Interim Report of the České dráhy Group

2018

České dráhy
National carrier

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Key Indicators
of the ČD Group

Key Indicators IFRS Consolidated Indicators (CZK million)	Jan-Jun 2018	Jan-Jun 2017	DIFFERENCE
ČD Group			
Revenue from principal operations	17,349	16,731	**618**
EBITDA (from continued operations)	4,282	3,910	**372**
EBIT (from continued operations)	1,233	900	**333**
Profit for the period	262	537	**(275)**
Total assets	87,192	84,992	**2,200**
CAPEX	2,463	2,510	**(47)**
Depreciation and amortisation	3,049	3,010	**39**
Leverage (%) – liabilities/assets	54.8	55.6	**(0.8)**
Current liquidity (%) - short-term assets/short-term liabilities	97	132	**(35)**
ROCE (%) - EBIT/(total assets - short-term liabilities)	1.7	1.2	**0.5**
Average FTE	23,366	23,461	**(95)**
Passenger transport (ČD, a.s.)			
Number of passengers (million)	89.4	86.9	**2.5**
Traffic performance (million person-kilometres)	3,928	3,702	**226**
Transport performance (million train-kilometres)	62.2	61.4	**0.8**
Average traffic distance (km)	43.9	42.6	**1.3**
Occupancy ratio (%)	28.5	27.4	**1.1**
Freight transport (ČD Cargo Group)			
Traffic volume (million tons)	33.5	32.2	**1.3**
Traffic performance (million tariff ton-kilometres)	6,308	5,655	**653**
Transport performance (billion gross ton-kilometres)	12.6	11.1	**1.5**

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Foreword of the Chairman of the Board of Directors

Dear Ladies and Gentlemen,

In the successful first half of 2018, České dráhy Group achieved profit after tax of CZK 262 million. Profit before interest and tax (EBIT) increased year-over-year by more than CZK 300 million to reach CZK 1.2 billion. It reflects the growth in both primary operational segments, i.e. passenger and freight transportation. The Company also succeeded at maintaining international investment rating of Moody's agency at the Baa2 level with stable outlook.

The long-term trend of railway popularity was reflected in the year-over-year increase in the number of passengers by 2.5 million. As in previous years, the most successful were the long-distance transportation as well as the suburban transportation which was reflected in the revenue from sale of tickets and its 2.4% increase year-over-year. This was mainly due to domestic passenger transportation and higher revenue from participation of ČD trains in integrated transportation systems. The overall loss in passenger transportation was caused by the foreign exchange losses resulting from deppreciation of Czech crown against Euro and increase in purchased services, material and energy consumption.

Freight transportation reported a profit for the first six months of the year. Revenues increased year-over-year in this segment due to increased volumes of freight transports by around 1.3 million tonnes. This includes lignite, black coal, calamity timber, automotive or construction components. New freight transports have been launched in Austria under ČD Cargo's own licence and we have observed a growing trend of ČD Cargo brand's market share in Poland. International freight transportation to Hungary and other countries via Slovakia have been also developing well.

In the first half of 2018, the ČD Group companies continued with renewing its fleet. As for passenger transportation, a purchase of passenger cars from ÖBB, modernisation of passenger cars for Ex6 line, redesign of Pendolino interiors or modernisation of type 809 and 810 railcars took place. As for freight transportation, it relates mainly to purchase of Vectron locomotives and flat wagons for container transport.

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

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Responsibility for the Interim Report of the ČD Group

Declaration

The persons responsible for preparing the Interim Report of the issuer declare that, to the best of their knowledge, the consolidated interim report gives a true and fair view of the financial position, business activity and performance of the issuer and its group for the six months ended and the outlook for future development of the financial position, business activity and performance of the issuer and its group.

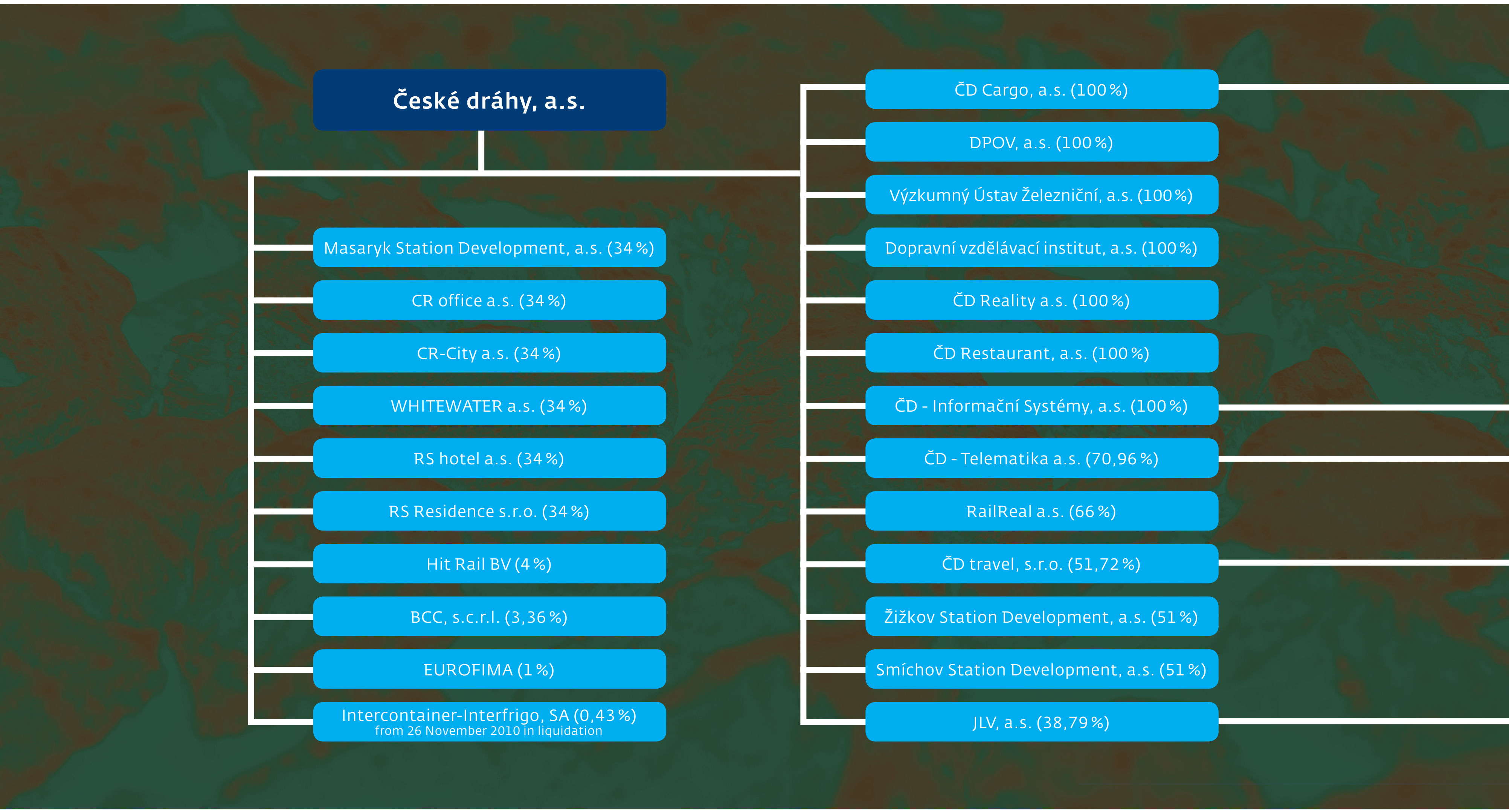
Prague, 28 August 2018

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

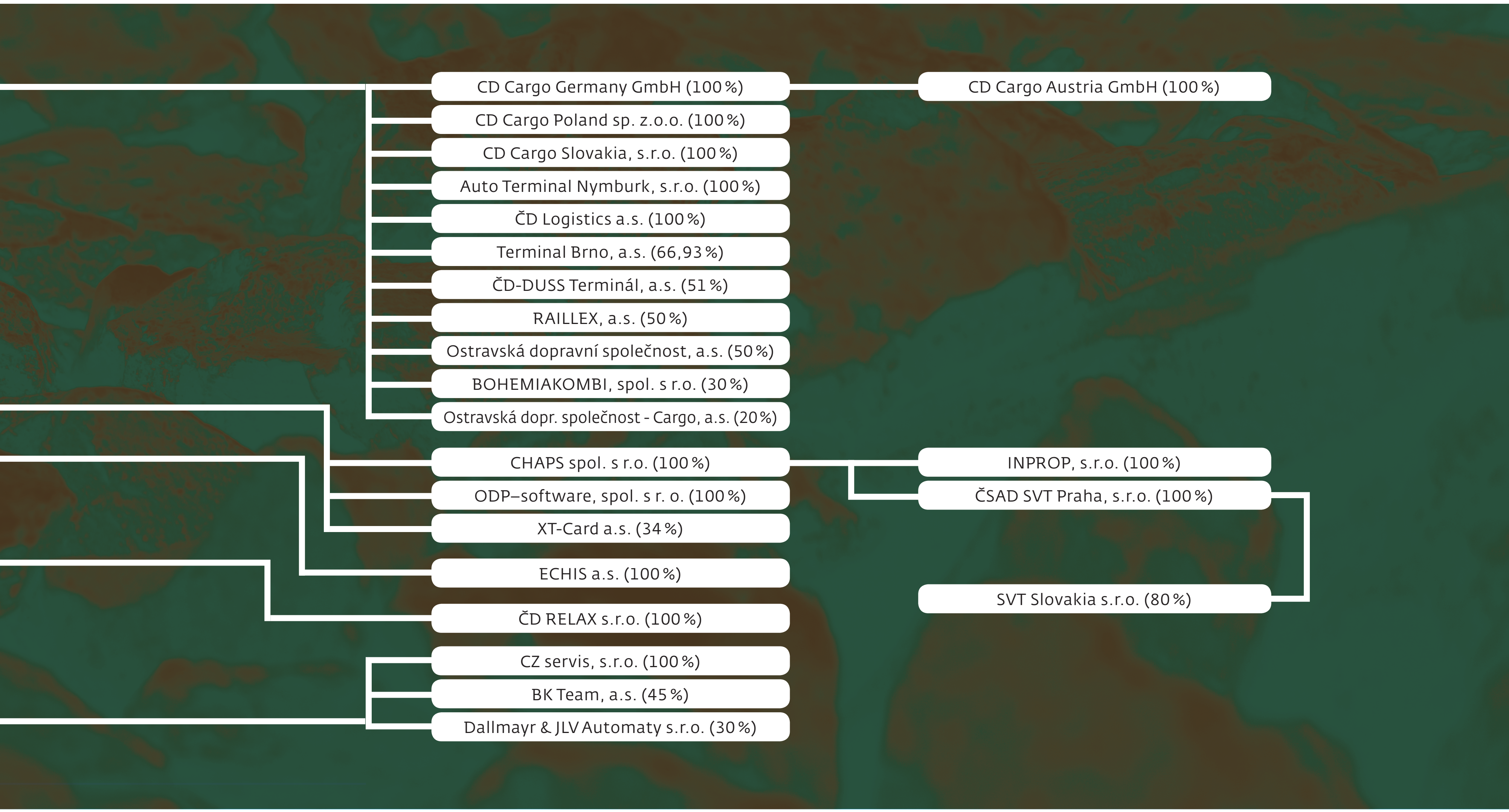
Ing. Martin Bělčík
Member of the Board
of Directors responsible
for the Economics
and IT department
České dráhy, a.s.

This report was not audited.

Overview of the Investment Shares
Held by the ČD Group



as at 30 June 2018



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Financial Results of the ČD Group for the Period of six Months Ended 30 June 2018

Economical Results

Profit/Loss by Segment

[CZK mil.]		Passenger transportation	Freight transportation	Property management	Other	Elimination	Total
Revenue from principal operations	Jan – Jun 2018	11,212	6,168	-	-	(31)	17,349
	Jan – Jun 2017	10,923	5,837	-	-	(29)	16,731
Purchased consumables and services	Jan – Jun 2018	(4,643)	(3,073)	(85)	(1,704)	1,241	(8,264)
	Jan – Jun 2017	(4,608)	(2,921)	(72)	(1,249)	823	(8,027)
Personal costs	Jan – Jun 2018	(3,971)	(2,117)	(70)	(855)	150	(6,863)
	Jan – Jun 2017	(3,722)	(2,004)	(66)	(724)	74	(6,442)
EBITDA from continuing operations	Jan – Jun 2018	2,608	1,140	354	697	(517)	4,282
	Jan – Jun 2017	2,465	1,145	72	375	(147)	3,910
Depreciation/amortization	Jan – Jun 2018	(2,273)	(581)	(40)	(196)	41	(3,049)
	Jan – Jun 2017	(2,266)	(583)	(49)	(158)	46	(3,010)
EBIT from continuing operations	Jan – Jun 2018	335	559	314	501	(476)	1,233
	Jan – Jun 2017	199	562	23	217	(101)	900
Profit (loss) for the period	Jan – Jun 2018	(388)	350	322	466	(488)	262
	Jan – Jun 2017	29	384	28	591	(495)	537

Passenger transportation

In the period January - June 2018, the number of passengers transported equalled 89.4 million and the **traffic performance** reached 3,928 million person-kilometres (year-over-year increase by 226 million person-kilometres).

In the period January - June 2018, **transport performance** measured in gross ton-kilometres increased (year-over-year increase by 147 million gross ton-kilometres) as well as train kilometres (year-over year increase by 0.8 million train kilometres).

Revenues from principal operations in passenger transportation segment in the period January – June 2018 were positively influenced by increased revenues from passenger transportation as compared to the same period of 2017 (CZK 81.3 million, i.e. 2.4%) and higher payments from public service orderers (CZK 217 million).

Main increase in revenues from **domestic transportation** in the period January – June 2018 (CZK 166.2 million, i.e. 6.5%) as compared to the same period of 2017 was caused mainly due to higher ČD tariff prices introduced in December 2017, positive development on key connections (except for Prague-Brno where revenues decreased as a result of growing competition) and significant increase in revenues from ČD share in integrated transport systems (IDS), mainly due to expansion of individual systems, especially PID (Prague Integrated Transport).

In the period January – June 2018, **international transportation** reported a decrease in revenues as compared to 2017 (less by CZK 84.9 million, i.e. a decrease by 10.4%). Such decrease has been significantly affected by stronger average exchange rate of CZK to EUR in the first half of 2018 as compared to the first half of 2017 and therefore lower revenues in crowns (with the same number of passengers). Another factors that influence the amount of revenues is discontinued connection of Metropol train from Budapest to Germany (with present decrease of train operation costs) and presence of a new operator on the Prague-Vienna connection.

The increased **personnel costs** relate to the conditions of the collective agreement for 2018.

The segment's **net result for the period** was affected by foreign exchange losses on not hedged part of Euro bonds as at 30 June 2018.

In the area of **capital expenditures** (Capex) in the first half of 2018, the most significant items in the segment include the purchase of passenger cars from ÖBB, modernisation of passenger cars for Ex6 line, redesign of 680 type Pendolino interiors or modernisation of type 809 and 810 railcar.

In the second half of 2018, we are expecting to maintain the current positive development in the area of passenger transportation, which will be significantly supported by the expected increase in mobility related to the introduction of new pricing regulations for selected passenger categories (6-18 years, students aged 18-26 and passengers over 65) as of 1 September 2018.

Freight transportation

Freight transportation segment noted a positive development of revenues from primary activities. The volumes of transported goods increased on the domestic market where ČD Cargo was actively involved in the bark beetle damage disposal. Transport of lignite to power plants within innofreight system and conventional wagons increased as well as international iron and steel freight. We have also noted a growth among other commodities. New freight transports have been launched in Austria under ČD Cargo's own licence and we have observed a growing trend of ČD Cargo brand's market share in Poland. International freight transportation to Hungary and other countries via Slovakia have been also developing well.

During the first half of 2018, ČD Cargo transported the total of 33.5 million tonnes of goods, which is of 1.3 million tonnes more than in the comparative period of 2017. Its active sales policy and expansion of ČD Cargo brand abroad contributed to the year-over-year increase in **revenues from primary operations** by CZK 331 million or around 5.7%.

The freight transportation segment achieved **profit** for the period January – June 2018 of CZK 350 million.

Purchased consumables and services increased year-over-year as a result of higher performance, prices of electricity and fuel which was partially compensated by the change of the railway infrastructure fee in the Czech Republic. The freight operator also invested more in the renewal, modernization and maintenance of the locomotive fleet and freight wagons.

The most important **investments** in freight transportation include the purchase of another VECTRON interoperable locomotives and freight wagons for innofreight system and combined transport. A contract for the supply of new tank wagons was also concluded. In the second half of 2018, we expect a completion of the already initiated purchase of other interoperable locomotives as well as modernization and purchase of locomotives for shunting and light track service, high-sided wagons and other flat wagons and equipment of traction vehicles with ETCS.

The year-over-year increase of **personnel costs** was due to both the real and nominal wage growth in order to adhere with the terms of the collective agreement for 2018.

In the second half of this year, we are expecting the positive trend of year-on-year growth in performance to continue, as a number of new shipments have been agreed on. At the same time, the freight operator will continue to modernize the rail vehicles to increase its competitiveness on the European transport market and to increase its operating capacity.

Property management

In the property management segment, higher revenue from **sale of redundant property** were reaslised, i.e. sale of land in the area of railway stations Praha hlavní nádraží and Praha Masarykovo nádraží.

Higher revenues accompanied higher costs in the carrying value of assets sold and repairs. Overall, the property management segment achieved better results than in the comparative period of the previous year.

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Interim Consolidated Financial Statements

for the Period of six Months Ended 30 June 2018

Interim statement of profit or loss for the period ended 30 June 2018

CZK million	Period ended 30 June 2018 (unaudited)	Period ended 30 June 2017 (unaudited)
CONTINUING OPERATIONS		
Revenue from principal operations	17,349	16,731
Other operating income	2,453	2,040
Services, material and energy consumption	(8,264)	(8,027)
Employee benefit costs	(6,863)	(6,442)
Depreciation and amortisation	(3,049)	(3,010)
Other operating expenses	(393)	(392)
Profit on operating activities before tax	**1,233**	**900**
Financial expenses	(922)	(706)
Financial income	114	478
Share of income of joint ventures and associates	6	13
Profit before tax	**431**	**685**
Income tax expense	(169)	(148)
Profit for the period from continuing operations	**262**	**537**
DISCONTINUED OPERATIONS		
Profit/(Loss) from discontinued operations	**-**	**-**
Profit for the period	**262**	**537**
Attributable to equity holders of the Parent Company	254	528
Attributable to non-controlling interests	8	9

Interim statement of other comprehensive income for the period ended 30 June 2018

CZK million	Period ended 30 June 2018 (unaudited)	Period ended 30 June 2017 (unaudited)
Profit for the period	262	537
Actuarial gains/losses on liabilities related to employee benefits	-	(6)
Other comprehensive income for the period (items that are not subsequently reclassified to profit or loss)	**-**	**(6)**
Exchange differences of foreign units translation	-	10
Cash-flow hedges	136	350
Related income tax	16	(6)
Other comprehensive income for the period (items that may be reclassified to profit or loss), net of tax	**152**	**354**
Other comprehensive income for the period after tax	**152**	**348**
Total comprehensive income for the period	**414**	**885**
Attributable to equity holders of the Parent Company	406	876
Attributable to non-controlling interests	8	9

Interim statement of financial position (balance sheet) as at 30 June 2018

CZK million	**30 June 2018** (unaudited)	**31 December 2017** (audited), (adjusted) *)
Property, plant and equipment	69,496	69,720
Investment property	620	666
Goodwill	141	141
Intangible assets	847	917
Investments in joint ventures and associates	193	194
Deferred tax asset	28	26
Trade receivables	2	-
Other financial assets	1,261	1,038
Other assets	5	8
Total non-current assets	**72,593**	**72,710**
Inventories	1,594	1,538
Trade receivables	3,452	3,244
Tax receivables	27	17
Other financial assets	282	226
Other assets	1,556	899
Cash and cash equivalents	7,688	7,801
Total current assets	**14,599**	**13,725**
TOTAL ASSETS	**87,192**	**86,435**
Share capital	20,000	20,000
Reserve and other funds	16,903	16,862
Cash flow hedges reserve	490	338
Retained earnings	1,386	1,188
Equity attributable to equity holders of the Parent Company	**38,779**	**38,388**
Non-controlling interests	608	664
Total equity	39,387	**39,052**
Loans and borrowings	29,827	29,672
Deferred tax liability	1,671	1,581
Provisions	642	660
Other financial liabilities	245	534
Other liabilities	412	395
Total non-current liabilities	**32,797**	**32,842**
Trade payables	5,070	4,835
Loans and borrowings	5,718	5,332
Tax payables	29	27
Provisions	1,082	1,082
Other financial liabilities	340	433
Other liabilities	2,769	2,832
Total current liabilities	**15,008**	**14,541**
TOTAL LIABILITIES	**87,192**	**86,435**

*) After adjusting the data for the period ended 31 December 2017, see Note 2.1.

Interim statement of changes in equity for the period ended 30 June 2018

	Share capital CZK million	**Reserve and other funds** CZK million	**Cash flow hedges reserve** CZK million	**Retained earnings** CZK million	**Equity attributable to equity holders of the parent Company** CZK million	**Non-controlling interests** CZK million	**Total equity** CZK million
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 of comprehensive income for the period	**-**	**9**	**344**	**523**	**876**	**9**	**885**
Transactions with owners							
Allocation to the reserve fund	-	53	-	(53)	-	-	-
Total of 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**
Balance as at 1 January 2018 (audited) (adjusted) *)	**20,000**	**16,862**	**338**	**1,188**	**38,388**	**664**	**39,052**
Comprehensive income							
Profit for the period	-	-	-	254	254	8	262
Other comprehensive income for the period, net of tax	-	-	152	-	152	-	152
Total of comprehensive income for the period	**-**	**-**	**152**	**254**	**406**	**8**	**414**
Transactions with owners							
Allocation to the reserve fund	-	61	-	(61)	-	-	-
Dividends paid	-	-	-	-	-	(12)	(12)
Impacts of the change in the consolidation group **)	-	(20)	-	5	(15)	(52)	(67)
Total of transactions with owners for the period	**-**	**41**	**-**	**(56)**	**(15)**	**(64)**	**(79)**
Balance as at 30 June 2018 (unaudited)	**20,000**	**16,903**	**490**	**1,386**	**38,779**	**608**	**39,387**

*) After adjusting the data for the period ended 1 June 2018, see Note 2.1.
**) The item „Impact of the change in the consolidation group“ includes the influence of the share increase in ČD - Telematika a.s. and ČD Logistics, a.s., see note 1.

Interim cash-flow statement for the period ended 30 June 2018

CZK million	Period ended 30 June 2018 (unaudited)	Period ended 30 June 2017 (unaudited)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before tax for the period	**431**	**685**
Dividend income	-	-
Financial expenses - interests	557	590
Profit from the sale and disposal of non-current assets	(363)	(117)
Depreciation and amortisation of non-current assets	3,049	3,010
Reversal of impairment of property, plant and equipment, investment property	(128)	(12)
Impairment (Reversal of impairment) of trade receivables	(26)	35
Change in provisions	(18)	(46)
Foreign exchange rate gains (losses)	232	(395)
Other	(7)	70
Cash flows from operating activities before changes in working capital	**3,727**	**3,820**
Decrease (increase) in trade receivables	(194)	195
Decrease (increase) in inventories	(69)	(100)
Decrease (increase) in other assets	(780)	(608)
Increase (decrease) in trade payables	136	(277)
Increase (decrease) in other liabilities	(112)	(100)
Total changes in working capital	**(1,019)**	**(890)**
Cash flows from operating activities	**2,708**	**2,930**
Interest paid	(431)	(442)
Income tax paid	(85)	(71)
Net cash flows from operating activities	**2,192**	**2,417**

CASH FLOWS FROM INVESTMENT ACTIVITIES		
Payments for property, plant and equipment	(2,388)	(2,425)
Proceeds from disposal of property, plant and equipment	491	135
Payments for investment property	(2)	-
Payments for intangible assets	(73)	(85)
Received interest	9	12
Net cash flows from investment activities	**(1,963)**	**(2,363)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans and borrowings	225	-
Repayments of loans and borrowings	(38)	(818)
Payment of financial leasing instalments	(467)	(474)
Impacts of changes in equity *)	(62)	-
Net cash flows from financing activities	**(342)**	**(1,292)**
Net increase in cash and cash equivalents	**(113)**	**(1,238)**
Cash and cash equivalents at the beginning of the reporting period	7,801	7,654
Cash and cash equivalents at the end of the reporting period	**7,688**	**6,416**

*) The item „Impacts of changes in equity" includes the influence of the share increase in ČD - Telematika a.s. and ČD Logistics, a.s., see note 1.2

Notes to the Interim Consolidated Financial Statements for 6 Months Ended 30 June 2018

1. General Information

1.1. General Information

The Parent Company České dráhy, a.s. (further as "the Company" or "ČD") was incorporated on 31 March 2002. The sole shareholder of the Company is the Czech Republic. The Parent Company's share capital is 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 2018, the Parent company increased its share in ČD - Telematika a. s. by 1.78% to a total of 70.96%. The acquisition cost was CZK 30 million.

On 28 February 2018, the Parent company increased its share in DPOV, a.s. by CZK 28 million, while the value of its share did not change.

On 13 February 2018 ČD Cargo, a.s., the sole shareholder of CD Cargo Slovakia, s.r.o., decided to increase the registered capital of the subsidiary by CZK 69 million (EUR 2.7 million). In June 2018, ČD Cargo a.s. purchased a 22% share in its subsidiary ČD Logistics, a.s. from AWT Čechofracht, a.s. for CZK 32 million and became the sole shareholder.

2. Statement of compliance and significant accounting policies

The interim consolidated financial statements for the six months ended 30 June 2018 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 2017.

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

These interim consolidated financial statements were prepared using the same accounting policies that were applied in the Consolidated Financial Statements of the Group for the year ended 31 December 2017, except for the adoption of new International Accounting Standards, see 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

On 1 January 2018, the Group adopted new International Financial Reporting Standards - IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers. At that date, the Group applied other amendments and interpretations that did not impact on these interim consolidated financial statements.

Application of IFRS 9

Group applied the requirement of the IFRS 9 standard using modified retrospective method, except for hedge accounting, effective from 1 January 2018.

Group has changed the method of accounting for options. The time value of the options' fair value will be presented in Other comprehensive income instead of Financial expenses or Financial income. Impact of the change was assesed as not materiál, therefore no adjustment of the comparative period was made. During 2018 the changes in the hedging documentation so as the changes in the methodology of testing effectivity of derivatives took place. As the new requirements for hedge accounting better match the risk management of the Group with more quality hedging instruments and hedged items, the assesment of the current cash flow hedge relationships of the Group indicates that these relationships will continue to be qualified as cash flow hedges under IFRS 9.

Group assesed the balance of receivables and created new allowances for receivables not due according to expected loss. Period ended 31 December 2017 was adjusted in Statement of Financial position (balance sheet):

- item Trade receivables (short term) decreased by CZK 26 million,
- item Retained earnings decreased by CZK 26 million.

According to IFRS 9, Group will measure equity financial instruments at fair value. This change mainly affects the equity interest of the Parent company in the Eurofima company. Period ended 31 December 2017 was adjusted in the Statement of Financial position (balance sheet):

- item Other financial assets (long term) increased by CZK 93 million,
- Item Retained earnings increased by CZK 93 million.

Application of IFRS 15

Group applied the requirement of the IFRS 15 standard using modified retrospective method, effective from 1 January 2018.

The main principle of IFRS 15 standard is that the entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The management of the Group assesed that those revenues will be recognised in moment when control over goods and services will be transfered to customers. This approach is similar to revenues recognition under IAS 18.

According to IFRS 15, Group will report contractual penalties related to contracts with customers as decrease in payments. As such, contractual penalties will be presented in Revenues from principal operations except instead of Other operating expenses. Impact of this transaction was assesed as not material therefore no adjustment of the comparative period was made.

The adjustments can be summarized as follows:

31 December 2017 (CZK million)	**Presented previously**	**Adjustment (Restatement)**	**Adjusted**
Other long-term financial assets	945	93 [1)]	1,038
Short-term trade receivables	3,270	(26) [2)]	3,244
Retained earnings	1,121	67 [3)]	1,188

1) The revaluation effect of the equity interest in Eurofima
2) The effect of creating allowances for receivables
3) Effect of both above adjustments

The Group expects extended disclosures for IFRS 9 and IFRS 15 in consolidated Financial Statements for the year ended 31 December 2018.

3. Seasonal character of activities

In the first half of 2018, compared to same period in 2017, passenger transport volume of the Parent Company grew similarly to revenue from passenger transport. The increase in transport performance is mainly influenced by improving the quality of services and the fleet itself, by tariff measures and by general growth in demand for transport. 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. In the second half of 2018, we expect to maintain the positive trend, which will be significantly supported by the expected increase of mobility in connection with the effectiveness of the new price regulation for selected passenger categories (6-18 years, students aged 18-26 and passengers over 65) as of 1 September 2018.

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 Group 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 orderers in the public service obligation (Regions and the Ministry of Transport), the state organization SŽDC and ČEZ group.

(CZK million)

Revenues	**Counterparty**	**30 June 2018**	**30 June 2017**
Income from rental property	SŽDC	10	12
Payment for rail replacement bus service	SŽDC	114	122
Payments from ordering the services– payment from the state budget	State - Ministry of Transport	2,404	2,250
Payments from ordering the services– payment from the regional budgets	Regions	4,784	4,719
Revenues from Telecommunication Services	SŽDC	311	297
Subsidized trips	SŽDC	48	42
Revenues from freight transportation	ČEZ	98	178

(CZK million)

Expenses	Counterparty	30 June 2018	30 June 2017
Use of railway route and allocated capacity of the railway - passenger transport	SŽDC	920	960
Use of railway route and allocated capacity of the railway - freight transport	SŽDC	490	622
Consumption of electric traction energy	SŽDC	323	316
Consumption of electric traction energy	ČEZ	309	277
Real estate rental	SŽDC	25	24

(CZK million)

Receivables	Counterparty	30 June 2018	31 Dec 2017
Payment for replacement bus service	SŽDC	105	32
Public service obligation	State - Ministry of Transport	9	7
Public service obligation	Regions	887	112
Telecommunication services	SŽDC	275	350
Revenues from freight transportation	ČEZ	15	30

(CZK million)

Liabilities	Counterparty	30 June 2018	31 Dec 2017
Use of railway route and allocated capacity of the railway - passenger transport	SŽDC	367	183
Use of railway route and allocated capacity of the railway - freight transport	SŽDC	217	240
Telecommunication services	SŽDC	20	72
Consumption of electric traction energy- passenger transport	SŽDC	128	71
Consumption of electric traction energy- passenger transport	ČEZ	201	69

5. Income taxation

The income tax reported in the statement of profit or loss as at 30 June 2018 of CZK (169) million includes the current tax payable of CZK (65) million and deferred tax expense of CZK (103) million and adjustments settled in the current year in respect of previous years tax of CZK (1) 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

Period ended 30 June 2018

(CZK million)	Passenger transportation	Freight transportation	Property management	Total of segments	Other	Elimination *)	Total
Revenue from principal operations							
Revenue from passenger transportation	4,026	-	-	4,026	-	(6)	4,020
Revenues from orderers	7,186	-	-	7,186	-	-	7,186
Other	-	6,168	-	6,168	-	(25)	6,143
	11,212	**6,168**	**-**	**17,380**	**-**	**(31)**	**17,349**
Purchased consumables and services							
Traction costs	(1,220)	(677)	-	(1,897)	-	6	(1,891)
Payments for use of the railway route	(897)	(550)	-	(1,447)	-	-	(1,447)
Other purchased consumables and services	(2,526)	(1,846)	(85)	(4,457)	(1,704)	1,235	(4,926)
	(4,643)	**(3,073)**	**(85)**	**(7,801)**	**(1,704)**	**1,241**	**(8,264)**
Personnel costs							
Payroll costs	(2,869)	(1,508)	(51)	(4,428)	(620)	102	(4,946)
Social security and health insurance	(964)	(502)	(17)	(1,483)	(207)	33	(1,657)
Other social costs	(138)	(107)	(2)	(247)	(28)	15	(260)
	(3,971)	**(2,117)**	**(70)**	**(6,158)**	**(855)**	**150**	**(6,863)**
Impairment (**)	192	(13)	-	179	-	-	179
Other operating income and expenses	252	175	523	950	2,808	(1,877)	1,881
Intra Group income and expenses	(11)	-	13	2	(2)	-	-
Operating overhead costs	(423)	-	(27)	(450)	450	-	-
Depreciation and amortisation	(2,273)	(581)	(40)	(2,894)	(196)	41	(3,049)
Interest income	17	-	9	26	-	(14)	12
Interest expenses	(485)	(72)	-	(557)	(14)	15	(556)
Tax expense	-	(130)	-	(130)	(40)	1	(169)
Other income and expenses	(243)	(7)	-	(250)	6	(14)	(258)
Financial and other overhead costs	(12)	-	(1)	(13)	13	-	-
Profit (Loss) for the period from continuing operations	**(388)**	**350**	**322**	**284**	**466**	**(488)**	**262**
Profit (Loss) for the period from discontinued operations	-	-	-	-	-	-	-
Profit (Loss) for the period	**(388)**	**350**	**322**	**284**	**466**	**(488)**	**262**

*) 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.

Period ended 30 June 2017

(CZK million)	Passenger transportation	Freight transportation	Property management	Total of segments	Other	Elimination *)	Total
Revenue from principal operations							
Revenue from passenger transportation	3,954	-	-	3,954	-	(8)	3,946
Revenues from orderers	6,969	-	-	6,969	-	-	6,969
Other	-	5,837	-	5,837	-	(21)	5,816
	10,923	**5,837**	**-**	**16,760**	**-**	**(29)**	**16,731**
Purchased consumables and services							
Traction costs	(1,176)	(597)	-	(1,773)	-	11	(1,762)
Payments for use of the railway route	(933)	(610)	-	(1,543)	-	-	(1,543)
Other purchased consumables and services	(2,499)	(1,714)	(72)	(4,285)	(1,249)	812	(4,722)
	(4,608)	**(2,921)**	**(72)**	**(7,601)**	**(1,249)**	**823**	**(8,027)**
Personnel 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 overhead costs	(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 expense	(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 overhead costs	(28)	-	(2)	(30)	30	-	-
Profit (Loss) for the period from continuing operations	**29**	**384**	**28**	**441**	**591**	**(495)**	**537**
Profit (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.

7. Property, plant and equipment

In the period from 1 January to 30 June 2018 the Group acquired property, plant and equipment in the amount of CZK 2,722 million (as at 31 December 2017: CZK 4,546 million).

The Company's largest additions represent the purchase of ÖBB's passenger cars for CZK 354 million, modernisation of passenger cars for CZK 142 million and modernisation of 680 series trains for CZK 122 million. Other significant additions comprise purchase of Sggrrs series freight cars, revision and modernisation of rail vehicles at ČD Cargo, a.s.

Property, plant and equipment with the net book value of CZK 114 million were disposed by the Group in the period from 1 January to 30 June 2018 (as at 31 December 2017: CZK 342 million).

The largest impairment loss relates to tilting trains series 680 (Pendolino) and locomotive series 380. As at 30 June 2018, the impairment charge for the 680 series amounted up to CZK 485 million (as at 31 December 2017: CZK 573 million) and the 380 series amounted up to CZK 578 million (as at 31 December 2017: CZK 590 million).

The most significant advance payments provided by the Parent company are advances paid for the upgrading of ÖBB's passenger cars.

8. Intangible assets

In the period from 1 January to 30 June 2018, the Group acquired intangible assets in the amount of CZK 74 million (as at 31 December 2017: CZK 370 million).

The acquisition of intangible assets by the Parent company consists of IS OPT (Information system of transport sales clearing), KASO (Complex application of rounds), software for UNIPOK (Cash register system for ČD personal transport), security system and inventory management.

9. Inventories

The write-off of inventories to their net realisable value as at 30 June 2018 amounts to CZK 84 million (as at 31 December 2017: CZK 89 million).

10. Cash and cash equivalents

(CZK million)	**30 Jun 2018**	**31 Dec 2017**
Cash in hand and cash in transit	86	90
Cash at bank	6,402	7,707
Depository promissory notes	1,200	4
Total	**7,688**	**7,801**

11. Loans and borrowings

(CZK million)	**30 Jun 2018**	**31 Dec 2017**
Short-term bank loans	224	-
Payables from finance leases	981	907
Overdraft account	21	-
Issued bonds	4,479	4,355
Other received short-term loans and borrowings	13	70
Short-term total	**5,718**	**5,332**
Payables from finance leases	2,050	2,387
Issued bonds	27,745	27,254
Others received long-term loans and borrowings	32	31
Long-term total	**29,827**	**29,672**
Total	**35,545**	**35,004**

12. Contractual obligations

As of the interim consolidated balance sheet date, the Group concluded contracts for the purchase of land, property, plant and equipment in the amount of CZK 9,626 million (31 December 2017: CZK 4,008 million). A significant portion of the obligations represents investments in railway vehicles.

13. Contingent liabilities and contingent assets

In the period from 1 January till 30 June 2018, bank guarantee was issued for the correct implementation of the Contract on public passenger transport services in regional rail passenger transportation amounting to CZK 50 million with the South Moravian Region as beneficiary.

14. Sources of financing

In May 2018, the Parent company's limits were increased for promissory notes. As at 30 June 2018, the new total volume of the underwriting obligation is CZK 8,900 million. Promissory notes' limits were increased due to the rating agency's requirement to have a sufficient amount of commissions to cover potential liabilities (mainly debt repayments).

15. Derivative financial instruments

During the interim reporting period, ČD Cargo, a.s concluded 5 new currency forwards. The fair value of these instruments as at 30 June 2018 was CZK 42 million.

16. Dividends

ČD travel, s.r.o. decided to pay out dividends from ordinary shares outside the Group in the amount of CZK 126 thousand in the interim reporting period. The dividends were paid out by the end of June 2018.

ČD - Telematika a.s. decided to pay out dividends from ordinary shares outside the Group in the amount of CZK 12,283 thousand in the interim reporting period. The dividends were not paid during the interim period.

17. Provisions

(CZK million)	**Balance as at 31 Dec 2017**	**Creation**	**Use**	**Release of unused parts**	**Balance as at 30 June 2018**
Provisions for discounts and refunds	24	27	11	-	40
Provision for legal disputes	646	31	-	1	676
Provision for employee benefits	413	79	82	-	410
Provision for restructuring	49	-	20	-	29
Provision for loss-making transactions	480	-	32	-	448
Other provision	130	18	22	5	121
Total provisions	**1,742**	**155**	**167**	**6**	**1,724**
Long-term	660				642
Short-term	1,082				1,082

The Group recognizes a provision for legal disputes according to the anticipated result of all ongoing legal disputes and the relating cash outflows from the Group. The detailed information on provisions created for other legal disputes cannot be disclosed by the Group as it might negatively impact its position.

18. Legal disputes

Railway freight transportation market
Office for the Protection of Competition (OPC) imposed a fine on ČD, a.s. for abusing its position on the market in the area of freight transportation of significant volumes of natural resources and raw materials of approximately CZK 250 million. Based on ČD defence the case was passed to the Administrative Court. The Supreme Administrative Court dismissed the OPC's appeal in December 2017. The case is finally resolved at the level of the administrative courts in ČD, a.s. favour and returned to the OPC, back to the first instance. In June 2018, the ÚOHS released a new first-instance decision substantially reducing the extent of the sanctioned conduct of ČD and imposed a substantially lower fine of about CZK 15.6 million. The ČD disagreed with the decision and filed a complaint in July 2018 against it, which will be discussed by the Chairman of the ÚOHS.

Legal action by LEO Express for compensation of damage
In July 2014, LEO Express filed a legal action 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 partially withdrawed the legal action, against which ČD applied the legal remedy, but the court accepted such partial withdrawal, while Leo Express appealed against the decision of Court of first instance of dismissing the application to the extent of which there was no withdrawal. At the end of December 2016 LEO Express filed a new legal action against ČD for approximate amount of CZK 434 million with appurtenance and for similar reason. The second legal action is mostly overlapped with part of legal action which was withdrawed by LEO Express after failure in first instance in Municipal Court in Prague. In March 2018, the High Court in Prague canceled the decision rejecting the first LEO Express claim for damages and returned the case to the Municipal Court in Prague for further proceedings. Both above-mentioned proceedings (LEO Express claims that, after partial withdrawal, payment of approximately CZK 34 million and the second action for payment of approximately CZK 434 million), are now taking place before the Municipal Court in Prague as a court of first instance.

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. The Supreme Court appealed against ČD. The proceeding is ongoing at the a court of first instance.

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 approximately 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. Legal proceedings are still pending at first instance.

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 (Fantova building and check-in halls). 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. In the matter of determining the ownership of Fantova's building, GS's action was dismissed, GS's application lodged an appeal. Ownership of the passenger terminal has not yet been decided. 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.

Legal claims of Grandi Stazioni Česká republika, s.r.o. against SŽDC and ČD for damages for pre-contractual liability
In August 2017, Grandi Stazioni Czech Republic, s.r.o. (GS) filed the lawsuit to the District Court in Prague 1, in which seeks the payment of CZK 1,256 million from Railway Infrastructure Administration (SŽDC) and ČD for the payment of the compensation of pre-contractual liability. The alleged damage was caused by failure to apply the Amendment No. 5 to the lease agreement regarding the lease and revitalization of Prague - Main Railway Station (Praha hlavní nádraží).

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. Following the Audit Body audits, the individual regional councils issued payment bills for a total of approximately CZK 549 million. ČD disagrees with the above-mentioned decision and appealed to the Ministry of Finance. In June 2018, the Ministry of Finance in one case decided that a bill of CZK 272 million was reduced to CZK 68 million. ČD subsequently filed an administrative action against that decision, which was granted with suspensive effect. The remainder of the appeal proceedings ahead of the Ministry of Finance are still ongoing, and the payment orders are not valid yet. ČD does not have the obligation to pay bills in any case yet.

Proceedings for alleged abuse of a dominant position on the Prague – Ostrava line
In January 2012, the OPC initiated proceedings against ČD, a.s. regarding the alleged abuse of ČD, a.s.'s dominant position on the Prague – Ostrava line in the form of inadequately low (predatory) prices in response to an entry of a new competitor railway transporter. In November 2016 in reference to this case the formal investigation was initiated by the European Commission. The OPC 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 EU Court partially upheld the action and partially rejected it.

The proceedings concerning the Italia Express train at the Office for the Protection of Competition
In Autumn 2016, the Office for the Protection of Competition initiated proceedings with ČD and ČD Cargo, a.s. in the matter of a possible violation of the Law on the Protection of Competition and the Treaty of the European Union ČD a ČD Cargo have allegedly committed a violation by providing transport and mail services with the help of railway vehicles including related transport and forwarding services for the moving of goods to the loading station and moving goods to the destination. This violation occurred in a period longer than ten years ago according to the OPC. By the decision taken on 19 June 2017 by OPC, proceedings against ČD Cargo have been discontinued, but ČD, as a Parent company, is still a part of administrative proceeding. The reason is that according to the "protection of economic competition of the sole competitor" law it is appropriate to involve in administrative proceedings only one company. Administrative proceedings are still ongoing.

Proceedings concerning the possible abuse of a dominant position on the routes Pardubice - Liberec and Plzeň - Most
In April 2016 the Office for the Protection of Competition (OPC) initiated administrative proceedings. Alleged violation of competition rules were charged to ČD for the reason that during the tender held in 2005 concerning the railway transport and provision of public services on the routes Pardubice-Liberec and Plzeň-Most for the duration of the 2006/2007 timetable they have presented a price offer which did not cover the costs of service provision on the routes in question. Such an agree upon commitment was to be performed by ČD on the stated routes until the end of the 2013/2014 timetable. OPC imposed a fine of CZK 368 million on 14 December 2017. The decision is not final as ČD applied a legal remedy.

Easements related to land under the main optical network of ČD - Telematika a.s.
In March 2018, the parties to the dispute concluded an agreement to settle unreasonable enrichment for the use of land and equipment, which ended the dispute.

19. Post-balance sheet events

In July 2018, bonds amounted to CZK 4 billion were repaid from the Parent company's funds held on its accounts.

On 20 July 2018 ČD Cargo, a.s. issued bonds of CZK 1 billion with a maturity of 7 years.

20. Approval of the consolidated financial statements

These interim consolidated financial statements were approved on 28 August 2018.

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Identification and Contact Details

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