Interim Report of the České dráhy Group

2017

IMPORTANT DATES
AND FIGURES OF THE GROUP
FOR THE FIRST
HALF OF 2017

České dráhy
National carrier

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RESPONSIBILITY

FOR THE INTERIM REPORT OF THE ČD GROUP

Declaration

The persons responsible for preparing the Interim Report of the ČD Group, including the interim consolidated financial statements, declare that, to the best of their knowledge, this report gives a true and fair view of the financial position of České dráhy, a.s. and its subsidiaries as of 30 June 2017, and its financial performance and cash flows for the six months then ended.

In Prague 31 August 2017

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

This report was not audited.

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KEY INDICATORS FOR THE ČD GROUP

Key Interim Indicators

IFRS consolidated indicators (CZK million)	Jan-Jun 2017	Jan-Jun 2016*	Difference	INDEX
ČD Group				
EBITDA (from continued operations)**	3,190	4,370	(460)	**89**
EBIT (from continued operations) ***	900	1,396	(496)	**64**
Profit/loss for the period	537	410	127	**131**
Total assets	84,992	88,542	(3,550)	**96**
CAPEX	2,510	3,120	(610)	**80**
Depreciation and amortisation	3,010	2,974	36	**101**
Leverage (%) - external funding/assets	55.6	58.9	(3.3)	**94**
Current liquidity (%) - short-term assets/short-term liabilities	131.9	119.5	12.4	**110**
ROCE (%) - EBIT/(total assets - short-term liabilities)	1.2	1.8	(0.7)	**64**
Average FTE	23,461	23,777	(316)	**99**
Passenger transport (ČD, a.s.) ****				
Number of passengers (mil.)	86.9	85.6	1.3	**102**
Traffic performance (mil. person-kilometres)	3,702	3,556	146	**104**
Transport performance (mil. train-kilometres)	61.4	60.4	1.0	**102**
Average traffic distance (km)	42.6	41.5	1.1	**103**
Occupancy ratio (%)	27.4	26.3	1.1	**104**
Freight transport (ČD Cargo Group)				
Traffic volume (mil. tonnes)	32.2	32.5	(0.3)	**99**
Traffic performance (mil. tariff tonne-kilometres)	5,601	5,633	(32)	**99**
Transport performance (mil. train-kilometres) *****	11.0	10.8	0.2	**102**
Average traffic distance (km)	174	174	-	**100**

* After adjusting the data for the period ending 30 June 2016, see Note 2.1.
** EBITDA = profit (loss) before interest and tax from continuing operations (EBIT) plus depreciation and amortisation from continuing operations
*** EBIT = profit (loss) before interest and tax from continuing operations
**** ČD, a.s. passenger transport data do not include flat-rate transport
***** ČD Cargo transport performance do not include locomotive train rides

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OPENING STATEMENT

FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Ladies and Gentlemen,

In the first half of 2017, České dráhy Group achieved profit after tax of CZK 537 million in accordance with International Financial Reporting Standards (IFRS). This result is better year-over-year by CZK 127 million. It reflects the growth in passenger transportation revenues, lower interest costs and exchange rate gains.

It is comforting that the passenger transportation segment has reached positive results in the first half of the year. Profit for the period was CZK 29 milion. Our services used 1.3 million more customers than in the same period last year and the transport performance increased by 146 million person-kilometres. Of course, this corresponds with year-to-year growth in revenues from passenger transportation by CZK 241 million. The positive trend remains for the several years already and this proves that gradual improvement of services and vehicles quality is perceived by the public. Traditionally, the most successful were the long-distance international and domestic transportation as well as the suburban transportation. However, the potential of regional connections, which are being used by tens of millions of inhabitants each year, should not be underestimated. Therefore, in cooperation with the regions we want to focus our investments also in this direction.

The second most important segment, the freight transportation, reported a profit of CZK 384 million. The subsidiary ČD Cargo continues its expansion into foreign markets and strives to streamline the individual wagon shipments. We managed to stop the decrease in performance from the previous years and to increase revenues by CZK 60 million year-on-year. The year-on-year decrease in net result of CZK 76 million in freight transportation is mainly explained by higher depreciation, as a result of investments in vehicles, as well as increase in personnel costs, related to the outcome of collective negotiations and wages growth. Both these costs, however, represent a step towards strengthening the firm's stability and competitiveness on the market.

Dear Ladies and Gentlemen, in the first half of 2017 not only the two main segments, i.e. passenger and freight transportation, were succeeding, but also all subsidiaries of the ČD Group. Also in May the Moody's agency confirmed us Baa2 level credit rating with stable outlook. Certainly, we will try to carry on the established trend. Nevertheless, the second half of the year and its impact on the final financial results of 2017 will be determinative.

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 2017

2017

January

- České dráhy bought 47 passenger wagons of modern design UIC Z1 from the ÖBB Austrian Railways. Wagons are designed for long-distance transit and expand the fleet of air-conditioned passenger wagons of 200 km/h velocity.
- Completion of the supply of 12 upgraded passenger wagons for regional transport.

February

- The Customer Portal of České dráhy, www.cd.cz, has changed its appearance. The web page has modern flat design graphics and new features, that make connections search and tickets purchase easier for customers. As such, web page became more similar to the mobile application My Train, which is highly popular among the users.
- České dráhy and DB Regio presented the redesigned Desiro motor unit, which operates on line U28 in Bohemian Switzerland. After several decades, regular passenger rail transport returned to the line Dolní Poustevna – Sebnitz on 5 July 2014.

March

- The railjet trainset with number 001 was the first one that has ridden one million kilometres. High-speed railjet trains are one of the busiest trainsets of České dráhy. Every day, six modern units ride approximately 8,600 kilometres in total.

April

- All seven Pendolino trains, which have been in regular traffic already for 12 years, will have a major „rejuvenation treatment“ in the coming months. The change will be made primarily to their interior.
- České dráhy in co-operation with the Polish carrier PKP Intercity after seven years renewed a direct daily connection between Prague and Krakow. The direct daily train EuroCity „Comenius“ connected both metropolises for the last time in December 2009.
- The successful project of České dráhy „Preventive Train of the Safe Railway“ continues also this year. It started the spring journey on 18 April at the railway station in České Budějovice, from where the Train headed to Strakonice, Jindřichův Hradec, Tábor and Benešov near Prague. On 7 and 8 July, the Preventive Train was part of the preventive event 'Brno Days without Injuries'.
- Announcement of a public tender for the equipment of 89 wagons with WiFi.

May

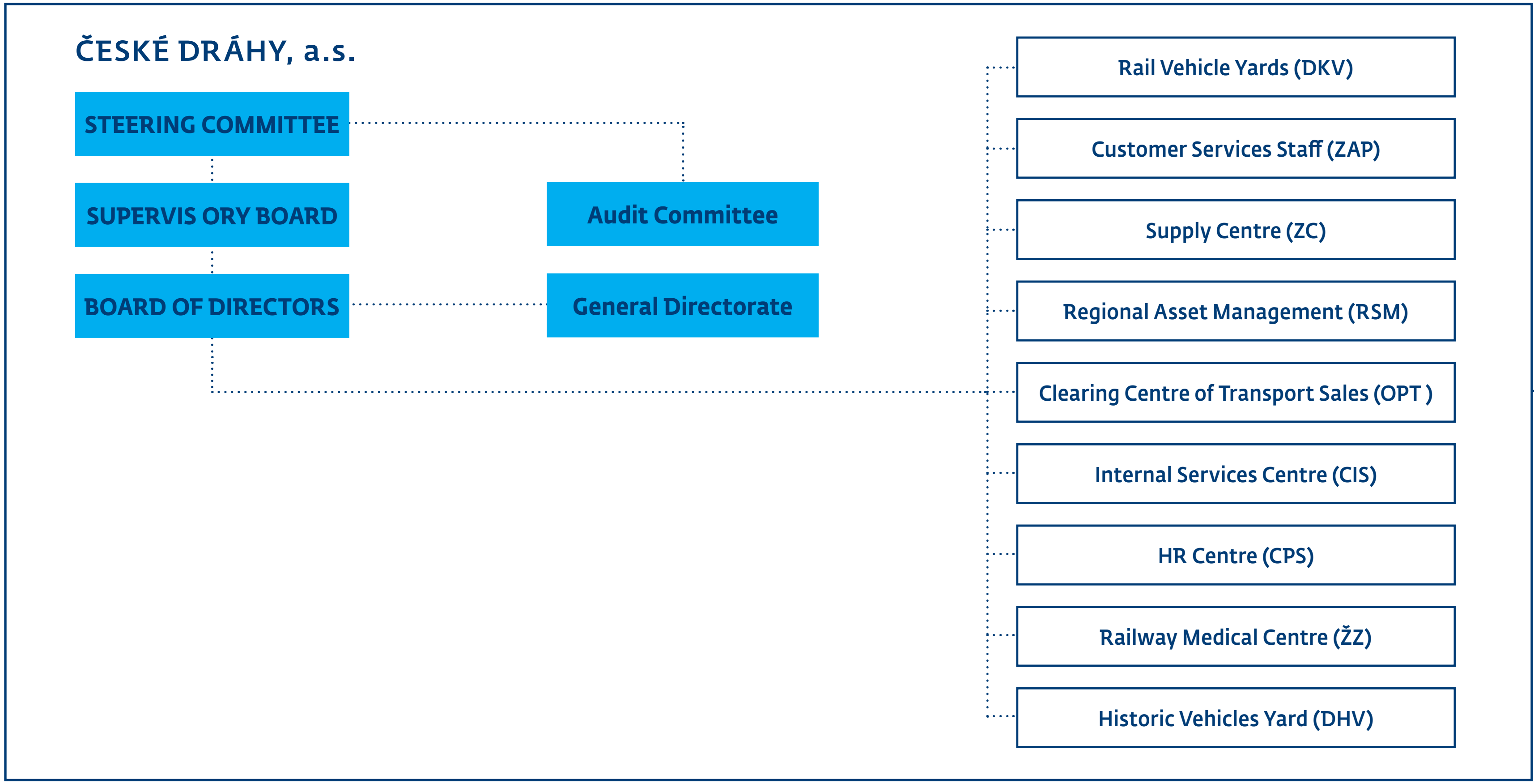
- From 5 May, ČD offers a direct connection from Prague to Nové Údolí. In such way the national carrier returns to the connections it has been offering until 2010. The František Seidel express train ensures connection to the touristically attractive part of Šumava and the follow-up bus connection to Passau.
- From Saturday, 6 May, the possibility to travel with a bicycle during weekends and holidays on the Posázavský Pacifik routes have greatly expanded. České dráhy deployed in regular operation two more wagons for bikes on the lines from Prague via Vrané nad Vltavou to Dobříš or Čerčany, which will be connected to the Regionova train.
- České dráhy continues to install a new safety feature in the form of light signals on older wagons with revolving folding doors. The prototype and verification series, comprising one hundred wagons, which will be finished in May, has already been completed by more than a half. At the same time, a tender for the supplier of equipment for further 630 wagons is in process.

June

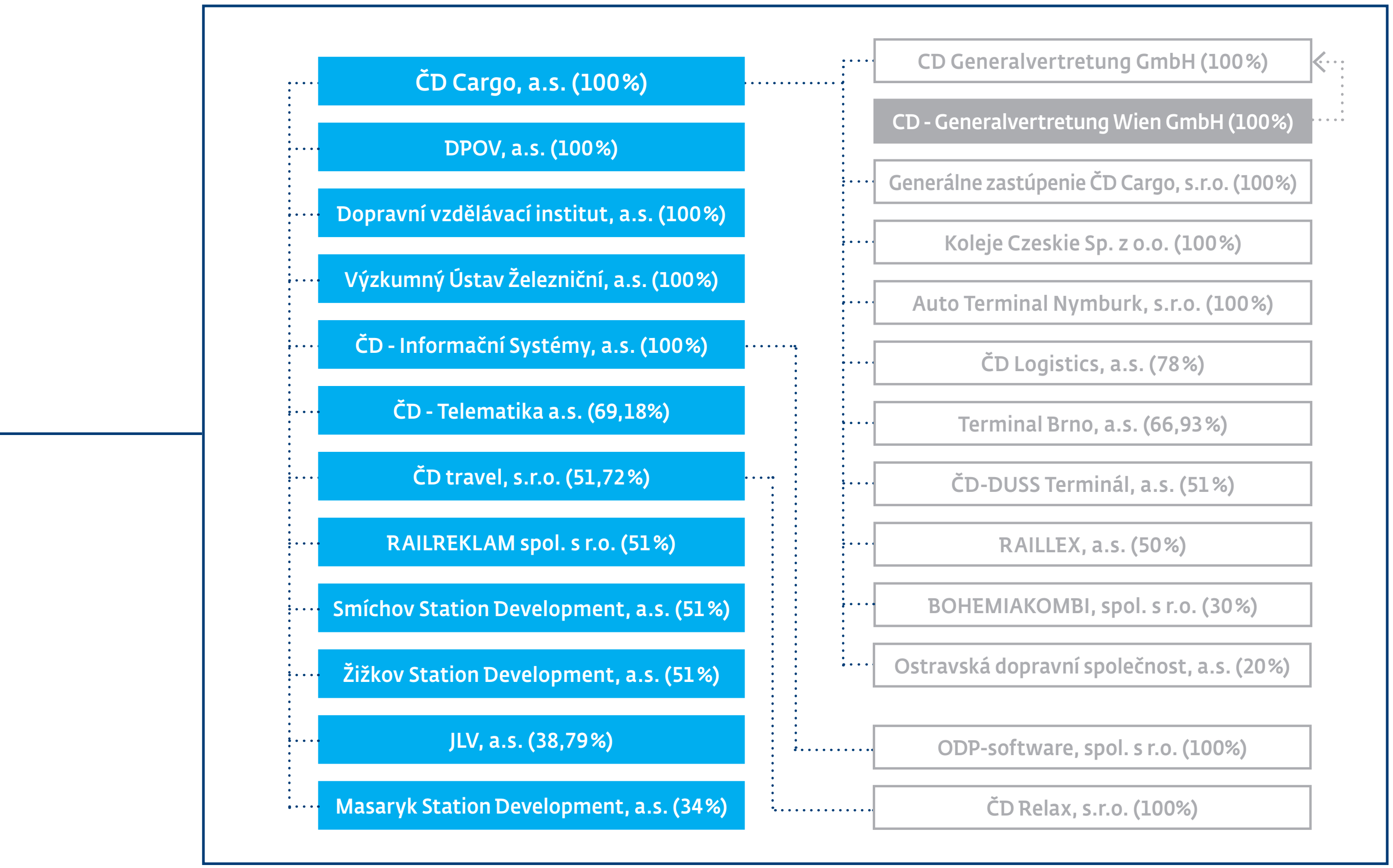
- A new ČD Lounge opened for the customers at the Prague Main Railway Station. It is dedicated to Sir Nicolas Winton. In November last year, representatives of České dráhy, the City of Brno, the South Moravian Region and the author's family have dedicated ČD Lounge in Brno to the graphic designer and illustrator Jiří Bouda. This April was opened the Pardubice lounge, which is dedicated to the railway engineer Jan Perner. After Prague, in the middle of June, the reconstructed ČD Lounge was opened at Ostrava's main railway station, and it is dedicated to Mr. and Mrs. Zatopek.
- České dráhy initiated train drivers training for modern electric locomotives Vectron, produced by Siemens, which the national carrier will lease from the Austrian leasing company ELL.

5 ORGANISATIONAL STRUCTURE

OF THE ČD GROUP



As of 30 June 2017



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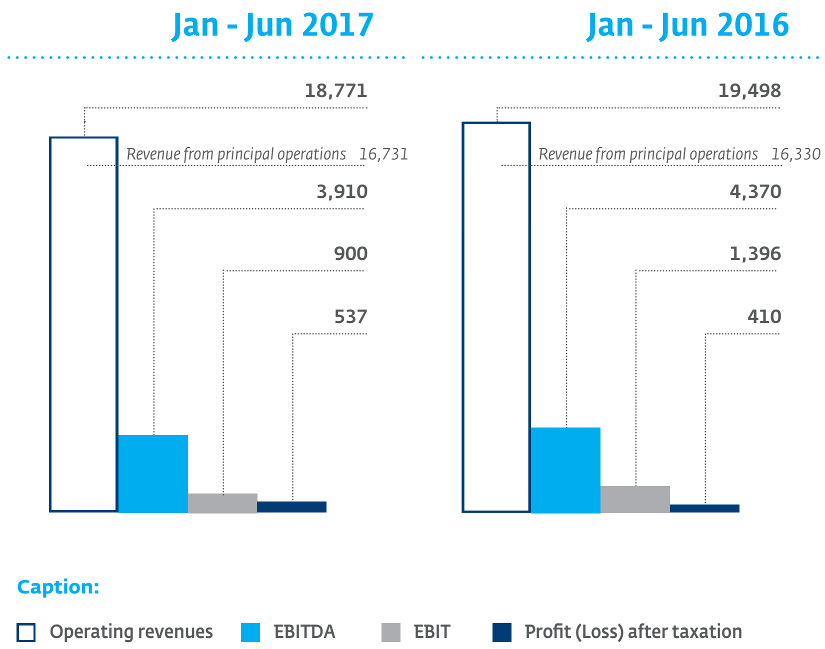
FINANCIAL RESULTS

OF THE ČD GROUP

ČD Group's Performance
(CZK million)



In the first half of 2017, the ČD Group successfully followed the favourable economic result achieved in 2016. In comparison with the first half of 2016, positive is particularly the year-to-year growth of net profit by 31% (from CZK 410 million to CZK 537 million) and growth of revenues from principal operations by 2.5% (from CZK 16.33 billion to CZK 16.73 billion). The year-to-year decrease in operating result (EBITDA and EBIT) is driven by a more significant decrease in other operating revenues (from CZK 3.17 billion for the first half of 2016 to CZK 2.04 billion for the first half of 2017), which were affected in the first half of 2016 by extraordinary revenues from real estate sales, reversal of provisions and higher sales of subsidiaries. However, these effects are partially offset by other operating expenses, which also decreased year-to-year (from CZK 875 million for the first half of 2016 to CZK 392 million for the first half of 2017).

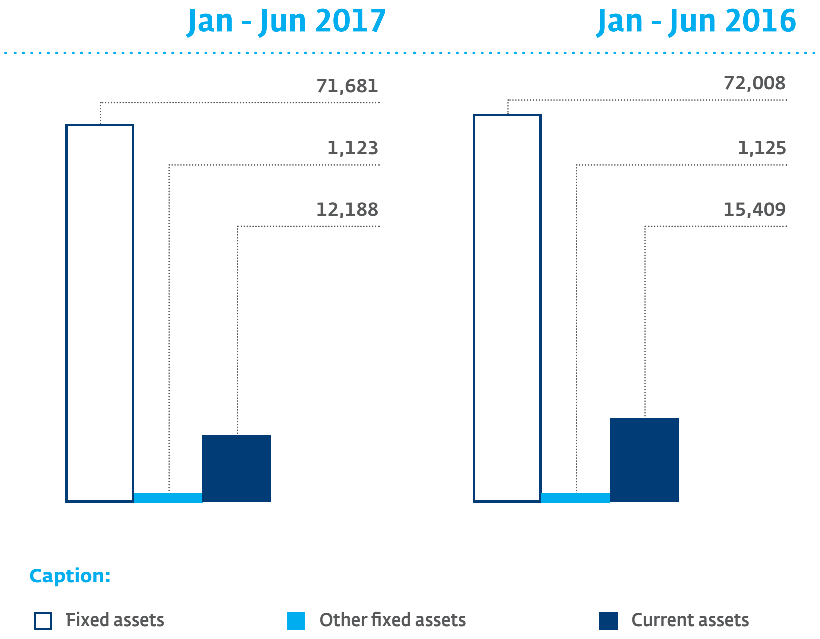
Within revenues from principal operations, grew mainly passenger transportation revenues, i.e. 3.3% year-to-year. First of all, it went well with the increase of the fees collected from the passengers from domestic and international transportation (significant year-to-year growth amounting to 7.3 %). This is related to the growth of all key passenger transportation indicators - the number of passengers transported increased by 1.3 million (to 86.9 million), the traffic performance increased by 146 million person-kilometres (to 3,702 million person-kilometres), the average traffic distance and the occupancy of the capacity offered also increased at a similar pace. Freight transport, which returned to growth in revenues from principal operations (by 1%) and which was successful in expanding abroad, once again significantly contributed to the profit of the ČD Group.

The achieved financial result is also favourably affected by the cost of services, material and energy consumption, which in total decreased slightly year-to-year (by CZK 71 million to CZK 8.03 billion). For example, material consumption was lower, but repair and maintenance costs increased. Traction fuel and energy costs grew only marginally year-to-year. The environment of the rising economy and the situation on the labour market influenced the development of wages and the year-to-year increase in personnel costs by CZK 287 million to CZK 6.44 billion, i.e. by 4.7%.

Within the year-to-year comparison significant are the reduction of the financial costs by CZK 112 million and increase in the financial revenues by CZK 413 million. Financial costs are lower particularly due to reduced bond interest expense (last Eurobonds issue has significantly lower interest rate than bonds repaid in last year). The achieved financial gains represent primarily exchange gains arising from the appreciation of the CZK exchange rate after the end of the Czech National Bank›s exchange rate commitment in the spring of 2017.

Assets Structure

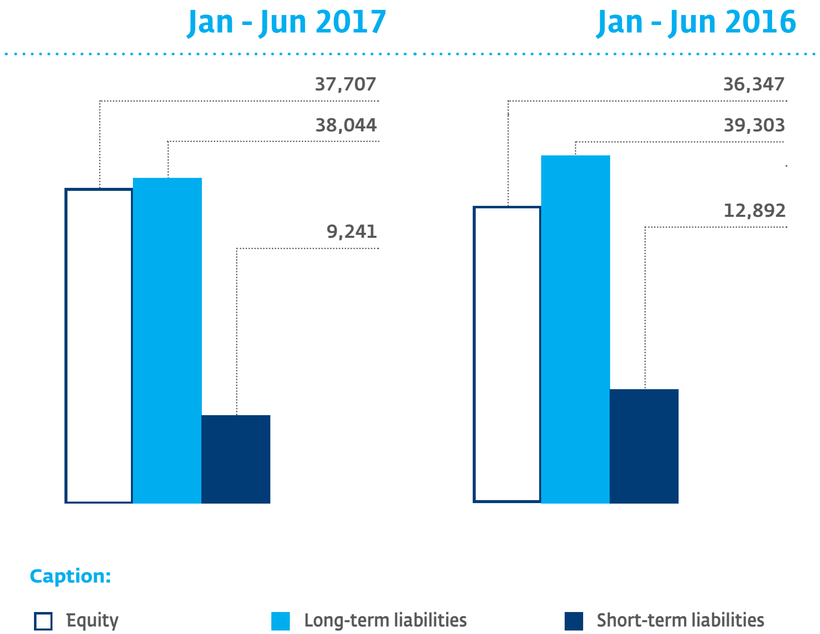
(CZK million)



The total balance decreased by CZK 3.55 billion year-to-year, which is reflected in the assets primarily in a lower amount of current assets – those included assets held for sale of CZK 3.34 billion in the first half of 2016. These were assets („railway stations"), which were transferred to the state organization Railway Infrastructure Organization (Správa železniční dopravní cesty) within the sale of part of the business in the second half of 2016. Cash (obtained as well from the mentioned sale) was subsequently used, among others, for the payables reduction on the liabilities side.

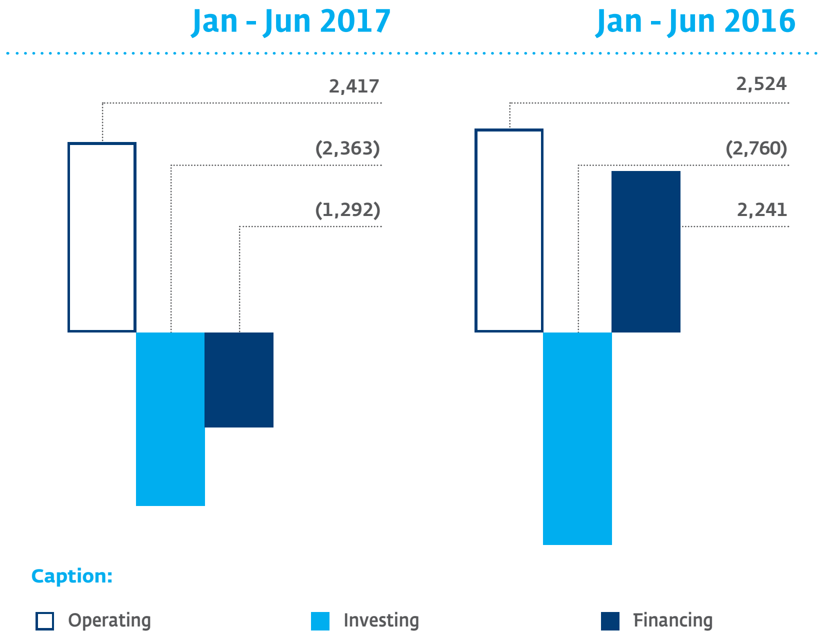
Liabilities Structure

(CZK million)



The greatest year-to-year change in the structure of liabilities is reduction of long-term and short-term liabilities (by CZK 4.91 billion in total). Within these liabilities the decrease in the amount of trade payables from CZK 4.94 billion (as at 30 June 2016) to CZK 3.48 billion (as at 30 June 2017) is particularly significant. During this period long-term and short-term loans and borrowings were successfully reduced by CZK 3.76 billion in total (part of this reduction is related to CZK appreciation against the euro in the spring of 2017 and respective decrease in foreign currency debt when translated to CZK). On the contrary, the equity increased by CZK 1.36 billion year-to-year mainly due to the reported net profit of the ČD Group for 2016.

Cash flows
(CZK million)



Year-to-year lower cash flow from the operating activities is mainly caused by changes in the working capital and non-cash items of the profit and loss statement. The resulting balance of net cash flows from investing activities of CZK 2.36 bilion comprises mainly capital expenditure, which indeed reduced by CZK 610 million year-to-year. Partial effect had also year-to-year lower income from sale of land, buildings and equipment in the first half of 2017. The positive cash flow from financing activities in the first half of 2016 resulted mainly from the former Eurobond issue, while leasing instalments payments and repayment of the loan from Eurofima resulted in negative cash flow in the first half of 2017.

Profit/Loss by Principal Activity Segment

(In CZK mil.)		Passenger transport	Freight transport	Asset management	Other	Elimination*	Total
Revenue from principal operations	Jan – Jun 2017	10,923	5,837	-	-	(29)	16,731
	Jan – Jun 2016	10,577	5,777	-	-	(24)	16,330
Purchased services, material and energy consumption	Jan – Jun 2017	(4,608)	(2,921)	(72)	(1,249)	824	(8,027)
	Jan – Jun 2016	(4,417)	(2,867)	(88)	(1,633)	908	(8,098)
Staff costs	Jan – Jun 2017	(3,722)	(2,004)	(66)	(724)	74	(6,442)
	Jan – Jun 2016	(3,584)	(1,894)	(56)	(686)	66	(6,155)
EBITDA from continuing operations	Jan – Jun 2017	2,465	1,145	72	375	(145)	3,910
	Jan – Jun 2016	2,486	1,229	288	149	218	4,370
Depreciation/amortization	Jan – Jun 2017	(2,266)	(583)	(49)	(158)	46	(3,010)
	Jan – Jun 2016	(2,265)	(520)	(47)	(158)	16	(2,974)
EBIT from continuing operations	Jan – Jun 2017	199	562	23	217	(99)	900
	Jan – Jun 2016	221	709	241	(9)	234	1,396
Profit (loss) for the period	Jan – Jun 2017	29	384	28	591	(495)	537
	Jan – Jun 2016	(341)	460	231	(84)	144	410

*Elimination and reconciliation column includes eliminations of intercompany relationships.

The segment analysis corresponds with the segment analysis presented in the notes to IFRS consolidated financial statements. Amounts presented for the first half of 2016 have been adjusted to be comparable to the first half of 2017 (see Note 2.1).

Passenger transportation

Unlike in previous periods, in the first half of 2017 the passenger transportation segment showed positive result, respectively a net profit of CZK 29 million, being a year-to-year improvement of CZK 370 million.

Revenues from the principal operations increased year-to-year by CZK 347 million (3.3%), mainly from the passenger transportation (7.3%). Revenues from international transportation significantly increased (18.4%), revenues from domestic transportation also grew (4.3%), reimbursements from public service contractors (regions and state) increased relatively moderately. The main reasons for the increase in revenues from passenger transportation are growth ČD shares in the sale of tickets abroad, tariff measures enhanced by increased mobility of the population and growth in revenues from ČD shares in domestic integrated transportation systems. Positive effect has also improving quality of the wagons and marketing comunication, e.g. promotion of the South express (Praha - České Budějovice - Linz), Slovak express lines (Praha - Olomouc - Luhačovice), Euroweekends or New e-shop.

The number of passengers transported increased by 1.3 million (to 86.9 million), the transport performance by 146 million person-kilometres (to 3,702 million person-kilometres) and other key indicators grew at similar pace. The most significant increase in transport performance is recorded in main long-distance lines that are time-competitive with respect to road transport and in suburban transport.

As a result of increased operating revenues, there is a similarly increasing trend in operating costs. The cost of services, material and energy consumption grew by CZK 191 million (4.3%) and personnel costs by CZK 138 million (3.9%) year-to-year. The amount of depreciation and amortization was virtually unchanged year-to-year.

The passenger transportation segment achieved an operating profit before depreciation (EBITDA indicator) of CZK 2,465 million in the first half of 2017 and an operating profit (EBIT indicator) of CZK 199 million.

A positive financial result (especially lower interest costs on bonds and exchange gains from the valuation of issued Eurobonds) significantly contributed to the presentation of net profit of CZK 29 million.

Freight transportation

Freight transportation segment generated net profit of CZK 384 million for the first half of 2017, which significantly contributed to the ČD Group›s result.

In the first half of this year, the freight transportation segment managed to stop previous years' continuous decrease and a year-to-year increase in revenues from the main activity (by 1%) was noted. It is the result of continued expansion abroad and also a number of proactive business measures to support the individual wagonload shipments. The continuing decline in former traditional commodities for rail freight transportation (iron and engineering products, hard coal or chemicals), was successfully offset by shipments of timber, construction, automotive, etc., which also supports the positive development of domestic economy. Situation in the combined transportation was also stabilised.

Development and competitiveness of the ČD Cargo Group on the European transportation market were supported by a higher level of investments in the modernization and renewal of the locomotives park and freight wagons, which resulted in an increase in depreciation costs (by 12.1% year-to-year). Due to the increase in average wages, which supported an increase in labour productivity and reflected the current development of personnel policy and employment in the Czech Republic, the personnel costs also increased year-to-year (by 5.8%).

The main reason of year-to-year decrease of freight transportation segment's result was increase in depreciation and personnel costs, however it supported the overall stability and future development of the freight carrier.

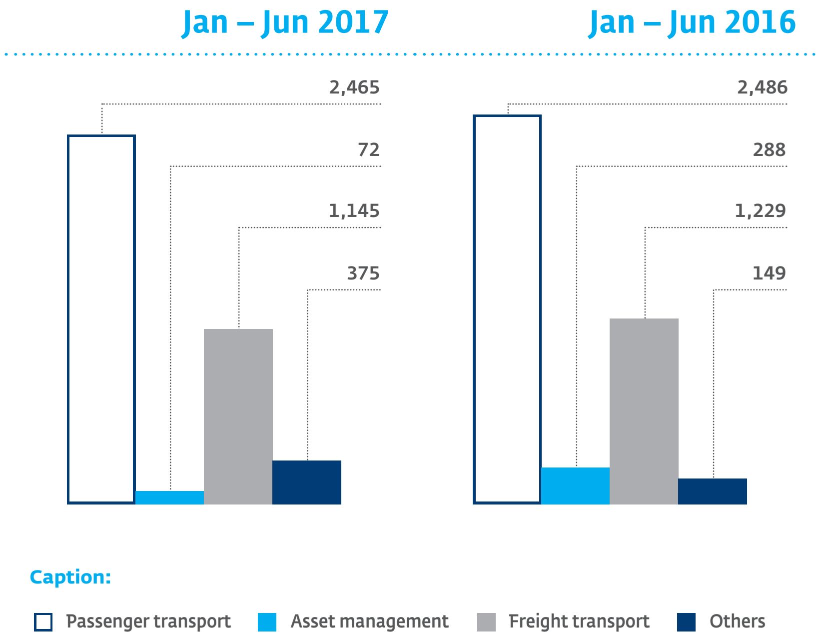
The freight transportation segment achieved an operating profit before depreciation (EBITDA indicator) of CZK 1,145 million and an operating profit (EBIT indicator) of CZK 562 million for the first half of 2017.

Asset management

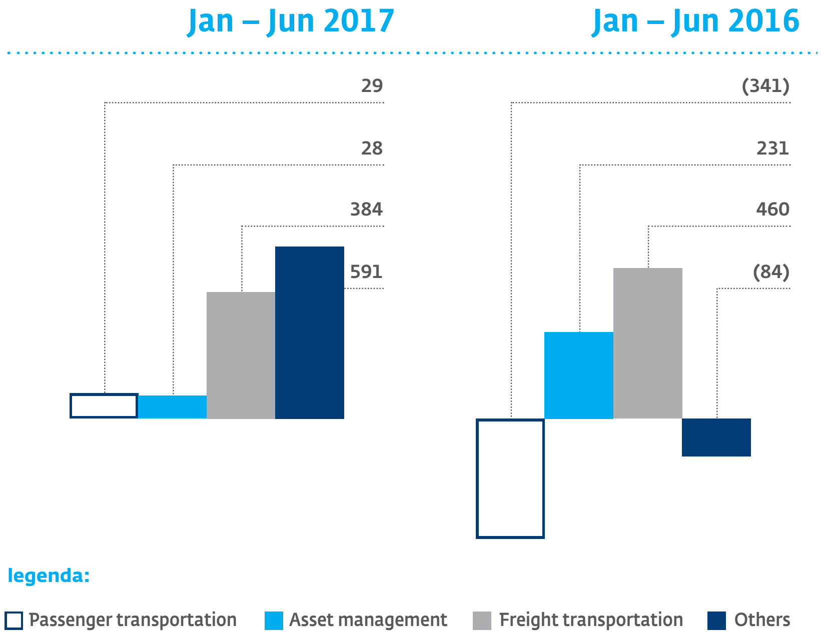
The sale of the part of the business ('railway stations") to the state Railway Infrastructure Organization (Správa železniční dopravní cesty) in the second part of 2016 caused a reduction in number of managed assets, however it does not significantly reflect the segment›s performance (there was a decrease in revenues from this asset as well as a similar decrease in the corresponding operating costs in the first half of 2017). Year-to-year decrease in the economic performance of the asset management segment (from CZK 231 million for the first half of 2016 to CZK 28 million for the first half of 2017) is mainly affected by sale of land in the area of railway station Praha Masarykovo nádraží, which one-off improved the economic performance in the first half of 2016.

Profit by segments- EBITDA

(CZK million)



Profit (Loss) for the period by segments
(CZK million)



7 INVESTMENTS

After the increased investment activity in previous years, the total investments of the ČD Group reached CZK 2.51 billion in the first half of 2017, what is the decrease by CZK 610 million in comparison to the first half of 2016. The most important investments include investment in passenger and freight transportation. While a significant reduction was seen in investments in passenger rail vehicles, investments in rail freight vehicles increased substantially, as well as construction, IT and other investments.

Passenger transportation

Investments to the rail vehicles of the passenger transportation segment decreased year-to-year by CZK 879 million, which is due to lower planned investments in the renewal of rail vehicles in 2017, where significant investments in rail vehicles are planned in the following years, especially in relation to the Doprava Operational program within the second program period and in connection with the planned opening of the market in passenger railway transportation in the Czech Republic.

In the first half of 2017 approximately CZK 118 million was invested in regional transport, which included renovation of double deck rail vehicles for suburban transport in Prague and the Central Bohemian Region, as well as investments in the technical improvement of existing vehicles in connection with increasing reliability, safety and culture of travelling (the most important items are the modernization of vehicles of 810/809 series).

The most important investment in long-distance passenger transportation includes repurchase of 47 passenger railway cars reaching the speed of 200 km/h from the Austrian Railways ÖBB in the first half of 2017. An important part of technical improvement of existing vehicles in relation to increasing reliability, safety and culture of travelling, is the installation of signalisation for door opening equipment for personal rail vehicles, not only in terms of planned financial volume.

Other investments (construction investment, IT investment, other investment) of passenger transportation include, in particular, construction investments in the infrastructure of repairing capacities (the most important in the first half of 2017 is new traction wiring in the area of technical-hygienic maintenance in the operating unit Bohumín), investments in machinery and mechanization (investments supporting increase in work efficiency in railway depots) and IT investments, especially in support of passenger transportation (renovation of portable personal cash registers, launch of new website and eshop, 1. stage of the project Modernization of passenger transport information system - MISOP).

Freight transportation

In comparison with the last year's first half, there were by CZK 114 million more spent on investment in freight transportation.

In the field of railway vehicles it was mainly the acquisition of platform wagons for innofreight technology, which uses universal wagons in combination with modular superstructures, and an advance payment for the purchase of three other interoperable Vectron locomotives. Further funds were used to ensure the serviceability of the existing freight vehicle fleet of freight carrier by means of locomotive repairs and revision repairs of freight wagons.

Other investments in freight transportation were mainly focused on the renewal of manipulation and machinery technology for internal repairs and development of freight transportation supporting information systems.

8 EMPLOYEES

During the first half of 2017, an average number of 23,461 employees was reported by ČD Group, which is the decrease by 316 (1%) employees in comparison to the same period in 2016.

The substantial reduction of the number of employees is related to the sale of part of the business – organizational unit, Railway Station, as of 1 July 2016.

The aim of the Group is to optimize personnel and age structure, especially in the occupations critical for passenger transportation.

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.

9 ANTICIPATED DEVELOPMENT

The long-term mission of the České dráhy Group is to provide the best passenger transportation services for its customers at competitive prices. This is related to both, investment to renewal of vehicles fleet and to implementation of modern technologies simplifying customers' dealings and change in customer service attitudes towards passenger perception.

Year 2017 will be very important in terms of overlook for market access after year 2019, therefore crucial for ČD, a.s. is to further strengthen the competitiveness in all material segments of passenger transportation to achieve a high level of customer and contractors satisfaction with provided services and to build long-term relationships with them.

Priority activities in passenger transportation:

- Standardization of quality on key lines
- Business negotiations with Ministry od Transportation and the regions with the aim of contracting (part of) the public service obligation even 2019
- Further development of services for customers on board of the trains (e.g. extension of ČD WiFi service, extension of ČD Minibar service to so called express lines)
- Simplification of ticket refund process
- Further development of electronic applications (e.g. MAP Phone) and online communication
- Customer-oriented change of rules for refund of tickets purchared in pre-sale and e-shop

Priority activities in freight transportation:

- Achieving a balanced operation of the segment of individual wagon loads by the end of 2017
- Maintaining the profitability of the segment of complex trains
- Continuing in strategic projects with a view to further increasing the efficiency of capacities and activities, without significant negative impact on the supply of transportation
- Stopping the decline in sales, expanding the territorial scope of the ČD Cargo Group, increasing the volume of rail transportation

10

INTERIM CONSOLIDATED

FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

Interim statement of profit or loss for the period ended 30 june 2017

CZK million	Period ended 30 June 2017 unaudited	Period ended 30 June 2016 unaudited, (adjusted) *)
CONTINUING OPERATIONS		
Revenue from principal operations	16,731	16,330
Other operating income	2,040	3,168
Services, material and energy consumption	(8,027)	(8,098)
Employee benefit costs	(6,442)	(6,155)
Depreciation and amortisation	(3,010)	(2,974)
Other operating expenses	(392)	(875)
Profit on operating activities before tax	**900**	**1,396**
Financial expenses	(706)	(818)
Financial income	478	65
Share of income of joint ventures and associates	13	13
Profit before tax	**685**	**656**
Income tax expense	(148)	(168)
Profit for the period from continuing operations	**537**	**488**
DISCONTINUED OPERATIONS		
Loss from discontinued operations	**-**	**(78)**
Profit for the period	**537**	**410**
Attributable to equity holders of the Parent Company	528	390
Attributable to non-controlling interests	9	20

Interim statement of other comprehensive income for the period ended 30 june 2017

CZK million	Period ended 30 June 2017 (unaudited)	Period ended 30 June 2016 (unaudited), (adjusted) *)
Profit for the period	537	410
Actuarial gains/losses on liabilities related to employee benefits	(6)	-13
Other comprehensive income for the period (items that are not subsequently reclassified to profit or loss)	**(6)**	**(13)**
Exchange differences of foreign unit transfer	10	(6)
Cash-flow hedges	350	237
Income tax relating to these items	(6)	(5)
Other comprehensive income for the period (items that may be reclassified to profit or loss), net of tax	**354**	**226**
Other comprehensive income for the period after tax	**348**	**213**
Total comprehensive income for the period	**885**	**623**
Attributable to equity holders of the Parent Company	876	603
Attributable to non-controlling interests	9	20

*) After adjusting the data for the period ended 30 June 2016, see Chapter 2.1.

Interim statement of financial position (balance sheet) as at 30 june 2017

CZK million	30 June 2017 (unaudited)	31 December 2016 (audited)	30 June 2016 (unaudited), (adjusted) *)
Property, plant and equipment	70,453	71,440	70,804
Investment property	698	715	726
Intangible assets	530	547	478
Investments in joint ventures and associates	212	197	186
Deferred tax asset	20	28	26
Other financial assets	887	949	883
Other assets	4	5	30
Total non-current assets	**72,804**	**73,881**	**73,133**
Inventories	1,384	1,353	1,337
Trade receivables	2,951	3,189	3,058
Tax receivables	40	27	40
Other financial assets	246	143	192
Other assets	1,151	690	1,462
Cash and cash equivalents	6,416	7,654	5,977
Assets held for sale	-	-	3,343
Total current assets	**12,188**	**13,056**	**15,409**
TOTAL ASSETS	**84,992**	**86,937**	**88,542**
Share capital	20,000	20,000	20,000
Reserve and other funds	16,871	16,809	16,808
Fund from cash flow hedges	(477)	(821)	(798)
Retained earnings	660	190	(308)
Equity attributable to equity holders of the Parent Company	**37,054**	**36,178**	**35,702**
Non-controlling interests	653	644	645
Total equity	**37,707**	**36,822**	**36,347**
Loans and borrowings	34,468	35,733	35,748
Deferred tax liability	1,458	1,384	1,319
Provisions	619	708	859
Other financial liabilities	1,374	1,210	1,267
Other liabilities	125	373	110
Total non-current payables	**38,044**	**39,408**	**39,303**
Trade payables	3,481	4,271	4,943
Loans and borrowings	1,356	2,072	3,841
Tax payables	24	17	17
Provisions	1,143	1,096	1,067
Other financial payables	511	473	537
Other payables	2,726	2,778	2,241
Liabilities directly associated with assets held for sale	-	-	246
Total current payables	**9,241**	**10,707**	**12,892**
TOTAL LIABILITIES	**84,992**	**86,937**	**88,542**

*) After adjusting the data for the period ended 30 June 2016, see Chapter 2.1.

Interim statement of changes in equity for the period ended 30 june 2017

	Share capital CZK million	Reserve and other funds CZK million	Fund from cash flow hedges CZK million	Retained earnings CZK million	Equity attributable to equity holders of the Parent Companyi CZK million	Non-controlling interests CZK million	Total equity CZK million
Balance as at 1 January 2016 (audited)*)	**20,000**	**16,790**	**(1,030)**	**(661)**	**35,099**	**625**	**35,724**
Comprehensive income							
Profit for the period *)	-	-	-	390	390	20	410
Other comprehensive income for the period, net of tax *)	-	(6)	232	(12)	213	-	213
Total comprehensive income for the period *)	**-**	**(6)**	**232**	**378**	**603**	**20**	**623**
Transactions with owners							
Allocation to the reserve fund	-	24	-	(24)	-	-	-
Total transactions with owners for the period	**-**	**24**	**-**	**(24)**	**-**	**-**	**-**
Balance as at 30 June 2016 (unaudited) *)	**20,000**	**16,808**	**(798)**	**(308)**	**35,702**	**645**	**36,347**
Balance as at 1 January 2017 (audited)	**20,000**	**16,809**	**(821)**	**190**	**36,178**	**644**	**36,822**
Comprehensive income							
Profit for the period	-	-	-	528	528	9	537
Other comprehensive income for the period, net of tax	-	9	344	(5)	348	-	348
Total comprehensive income for the period	**-**	**9**	**344**	**523**	**876**	**9**	**885**
Transactions with owners							
Allocation to the reserve fund	-	53	-	(53)	-	-	-
Total transactions with owners for the period	**-**	**53**	**-**	**(53)**	**-**	**-**	**-**
Balance as at 30 June 2017 (unaudited)	**20,000**	**16,871**	**(477)**	**660**	**37,054**	**653**	**37,707**

*) After adjusting the data for the period ended 30 June 2016, see Chapter 2.1.

Interim cash-flow statement for the period ended 30 june 2017

CZK million	Period ended 30 June 2017 (unaudited)	Period ended 30 June 2016 (unaudited), (adjusted) *)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax for the period	**685**	**578**
Dividend income	-	(2)
Financial expenses - interests	590	689
Profit from the sale and disposal of non-current assets	(117)	(328)
Depreciation and amortisation of non-current assets	3,010	2,974
Impairment (reversal of impairment) of property, plant and equipment, investment property and assets held for sale	(12)	584
Impairment of trade receivables	35	(29)
Change in reserves	(46)	(659)
Foreign exchange rate gains (losses)	(395)	43
Other	70	(64)
Cash flows from operating activities before changes in working capital	**3,820**	**3,786**
Decrease (increase) in trade receivables	195	376
Decrease (increase) in inventories	(100)	(83)
Decrease (increase) in other assets	(608)	477
Increase (decrease) in trade payables	(277)	(884)
Increase (decrease) in other payables	(100)	(448)
Total changes in working capital	**(890)**	**(562)**
Cash flows from operating activities	**2,930**	**3,224**
Interest paid	(442)	(623)
Income tax paid	(71)	(77)
Net cash flows from operating activities	**2,417**	**2,524**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Payments for property, plant and equipment	(2,425)	(3,087)
Proceeds from disposal of property, plant and equipment	135	352
Payments for investment property	-	(10)
Payments for intangible assets	(85)	(23)
Received interest	12	8
Net cash flows from investment activities	**(2,363)**	**(2,760)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans and borrowings	-	12,295
Repayments of loans and borrowings	(818)	(9,583)
Payment of financial leasing instalments	(474)	(471)
Net cash flows from financing activities	**(1,292)**	**2,241**
Net increase in cash and cash equivalents	**(1,238)**	**2,005**
Cash and cash equivalents at the beginning of the reporting period	7,654	3,972
Cash and cash equivalents at the end of the reporting period	**6,416**	**5,977**

*) After adjusting the data for the period ended 30 June 2016, see Chapter 2.1.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED 30 JUNE 2017

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 Parent Company's share capital CZK 20,000 million. 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 related to its principal business activities.

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 Changes in the Consolidation Group
During the interim period ending 30 June 2017, the Consolidation Group was extended by two new companies: ČD Relax s.r.o. and Ostravská dopravní společnost - Cargo, a.s.

ČD Relax s.r.o was established on 6 February 2017 by the company ČD Travel, s.r.o. as the sole founder. The basic business activity of the company ČD Relax s.r.o. is operation of a travel agency with a specific focus only on wellness and recovery stays for employees of the ČD Group.

On 1 January 2017 the company Ostravská dopravní společnost – Cargo, a.s was established, where ČD Cargo a.s. gained the share of 20% and company NH Trans gained 80% share. This new company was formed by the separation from the company Ostravská dopravní společnost, a.s. After that ČD Cargo increased its share in the company Ostravská dopravní společnost, a.s from 20% to 50% (shareholding structure ČDC 50%, NH TRANS 50%). Separation was undertaken in order to utilise a three-year option with a key customer.

2 Statement of compliance and significant accounting policies

The interim consolidated financial statements for the 6 months ended 30 June 2017 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 2016.

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

In the reporting period, accounting policies are consistent with the accounting policies used in prior periods, except for the changes described in Note 2.1.

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

2.1 Changes in the Application of Accounting Policies and Adjustment of Reporting Methods
In the consolidated financial statements of the Group for the year ended 31 December 2016, an adjustment was made to the method of deferred tax reporting and presentation of leaseback. Both of these changes were described in the consolidated financial statements of the Group for the year 2016 in Chapter 2.2.1. In the preparation of this interim consolidated financial statement for the period ended 30 June 2017, a comparable period was therefore adjusted.

Reclassification of items in the financial statements
In 2016, the Group discontinued to present a separate line 'Other gains (losses)' in the Profit and Loss Statement, which was presented in the consolidated financial statements for the year 2015 in Chapter 12. Items reported in this position as of 30.6.2016 The Group moved as follows:

- Item Operating foreign exchange gains in the amount of CZK 32 million was moved to Other operating income,
- Item Operating foreign exchange losses in the amount of CZK 32 million was moved to Other operating expenses,
- Item Financial foreign exchange losses in the amount of CZK 100 million and Other financial items in the amount of CZK 26 million were moved to Financial expenses and item Financial exchange gains in the amount of CZK 50 million was moved to Financial income.

In the consolidated financial statements for the period ended 30 June 2017, the Group changed the presentation of the Change in provisions, Reversal of impairment losses of receivables, Reversal of impairment losses of property, plant and equipment, investment property and available-for-sale assets and dereco-gnition of inventories to net realizable value.

The positive balances of these items are presented in Other operating income instead of Other operating expenses. A comparable period ended 30 June 2016 was adjusted, where the amount of CZK 734 million was transferred to Other operating income from Other operating expenses.

The following table provides a summary of the above adjustments:

(In CZK million)

30 June 2016	**Previously presented**	**Restatement**	**Reclassification**	**Adjusted**
Property, plant and equipment	71,617	(813)[2]	-	70,804
Other short-term assets	1,511	-	(49)	1,462
Retained earnings / (loss)	170	(476)[3]	(2)	(308)
Deferred tax liability	1,016	301[3]	2	1,319
Other liabilities – non-current	555	(445)[2]	-	110
Other payables - current	2,415	(177)[2]	3	2,241
Provisions – non-current	1,138	-	(71)	1,067
Period ending 30 June 2016				
Other operating income	2,442	(40)[2]	766	3,168
Depreciation and amortization	(3,003)	29[2]	0	(2,974)
Other operating expenses	(113)	-	(762)	(875)
Financial expenses	(689)	-	(129)	(818)
Financial income	(76)	-	141	65
Income tax for the year	(198)	30[1]	-	(168)
Profit (loss) for the period	375	35[3]	-	410
Total result for the period	**601**	**35[3]**	**(13)**	**623**

1) Deferred tax correction effect
2) Effect of change in reporting of leaseback transactions
3) The effect of both above adjustments

In the consolidated financial statements for the period ended 30 June 2017, the Group changed the presentation of employee benefits. Employee benefits will be newly presented in the following items: Payroll costs, Social security and health insurance, and Other social costs, instead of the original item – Benefits arising from the Collective Agreement. A comparable period ended 30 June 2016 was adjusted, the change being reflected primarily in segment reporting items:

- the amount of CZK 36 million was transferred to the Payroll costs,
- the amount of CZK 15 million was transferred to the Social security and health insurance,
- the amount of CZK 33 million was transferred to the Other social costs.

3 Seasonal character of activities

In the first half of 2017, compared to same period in 2016, passenger transport volume of the Parent Company grew similarly to revenue from passenger transport. The increase in transport performance is mainly influenced by the general growth in demand for transportation, improving fleet quality, tariffs arrangements and last but not least, a marketing communication to support traveling by train and carrier České dráhy, a.s. The most significant increases in transport performance are recorded in main long-distance lines, which are time-competitive comparing to road transportation, and suburban transportation. At the same time, there is increase in key international transportation indicators, which in previous periods have been affected by decrease in international mobility due to the situation in Europe (migration and security crisis). In the second half of 2017, we expect to maintain the positive trend, but with a possible assumption of lower dynamics of year-on-year growth.

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 carrier. 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 in the food trade. Other impacts include the consumption of fuel for road vehicles, which follows overall economy development. 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 also increases – performance and revenue of the Company are impacted by events happening overseas and 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 of Czech Republic. In accordance with the exception stated in IAS 24 Related Party Disclosures, the Group does not disclose quantitative information related to individually insignificant transactions with state-owned companies. Listed below are significant related party transactions that the Group managed to identify: transportation customers in the public service obligation (Regions and the Ministry of Transport), the state organization SŽDC and ČEZ group.

(CZK million)

Revenues	Counterparty	30 June 2017	30 June 2016
Income from rental property	SŽDC	12	52
Payment for alternative bus transport	SŽDC	122	110
Payments from public services customers – payment from the state budget	State - MD	2,250	2,235
Payments from public services customers – payment from the regional budgets	Regions	4,719	4,629
Revenue - Telecommunication services	SŽDC	297	578
Subsidized trips	SŽDC	42	40
Revenue from freight transportation	ČEZ	178	185

(CZK million)

Expenses	Counterparty	30 June 2017	30 June 2016
Use of railway route and allocated capacity of the railway - passenger transport	SŽDC	960	948
Use of railway route and allocated capacity of the railway - freight transport	SŽDC	622	640
Consumption of electric traction energy	SŽDC	316	314
Consumption of electric traction energy	ČEZ	277	292
Real estate rental	SŽDC	24	1

(CZK million)

Receivables	Counterparty	30 June 2017	31 Dec 2016	30 June 2016
Payment for alternative bus transport	SŽDC	95	43	35
Public service obligation	State - MD	6	17	6
Public service obligation	Region	529	9	768
Telecommunication services	SŽDC	209	193	231
Revenues from freight transportation	ČEZ	29	68	33

(CZK million)

Liabilities	Counterparty	30 June 2017	31 Dec 2016	30 June 2016
Use of railway route and allocated capacity of the railway - passenger transport	SŽDC	194	244	378
Use of railway route and allocated capacity of the railway - freight transport	SŽDC	228	153	382
Consumption of electric traction energy- passenger transport	SŽDC	58	76	53
Consumption of electric traction energy- passenger transport	ČEZ	123	80	132

5 Income taxation

The income tax reported in the statement of profit or loss as at 30 June 2017 of CZK (148) million includes the current tax payable of CZK (74) million and deferred tax expense of CZK (74) million.

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 ended 30 June2017	Passenger transportation	Freight transportation	Asset management	Segments total	Other	Elimination *)	Total
Revenue from principal operations							
Revenue from passenger transportation	3,954	-	-	3,954	-	(8)	3,946
Payments from orders	6,969	-	-	6,969	-	-	6,969
Other	-	5,837	-	5,837	-	(21)	5,816
	10,923	**5,837**	**-**	**16,760**	**-**	**(29)**	**16,731**
SERVICES, MATERIAL AND ENERGY CONSUMPTION							
Traction costs	(1,176)	(597)	-	(1,773)	-	11	(1,762)
Payments for use of the railway route	(933)	(610)	-	(1,543)	-	-	(1,543)
Other services, material and energy consumption	(2,499)	(1,714)	(72)	(4,285)	(1,249)	812	(4,722)
	(4,608)	**(2,921)**	**(72)**	**(7,601)**	**(1,249)**	**823**	**(8,027)**
Staff costs							
Payroll costs	(2,699)	(1,438)	(48)	(4,185)	(524)	47	(4,662)
Social security and health insurance	(892)	(474)	(16)	(1,382)	(173)	14	(1,541)
Other social costs	(131)	(92)	(2)	(225)	(27)	13	(239)
	(3,722)	**(2,004)**	**(66)**	**(5,792)**	**(724)**	**74**	**(6,442)**
Impairment (**)	(52)	(9)	2	(59)	10	-	(49)
Other operating income and expenses	307	242	221	770	1,942	(1,015)	1,697
Intra Group income and expenses	(9)	-	11	2	(2)	-	-
Operating overheads	(374)	-	(24)	(398)	398	-	-
Depreciation and amortisation	(2,266)	(583)	(49)	(2,898)	(158)	46	(3,010)
Interest income	6	-	7	13	-	(2)	11
Interest expenses	(517)	(75)	-	(592)	(1)	3	(590)
Tax expense	-	(106)	-	(106)	(39)	(3)	(148)
Other income and expenses	369	3	-	372	384	(392)	364
Financial and other overheads	(28)	-	(2)	(30)	30	-	-
Profit (loss) for the period from continuing operations	**29**	**384**	**28**	**441**	**591**	**(495)**	**537**
Loss for the period from discontinued operations	-	-	-	-	-	-	-
Profit (loss) for the period	**29**	**384**	**28**	**441**	**591**	**(495)**	**537**

*) The Elimination column includes the elimination of intraGroup relations.
**) Impairment includes impairment of property, plant and equipment, investment property, and receivables, write-off of inventories to net realizable value.

(CZK million)

Period ended 30 June 2016	Passenger transportation	Freight transportation	Asset management	Segments total	Other	Elimination *)	Total
Revenue from principal operations							
Revenue from passenger transportation	3,713	-	-	3,713	-	(5)	3,708
Payments from orders	6,864	-	-	6,864	-	-	6,864
Other	-	5,777	-	5,777	-	(19)	5,758
	10,577	**5,777**	**-**	**16,354**	**-**	**(24)**	**16,330**
Services, material and energy consumption							
Traction costs	(1,156)	(599)	-	(1,755)	-	16	(1,739)
Payments for use of the railway route	(922)	(628)	-	(1,550)	-	-	(1,550)
Other services, material and energy consumption	(2,339)	(1,640)	(88)	(4,067)	(1,633)	891	(4,809)
	(4,417)	**(2,867)**	**(88)**	**(7,372)**	**(1,633)**	**907**	**(8,098)**
Staff costs							
Payroll costs***)	(2,587)	(1,325)	(42)	(3,954)	(498)	41	(4,411)
Social security and health insurance***)	(858)	(449)	(12)	(1,319)	(165)	13	(1,471)
Other social costs***)	(139)	(120)	(2)	(261)	(23)	11	(273)
	(3,584)	**(1,894)**	**(56)**	**(5,534)**	**(686)**	**65**	**(6,155)**
Impairment **)	(584)	69	2	(513)	(2)	6	(509)
Other operating income and expenses***)	928	144	462	1,534	2,004	(736)	2,802
Intra Group income and expenses	(45)	-	(7)	(52)	52	-	-
Operating overheads	(389)	-	(25)	(414)	414	-	-
Depreciation and amortisation***)	(2,265)	(520)	(47)	(2,832)	(158)	16	(2,974)
Interest income	-	1	7	8	1	(1)	8
Interest expense	(577)	(111)	-	(688)	(1)	-	(689)
Tax expense***)	-	(121)	-	(121)	(49)	2	(168)
Other income and expenses***)	(52)	(18)	1	(69)	101	(91)	(59)
Financial and other overheads	67	-	4	71	(71)	-	-
Profit (loss) for the period from continuing operations*)**	**(341)**	**460**	**253**	**372**	**(28)**	**144**	**488**
Loss for the period from discontinued operations	-	-	(22)	(22)	(56)	-	(78)
Profit (loss) for the period*)**	**(341)**	**460**	**231**	**350**	**(84)**	**144**	**410**

*) The Elimination column includes the elimination of intraGroup relations.
**) Impairment includes impairment of property, plant and equipment, investment property, and receivables, write-off of inventories to net realizable value..
***) After adjusting the data for the period ending 30 June 2016, see Chapter 2.1.

7 Discontinued operations and assets held for sale

Assets held for sale as of 30 June 2016 and discontinued operations for the period ended 30 June 2016 represent the transfer of part of the assets, in particular the station buildings, to the State, respectively to the Railway Infrastructure Administration (SŽDC). For details, see the consolidated financial statements for 2016, Chapter 15.

8 Property, plant and equipment

In the period from 1 January to 30 June 2017 the Group acquired property, plant and equipment in the amount of CZK 1,233 million (as at 31 December 2016: CZK 5,455 million).

The Company's largest additions represent the acquisition of railway traction vehicles from series Bmz, Amz and WRmz in the amount of CZK 469 million, modernisation of railway traction vehicles in the amount of CZK 53 million and purchase of the POP equipment with accessories for CZK 52 million. Other significant additions comprise cargo vehicle overhauls, purchase of Sggrrs series vehicles and wheelsets by ČD Cargo, a.s.

Property, plant and equipment with the net book value of CZK 76 million were disposed by the Group in the period from 1 January to 30 June 2017 (as at 31 December 2016: CZK 3,186 million).

The largest impairment loss relates to tilting trains series 680 (Pendolino) and locomotive series 380. As at 30 June 2017, the impairment charge for the 680 series amounted up to CZK 696 million (as at 31 December 2016: CZK 709 million) and the 380 series amounted up to CZK 600 million (as at 31 December 2016: CZK 612 million).

9 Intangible assets

In the period from 1 January to 30 June 2017, the Group acquired intangible assets in the amount of CZK 92 million (as at 31 December 2016: CZK 217 million).

The acquisition of intangible assets by the Parent company consists of software for POP, UNIPOK, PARIS. Upgrade of SAP, DISC, EMAN and ÚDIV represent other significant additions by the company ČD Cargo, a.s.

10 Inventories

The write-off of inventories to their net realisable value as at 30 June 2017 amounts to CZK 224 million (as at 31 December 2016: CZK 159 million).

11 Cash and cash equivalents

(CZK million)	**30 June 2017**	**31 Dec 2016**	**30 June 2016**
Cash in hand and cash in transit	64	70	63
Cash at bank	5,752	7,584	5,914
Depository promissory notes	600	-	-
Total	**6,416**	**7,654**	**5,977**

12 Loans and borrowings

(CZK million)	**30 June 2017**	**31 Dec 2016**	**30 June 2016**
Payables from finance leases	863	867	918
Payable to EUROFIMA	-	811	814
Issued bonds	479	381	999
Issued promissory notes	-	-	1,097
Other - received short-term loans and borrowings	14	13	13
Short-term total	**1,356**	**2,072**	**3,841**
Payables from finance leases	2,575	3,030	3,436
Issued bonds	31,886	32,689	32,291
Others - received long-term loans and borrowings	7	14	21
Long-term total	**34,468**	**35,733**	**35,748**
Total	**35,824**	**37,805**	**39,589**

The Parent Company had concluded loan contracts with EUROFIMA. In the first half of 2017 the last instalment of EUR 30 million was repaid.

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 3,517 million (31 December 2016: CZK 2,835 million). 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 prices. The total fair value of these commodity deals as at 30 June 2017 was CZK (9.5) million.

During the interim reporting period, ČD Cargo, a.s concluded 4 new currency forwards. The fair value of these instruments as at 30 June 2017 was CZK 22.34 million. In addition, the Company concluded 2 commodity swaps to hedge diesel prices with the fair value as at 30 June 2017 in the amount of CZK (3.46) million.

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 2017.

16 Provisions

Following actions occurred in the Group during the interim period:

- utilisation of the restructuring reserve in the amount of CZK 24 million,
- creation of the provision for employee benefits in the amount of CZK 7 million,
- reversal of the provision for loss-making transactions of CZK 19 million,
- increase in the provision for legal disputes by CZK 8 million (of which creation of CZK 100 million, reversal of CZK 92 million). The Group's provision for legal disputes is based on the expected outcome of all ongoing disputes and the related outflow of funds from the Group. The Group can not disclose more detailed information on the Group's provisions to avoid negative affection of its position.

17 Legal disputes

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 in the amount of CZK 250 million. Based on the remedies filed by the Company, the case ended up at an administrative proceeding. The case is currently being judged by the Supreme Administrative Court on the basis of a cassation complaint filed by the Anti-Monopoly Office, which challenged its decision to cancel Brno's Regional Court verdict.

Legal action by LEO Express for compensation of damage of CZK 434 million.

In July 2014, LEO Express filed a legal action for the for the compensation of damage amounting to approximately CZK 419 million which was allegedly caused to LEO Express by ČD through their pricing policy. The first-instance court rejected the lawsuit of LEO Express. 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. At the end of December 2016, LEO Express filed a new lawsuit against ČD claiming approximately CZK 434 million with accrued interest and charges for a similar reason. The second lawsuit largely overlaps with a section of the first claim, which was withdrawn by LEO Express after the failure at the first instance Municipal Court in Prague. Proceedings have not commenced yet. The court is currently evaluating LEO Express's request for an exemption from the court's fees.

Legal action of RegioJet for the 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 the consideration of 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. In April 2017, ČD filed an appeal to the Supreme Court against the accession of Student Agency to the proceedings.

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 seeks the payment of approx. CZK 717 million. 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 claim seeking a payment of the compensation in the amount of approximately CZK 717 million with accrued interest and charges that resulted in legal proceedings, which are ongoing.

Legal claims of Grandi Stazioni Česká republika, s.r.o. against SŽDC and ČD relating to the transfer of Prague Main Railway Station to SŽDC

Grandi Stazioni Česká republika, s.r.o. ("GS") filed three legal claims against both SŽDC and ČD. GS is seeking a compensation in the amount of CZK 777 million, increased by contractual penalty and due interest from SŽDC or ČD, depending on the court's decision as to who will be determined as the owner of Prague Main Railway Station (Praha hlavní nádraží) property. SŽDC and ČD agree that SŽDC is the owner of this property, hence ČD should not be a party within the dispute. ČD declares the same position during the legal proceedings. SŽDC commissioned the expert opinion to legitimate the claim raised by GS and on the basis of this appraisal SŽDC paid CZK 566 million to GS. The court proceedings are ongoing.

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. So far quantified corrections represent the risk of returning part of the subsidy in the estimated amount of approximately CZK 588 million. ČD disagreed with the mentioned above measures and appealed to the Ministry of Finance. The appeal proceedings are still ongoing. Therefore, the payment orders are not yet valid and ČD has not yet been obliged to pay.

Proceedings for alleged abuse of a dominant position on the Prague – Ostrava line

In January 2012, the Office for Protection of Competition initiated proceedings for allegedly abusing the dominant position of ČD on the Prague - Ostrava line in the form of inadequately low (predatory) prices in response to the entry of a new competitor railway transporter. In November 2016 in reference to this case the formal investigation was initiated by the European Commission. Anti-Monopoly Office has suspended investigation due to initiation of European Commission investigation. The matter has not been decided yet. ČD has filed a legal action to EU Court against execution of the local European Commission investigation in the seat of ČD.

The proceedings concerning the Italia Express train at the Office for the Protection of Competition

In the autumn of 2016, the Office for the Protection of Competition ("OPC") initiated administrative proceedings with ČD and ČD Cargo a.s. regarding a possible breach of the competition law and the Treaty on the Functioning of the European Union, to which ČD and ČD Cargo a.s. were supposed to allow. The breach of a law supposedly happened while providing freight and forwarding services with comprehensive freight trains (including freight transport and forwarding services in moving goods to the loading station on a full train and to the transfer of goods from the unloading station to the destination). According to the Office for Protection of Competition, this violation had occurred more than 10 years ago. Office for the Protection of Competition with its decision from 19 June 2017 stopped the administrative proceedings against the company ČD Cargo because only ČD a.s. is still a party to the administrative proceedings. The matter has not yet been decided.

Proceedings concerning the possible abuse of a dominant position on the routes Pardubice - Liberec and Pilsen - Most

In April 2016, administrative proceedings were initiated by the Office for the Protection of Competition („OPC"). Alleged violation of competition rules were made by ČD by publishing tenders in 2005 concerning the long-distance passenger rail transportation in the public service obligation on the lines Pardubice - Liberec and Pilsen - Most for the period from the 2006/2007 timetable. ČD submitted a quote that did not cover the cost of providing these services on the routes in question. The agreed commitment should have been fulfilled by ČD on the above mentioned routes until the end of the 2013/2014 timetable. On 1 February 2017, the OPC issued a so-called statement of objections. The statement of objections is not a decision, but has the nature of the information by which the OPC communicates its opinion on the act, the documents submitted and the amount of the fine (the OPC states that the resulting fine will range from 4.0-4.8% (max CZK 381 million) achieved in sales on the relevant market in 2013). After the statement of objections, the OPC generally issues a decision against which it is possible to appeal. However, it is also possible that, on the basis of the statements of the ČD and the facts and evidence mentioned therein, the OPC will not issue the decision.

Easements related to land under the main optical network of ČD - Telematika a.s.
SŽDC action with the arbitration court seeks payment of the contractual price for the use of land and facilities under the main optical network owned by ČD - Telematika a.s. (In the same case, ČD claims against ČD - Telematika. However, the extent of ČD's claim is considerably lower, although factually identical to that of SŽDC). The dispute is very complicated and neither the plaintiff nor the defendant can now quantify the exact amount of the claim. Based on an interim arbitration results from 17 November 2016, all parties negotiated on the possibility of out-of-court settlement of the dispute, when it was mutually agreed to draw up an expert opinion on the value of the unjust enrichment. Currently, the findings of the expert's report are reviewed by other independent experts invited by the complainant, and after verifying the amounts, an agreement between the parties is presumed.

18 Material events during the interim reporting period

From 1 April 2017, certain provisions of the Act on Railways Act No. 319/2016 entered into force. The most significant consequences arising from this Act include the change in the accounting and valuation of traction fuel, which the Group sells to other railway carriers.

19 Post-balance sheet events

No significant events have occurred subsequent to the end of the interim period.

20 Approval of the consolidated financial statements

These interim consolidated financial statements were approved on 29 August 2017.

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