 Loans and borrowings

On 25 May 2016, České dráhy, a.s. successfully placed a 7-year issue of Eurobonds in the face value of EUR 400 million with annual interest (coupon) of 1.875% and with maturity on 25 May 2023. Citigroup Global and Société Générale were the issue managers. The bonds are quoted on the Luxembourg Stock Exchange. In the same month, the Moody's rating agency upgraded the Company's rating to Baa2 with stable outlook. Moody's allocated the same rating to these Eurobonds. The proceeds from the issue were used to repay the issue of Eurobonds in the face value of EUR 300 million from 2011, which matured on 24 June 2016 and for investments and other operational needs.

The Parent Company has concluded loan contracts with EUROFIMA. In the first half of 2016, the total principal of EUR 30,000 thousand was repaid on 7 April 2016. The principal totalling EUR 30,000 thousand remains to be repaid to EUROFIMA in line with the relevant due dates until 3 April 2017.

The Parent company drew no new loan principals in the first half of 2016.

The Parent company issued promissory notes for CZK 1,095,831 thousand in March and April of 2016, which are due in November and December 2016. The main reason behind this was to strengthen the Company's liquidity position, partially due to upcoming maturity of EUR 300 million in bonds.

On 17 June 2016, the company ČD Cargo, a. s. issued, under the management of Raiffeisenbank, a.s., 5-year bonds in the amount of CZK 500 million with the issue price of 100% of their face value and with a fixed annual interest yield of 1.28%. As at 30 June 2016, these bonds are presented under non-current payables, as they are due on 17 June 2021.

On 20 June 2016, the company ČD Cargo, a. s. repaid bonds in the amount of CZK 658,300 thousand issued on 20 June 2011.

13 Contractual obligations

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 4,396,091 thousand (31 December 2015: CZK 7,648,140 thousand). A significant portion of the obligations represents investments in railway vehicles.

14 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 deals as at 30 June 2016 was CZK 17,178 thousand. Furthermore, cross-currency interest rate swaps with the fair value as at 30 June 2016 in the amount of CZK (10,996) thousand were concluded to hedge the Eurobonds issued on 25 May 2016, and a currency forward was concluded with the fair value as at 30 June 2016 in the amount of CZK 271 thousand.

In June 2016, cross-currency interest rate swaps designated to hedge Eurobonds issued on 24 June 2011 were settled; their fair value as at 31 December 2015 in the amount of CZK 679,518 thousand was presented in line "Other financial assets, current."

During the interim reporting period, ČD Cargo, a.s. concluded 4 new currency forwards and 1 currency collar. The fair value of these instruments as at 30 June 2016 was CZK (3,562) thousand. In addition, the company concluded 5 commodity swaps to hedge diesel prices with the fair value as at 30 June 2016 in the amount of CZK 6,232 thousand.

15 Dividends

ČD travel, s.r.o. decided to pay out dividends from ordinary shares outside the Group in the amount of CZK 127 thousand in the interim reporting period. The dividends were paid out by the end of June 2016.

16 Provisions

During the interim reporting period, the Parent company utilised the provision for legal disputes in the amount of CZK 622,984 thousand as the principal related to inflationary increase was paid to ŠKODA TRANSPORTATION, a.s. In addition, the Parent company increased the provision for employee benefits by CZK 9,702 thousand.

During the interim reporting period, the company ČD Cargo a.s. utilised the provision for restructuring in the amount of CZK 10,775 thousand, increased the provision for employee benefits by CZK 3,082 thousand and decreased the provision for onerous contracts by CZK 26,478 thousand.

A noticeable movement in provisions during the interim reporting period was reported by Koleje Czeskie Sp. z o.o., which created a provision for penalty from the rail office in the amount of CZK 9,896 thousand.

17 Legal disputes

Dispute with ŠKODA TRANSPORTATION a.s.
On 16 November 2015, an arbitration award was issued in which the arbitration court upheld the legal action brought by ŠKODA TRANSPORTATION, a.s. to the extent that it mandated České dráhy to make an additional purchase price payment of CZK 370 million and to settle default interest of CZK 98 million. The total payment of CZK 468 million was made on 19 November 2015. The arbitration award additionally forced the Company to accept an amendment on inflationary increase of the purchase price by CZK 754 million. On 22 April 2016, the Company paid the inflationary increase in the amount of CZK 628 million. The Company filed a legal action to revoke the arbitration award referred to above while it also filed a legal action against the appearance of judicial bias. The judge bias proceeding has been interrupted until legally enforceable decision to revoke the arbitration award will made.

Railway freight transportation market
The Anti-Monopoly Office imposed a fine on the Company for abusing its dominant position on the railway transportation market for large quantities of natural resources and raw materials. Based on the remedies filed by the Company, the case ended up at an administrative proceeding. The case is currently being seen at the County court in Brno as it was returned to this court to be reassessed based on the decision of the Supreme Administrative Court.

Prague – Ostrava line
In January 2012, the Anti-Monopoly Office initiated proceedings against ČD regarding the alleged abuse of the Company's dominant position on the Prague – Ostrava line in the form of inadequately low (predatory) prices in response to an entry of a new railway transport competitor. The proceedings with the Anti-Monopoly Office are continuing, the Anti-Monopoly Office is currently collecting supporting documents for its ruling and it will subsequently 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.

Legal action by LEO Express for compensation of damage of CZK 419 million
On 10 July 2014, LEO Express filed a legal action for compensation of damage amounting to CZK 419 million that was allegedly caused to LEO Express by the pricing policy of the Company. The first-instance court rejected LEO Express'

claim. LEO Express partly withdrew from the accusation, against which the Company filed an appeal. In addition, LEO Express filed an appeal against the ruling of the first-instance court.

Legal action of RegioJet for return of allegedly prohibited public support (the defendants being ČD, SŽDC 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 plus 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 statements included in the claim and considers it to lack merit. RegioJet subsequently asked the court to include the company StudentAgency as another plaintiff, which was accepted by the court. The Company did not agree with such an amendment in the plaintiff parties and filed an appeal against this course of action.

Call of RegioJet for damages
On 10 April 2015, RegioJet sent a pre-trial call to ČD for the payment of CZK 717 million in damages. The alleged detriment was caused by ČD's illegal activities in operating the Prague – Ostrava line, involving the application of dumping prices. ČD refused to pay the detriment. RegioJet filed a legal action seeking the payment of compensation of approximately CZK 717 million with accrued interest and charges that resulted in legal proceedings. The hearings will be held on 14 September 2016.

Audits of subsidies used from the Regional Operational Programme (ROP) for the acquisition of railway vehicles
Since early 2014, the Audit Body of the Czech Ministry of Finance (the "Audit Body") has been conducting a due audit of operations at ČD in terms of Section 7 (2) and Section 13a of Act No. 320/2001 Coll., on Financial Auditing in Public Administration and Changes to Certain Acts (the "Financial Auditing Act"), as amended, and Article 62 (1) (b) of Council Regulation (EC) No. 1083/2006. The sample of the Czech Ministry of Finance included all realised projects for the subsidised acquisition of railway vehicles, with the exceptions being the projects "Modern Railway Vehicles for the Pardubický Region" and "Leoš Janáček Airport Traffic Connection". At the end of 2015, ČD received the final audit report on all the audited projects. Given the completion of the audit by the Czech Ministry of Finance, individual Regional Council Authorities are claiming the refund of the proportionate part of the subsidy from the relevant amount of calculated ineligible expenses according to the Audit Body's methodology, referring to the Audit Body's recommendations and conclusions. As at 31 July 2016, the Company records 9 requests to return the proportionate part of the subsidy in total amount of CZK 545 million. The Company fully rejects to pay the determined amount of the subsidised discrepancy within the period stated by the Regional Council Authorities. The Company disagrees with the audit conclusions and pursues the relevant procedural defence.

Easements related to land under the main optical network of ČD - Telematika a.s.
During 2015, a trilateral agreement on arbitration was concluded, in which the parties involved agreed upon the framework, which might be used to settle the dispute related to charges for 2011. During 2015, the contractual parties filed an accusation with the arbitrator stated by the agreement. Amendment no. 1 to the contract on arbitrator was concluded in July 2016. The arbitration proceeding is still ongoing and the decision is expected after declarations of all parties involved are finished. The Group is of the opinion that the estimated payable created for the settlement of the easements represents the best estimate of the dispute's outcome.

18 Material events during the interim reporting period

On 9 May 2016 the Moody's rating agency upgraded the rating of the Company from Baa3 to Baa2 with a stable outlook. The agency monitors the activity of the Company on an ongoing basis throughout the year.

19 Post-balance sheet events

Apart from the sale of the operational unit from 1 July 2016 (see Note 7), no events have occurred subsequent to the end of the interim period that would have a material impact on the interim consolidated financial statements as at 30 June 2016.

20 Approval of the consolidated financial statements

These interim consolidated financial statements were approved on 30 August 2016.

10 ANTICIPATED DEVELOPMENT

BY THE END OF 2016

Approximately 1,500 station buildings were disposed and 316 employees were transferred to SŽDC based on the agreement concluded by SŽDC and ČD, which became effective on 1 July 2016. České dráhy reduced properties portfolio under its management.

We will continue to focus on the Group's profitability and on retaining of the rating at the investment level.

Passenger transport priorities for 2016:

- Full-fledged deployment of modernized vehicles on the route Prague – Hamburg
- Increased reliability and standardization of organization of higher quality trains
- Negotiations with the regions focused on contracting (part of) the public service commitment beyond 2019
- Re-design of the website and design of the new e-shop
- Development and simplification of electronic check-in
- Further development of electronic applications and online communication
- Further improvement of quality of related services (ČD Taxi, ČD MHD, ČD Auto, ČD Bike, bike-houses, ČD Parking)
- Repair of damaged SuperCity Pendolino trainset and interior re-design of all seven Pendolino units

Freight transport priorities for 2016:

The subsidiary ČD Cargo, a.s. continues in taking measures to achieve balanced economic result of the single wagon shipments segment till the end of 2017, while maintaining profitability of the complete trains business. The company continues to pursue the strategic projects aiming on further efficiency improvements throughout the whole company while maintaining the existing portfolio of transportation services. In addition, the company has taken measures to stop decline of revenues, to expand to the new markets and to gain more cargo volume for railway transportation.

11

LEGAL DISPUTES

OVERVIEW OF DISPUTES AS AT 30 JUNE 2016

1. Legal Dispute with ŠKODA TRANSPORTATION a.s.
On 16 November 2015, an arbitration award was issued in which the arbitration court upheld the legal action brought by ŠKODA TRANSPORTATION, a.s. to the extent that it mandated České dráhy to make an additional purchase price payment of CZK 370 million and to settle default interest of CZK 98 million. The total payment of CZK 468 million was made on 19 November 2015. The arbitration award additionally forced the Company to accept an amendment on inflationary increase of the purchase price by CZK 754 million. On 22 April 2016, the Company paid the inflationary increase principal in the amount of CZK 628 million. The Company filed a legal action to revoke the arbitration award referred to above while it also filed a legal action against an appearance of judicial bias. The judge bias proceeding has been interrupted until legally enforceable decision to revoke the arbitration award is made.

2. Railway freight transportation market
The Anti-Monopoly Office imposed a fine on the Company for abusing its dominant position on the railway transportation market for large quantities of natural resources and raw materials. Based on the remedies filed by the Company, the case ended up at an administrative proceeding. The case is currently being assessed by the Regional court in Brno as it was returned to this court to be reassessed based on the decision of the Supreme Administrative Court.

3. Prague - Ostrava line
In January 2012, the Anti-Monopoly Office initiated proceedings against ČD regarding the alleged abuse of ČD, a.s. dominant position on the Prague – Ostrava line in the form of inadequately low (predatory) prices in response to an entry of a new competitor railway transporter. The proceedings with the Anti-Monopoly Office are still on-going, 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. Legal action by LEO Express for compensation of damage of CZK 419 million
On 10 July 2014, LEO Express filed a legal action for compensation of damage amounting to CZK 419 million that was allegedly caused to LEO Express by the pricing policy of the Company. The first-instance court rejected LEO Express' claim. LEO Express partly withdrew from the accusation, against which the Company filed an appeal. In addition, LEO Express filed an appeal against the ruling of the first-instance court.

5. Legal action of RegioJet for return of allegedly prohibited public support (the defendants being ČD, SŽDC 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 plus 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 statements included in the claim and considers it to lack merit. RegioJet subsequently asked the court to include the company Student Agency as another plaintiff, which was accepted by the court. The Company did not agree with such an amendment in the plaintiff parties and filed an appeal against this course of action.

6. Call of RegioJet for damages
On 10 April 2015, RegioJet sent a pre-trial call to ČD for the payment of CZK 717 million in damages. The alleged detriment was caused by ČD's illegal activities in operating the Prague – Ostrava line, involving the application of dumping prices. ČD refused to pay the detriment. RegioJet filed a legal action seeking the payment of compensation of approximately CZK 717 million with accrued interest and charges that resulted in legal proceedings. The hearings will be held on 14 September 2016.

7. Audits of subsidies used from the Regional Operational Programme (ROP) for the acquisition of railway vehicles

Since early 2014, the Audit Body of the Czech Ministry of Finance (the "Audit Body") has been conducting a due audit of operations at ČD in terms of Section 7 (2) and Section 13a of Act No. 320/2001 Coll., on Financial Auditing in Public Administration and Changes to Certain Acts (the "Financial Auditing Act"), as amended, and Article 62 (1) (b) of Council Regulation (EC) No. 1083/2006. The sample of the Czech Ministry of Finance included all realised projects for the subsidised acquisition of railway vehicles, with the exceptions being the projects "Modern Railway Vehicles for the Pardubický Region" and "Leoš Janáček Airport Traffic Connection". At the end of 2015, ČD received the final audit report on all the audited projects. Given the completion of the audit by the Czech Ministry of Finance, individual Regional Council Authorities are claiming the refund of the proportionate part of the subsidy from the relevant amount of calculated ineligible expenses according to the Audit Body's methodology, referring to the Audit Body's recommendations and conclusions. As at 31 July 2016, the Company records 9 requests to return the proportionate part of the subsidy in total amount of CZK 545 million. The Company fully rejects to pay the determined amount of the subsidised discrepancy within the period stated by the Regional Council Authorities. The Company disagrees with the audit conclusions and pursues the relevant procedural defence.

8. Easements related to land under the main optical network of ČD - Telematika a.s

During 2015, a trilateral agreement on arbitration was concluded, in which the parties involved agreed upon the framework, which might be used to settle the dispute related to charges for 2011. During 2015, the contractual parties filed an accusation with the arbitrator stated by the agreement. Amendment no. 1 to the contract on arbitrator was concluded in July 2016. The arbitration proceeding is still ongoing and the decision is expected after declarations of all parties involved are finished. The Group is of the opinion that the estimated payable created for the settlement of the easements represents the best estimate of the dispute's outcome.

12 INFORMATION ON THE ČD GROUP

The České dráhy Group encompasses 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., 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.

13

IDENTIFICATION AND CONTACT

DETAILS

Name of the company: České dráhy, a.s.

Registered office: Nábřeží L. Svobody 1222, 110 15 Prague 1

Corporate ID: 70994226

Tax ID: CZ70994226

Registration court: Prague

File no.: File B, Insert 8039

Telephone: 972 111 111

Fax: 972 232 498

e-mail: info@cd.cz, info@cdcargo.cz

www.cd.cz, www.ceskedrahy.cz, www.cdcargo.cz, www.cdvuz.cz,
www.dpov.cz, www.cdt.cz, www.jlv.cz

České dráhy
National carrier