

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page, and you are therefore required to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS.

Confirmation of your Representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities, you must be a person other than a U.S. person (within the meaning of Regulation S under the Securities Act) who is outside the United States. By accepting the email and accessing this Prospectus, you shall be deemed to have represented to us that you are not, and that any customer represented by you is not, a U.S. person; the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the U.S., its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia; and that you consent to delivery of such Prospectus by electronic transmission.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

Any materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and any underwriter or any affiliate of any underwriter is a licensed broker or dealer in that jurisdiction, any offering shall be deemed to be made by the underwriter or such affiliate on behalf of the Issuer in such jurisdiction.

The Prospectus may only be distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as “relevant persons”). Any person who is not a relevant person should not act or rely on this document or any of its contents. Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction. Recipients of this Prospectus who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the final Prospectus. This Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, Citigroup Global Markets Limited or Société Générale, any person who controls any such persons, or any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Issuer, Citigroup Global Markets Limited and Société Générale.



České dráhy, a.s.

(incorporated as a joint stock company under the laws of the Czech Republic)

EUR 400,000,000 1.875 per cent. Notes due 2023

The issue price of the EUR 400,000,000 1.875 per cent. Notes due 2023 (the “Notes”) of České dráhy, a.s. (the “Issuer” or “ČD”) is 99.024 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 25 May 2023. The Notes are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the Czech Republic. In addition, the holder of a Note may, by the exercise of the relevant option, require the Issuer to redeem such Note at its principal amount in the event of a Put Event (as defined in and in accordance with Condition 7). See “*Terms and Conditions of the Notes—Redemption and Purchase*”.

The Notes will bear interest from 25 May 2016 at the rate of 1.875 per cent. per annum payable annually in arrear on 25 May in each year commencing on 25 May 2017. Payments on the Notes will be made in EUR without deduction for or on account of taxes imposed or levied by the Czech Republic to the extent described under “*Terms and Conditions of the Notes—Taxation*”.

This Prospectus has been approved by the Luxembourg *Commission de Surveillance du Secteur Financier* (the “CSSF”), which is the Luxembourg competent authority for the purpose of Article 13 of Directive 2003/71/EC, as amended by, among other things, Directive 2010/73/EU (the “**Prospectus Directive**”) as a prospectus and constitutes a prospectus for the purposes of Article 5(3) of the Prospectus Directive. Application has been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market. In line with Article 7(7) of the Luxembourg Law on Prospectuses for Securities of 10 July 2005, by approving this Prospectus the CSSF assumes no responsibility and gives no undertaking as to the economic or financial soundness of the transaction and the quality or solvency of the Issuer.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) or any U.S. state securities laws. The Notes are being offered outside the United States by the Joint Lead Managers (as defined in “*Subscription and Sale*”) in accordance with Regulation S under the Securities Act (“**Regulation S**”), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in registered form in the denomination of EUR 100,000. The Notes may be held and transferred, and will be offered and sold, in the principal amount of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof. The Notes will be represented by a global registered note certificate (the “**Global Note Certificate**”) registered in the name of a nominee for, and deposited with, the common safekeeper for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme*, Luxembourg (“**Clearstream, Luxembourg**”). Individual note certificates (“**Individual Note Certificates**”) evidencing holdings of Notes will only be available in certain limited circumstances. See “*Summary of Provisions Relating to the Notes in Global Form*”.

An investment in the Notes involves certain risks. Prospective investors should have regard to the factors described under the heading “*Risk Factors*” on page 3.

The Notes are expected to be rated Baa2 by Moody's Investors Service Ltd (“**Moody's**”). Moody's is established in the EEA and registered under Regulation (EC) No 1060/2009, as amended (the “**CRA Regulation**”). Moody's appears on the latest update of the list of registered credit rating agencies (last updated 1 December 2015) on the ESMA website [HTTP://WWW.ESMA.EUROPA.EU](http://www.esma.europa.eu).

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Joint Lead Managers

CITIGROUP

SOCIÉTÉ GÉNÉRALE
CORPORATE & INVESTMENT BANKING

The date of this Prospectus is 23 May 2016

IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case; the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

The Issuer has confirmed to the Joint Lead Managers named under “*Subscription and Sale*” below (the “**Joint Lead Managers**”) that this Prospectus contains all information regarding the Issuer and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Joint Lead Managers.

Neither the Joint Lead Managers nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Prospectus and other offering material relating to the Notes, see “*Subscription and Sale*”.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) or any U.S. state securities laws. The Notes are being offered outside the United States by the Joint Lead Managers in accordance with Regulation S under the Securities Act (“**Regulation S**”), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

In this Prospectus, unless otherwise specified, references to a “**Member State**” are references to a Member State of the European Economic Area, references to “**EUR**” or “**euro**” are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended and references to “**CZK**” are to the Czech Koruna, the lawful currency of the Czech Republic. References to “**billions**” are to thousands of millions.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of the Notes, Citigroup Global Markets Limited (the “Stabilising Manager”) (or persons acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of

30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

This Prospectus contains various forward-looking statements that relate to, among others, events and trends that are subject to risks and uncertainties that could cause the actual business activities, results and financial position of the Issuer and its subsidiaries (the “**Group**”) to differ materially from the information presented herein. When used in this Prospectus, the words “estimate”, “project”, “intend”, “anticipate”, “believe”, “expect”, “should” and similar expressions, as they relate to the Issuer and its management, are intended to identify such forward-looking statements. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Prospectus. The Issuer does not undertake any obligations publicly to release the result of any revisions to these forward-looking statements to reflect the events or circumstances after the date of this Prospectus or to reflect the occurrence of unanticipated events.

When relying on forward-looking statements, investors should carefully consider the foregoing risks and uncertainties and other events, especially in light of the political, economic, social and legal environment in which the Group operates. Factors that might affect such forward looking statements include, *inter alia*, overall business and government regulatory conditions, changes in tariff and tax requirements (including tax rate changes, new tax laws and revised tax law interpretations), interest rate fluctuations and other capital market conditions, including foreign currency exchange rate fluctuations, economic and political conditions in the Czech Republic and other markets, and the timing, impact and other uncertainties of future actions. See “*Risk Factors*”. The Issuer does not make any representation, warranty or prediction that the factors anticipated by such forward-looking statements will be present, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

Information Sourced from Third Parties

Certain information contained in this Prospectus has been sourced from third parties including, without limitation, information published and/or provided by the Ministry of Transportation of the Czech Republic (the “**Ministry of Transportation**”), Eurostat, the Union Internationale des Chemins de Fer, SŽDC and the Czech Statistical Office (*Český statistický úřad*) which, in each case, are independent sources. Where information has been sourced from a third party, the source has been identified, the information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which could render the reproduced information inaccurate or misleading. While the Issuer believes that the information sourced from third parties, which is reproduced in this Prospectus, is reliable, the Issuer has not independently verified such information and cannot guarantee its accuracy or completeness.

References and Links to Websites

Any websites included in the Prospectus are for information purposes only and do not form part of the Prospectus.

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OVERVIEW

This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of the Prospectus as a whole.

Words and expressions defined in the “Terms and Conditions of the Notes” below or elsewhere in this Prospectus have the same meanings in this overview.

Issuer:	České dráhy, a.s., incorporated in the Czech Republic
Joint Lead Managers:	Citigroup Global Markets Limited and Société Générale
The Notes:	EUR 400,000,000 1.875 per cent. Notes due 2023
Issue Price:	99.024 per cent. of the principal amount of the Notes
Issue Date:	Expected to be on or about 25 May 2016
Maturity Date:	25 May 2023
Use of Proceeds:	The Issuer will use the net proceeds of the issue of the Notes for general corporate purposes, including, without limitation, the repayment of certain financial indebtedness of the Group and the financing of the Group’s investment plan. See “ <i>Use of Proceeds</i> ”.
Interest:	The Notes will bear interest from 25 May 2016 at a rate of 1.875 per cent. per annum payable annually in arrear on 25 May in each year commencing 25 May 2017.
Status:	The Notes are senior, unsubordinated, unconditional and unsecured obligations of the Issuer.
Form and Denomination:	<p>The Notes will be issued in registered form in the denomination of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof.</p> <p>The Global Note Certificate is to be held under the New Safekeeping Structure.</p>
Optional Redemption:	Upon the occurrence of a Put Event (as defined below) Notes will be redeemable at the option of the Noteholders on a date or dates specified prior to their stated maturity, as further described in Condition 7 (<i>Redemption and Purchase</i>).
Tax Redemption:	The Notes may be redeemed at the option of the Issuer in whole, but not in part, for taxation reasons, in accordance with Condition 7 (<i>Redemption and Purchase</i>).
Negative Pledge:	The terms of the Notes contain a negative pledge provision as further described in Condition 4 (<i>Negative Pledge</i>).
Cross-Default:	The terms of the Notes contain a cross default provision as further described in Condition 10(c) (<i>Cross-default of Issuer or Subsidiary</i>).
Rating:	The Notes are expected upon issue to be rated Baa2 by Moody’s.
Withholding Tax:	All payments of principal and interest in respect of the Notes by or on behalf of the Issuer will be made free and clear of withholding taxes of the Czech Republic unless the withholding of such taxes is required by law. In that event the Issuer will gross-up the payment, subject to certain exceptions, all as described in Condition 8 (<i>Taxation</i>).

Governing Law:	The Notes, the Fiscal Agency Agreement, the Deed of Covenant, and the Subscription Agreement are governed by English law.
Listing and Trading:	Application has been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market.
Clearing Systems:	<p>The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with the following ISIN and Common Code:</p> <p>ISIN: XS1415366720</p> <p>Common Code: 141536672</p>
Selling Restrictions:	See “ <i>Subscription and Sale</i> ”.
Risk Factors:	Investing in the Notes involves risks. See “ <i>Risk Factors</i> ”.
Financial Information:	See “ <i>Selected Financial and Operating Information</i> ” and “ <i>Financial Statements and Auditor's Reports</i> ”.

RISK FACTORS

Any investment in the Notes is subject to a number of risks. Prior to investing in the Notes, prospective investors should carefully consider risk factors associated with an investment in the Notes, the Group's business and the industry in which it operates, together with all other information contained in this Prospectus including, in particular, the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this section.

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer believes may be material for the purpose of assessing the risks associated with the Notes are also described below. The factors described below are not an exhaustive list or explanation of all risks which investors may face when making an investment in the Notes and should be used as guidance only. Additional risks and uncertainties relating to the Group that are not currently known to the Issuer, or that the Issuer currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Group's business, results of operations or financial position.

Risks Related to the Group's Business

Failure to renew contracts between ČD and the Czech Regions for regional passenger rail transport and the State for long-distance passenger rail transport, or changes in compensation payable pursuant to these contracts, could have a material adverse effect on the Group's business, results of operations, credit rating or financial position

A substantial part of the revenues of the Group's Passenger Transport Business, both in terms of regional transport and domestic long-distance transport, represents compensation paid to ČD by the Czech Regions or the State.

Regional Passenger Transport

ČD provides regional passenger transport pursuant to long-term contracts entered into with the Czech Regions including the city of Prague. ČD's passenger transport business is unprofitable on a stand-alone basis, as tariffs are set below economically reasonable levels to keep prices set at a level affordable to end users, which does not cover the cost of the service to ČD. In addition to tickets sales, revenues are generated from compensation received from the regions of the Czech Republic (the "Czech Regions") and from the Ministry of Transport of the Czech Republic (the "Ministry of Transport"). The Czech Regions compensate ČD for verifiable losses which ČD incurs when providing regional passenger transport at prices that are set by the State or the Czech Regions. Approximately one third of the compensation payable by the Czech Regions to ČD is funded by the State from the State budget pursuant to the Memorandum on Ensuring Stable Financing of Public Regional Passenger Rail Transport entered into between, among others, the Czech Republic (the "State") and the Czech Regions in 2009 (the "Memorandum") (see "Description of the Issuer – Material Contracts" and "Description of the Issuer – Pricing, Compensation and Tariff Regulation" for more information). Due to the high density of the network and low occupancy rates, regional rail transport is, to a large extent, dependent on this compensation.

Most of the long-term contracts entered into between ČD and the Czech Regions regarding the provision of regional transport services are to expire in 2019. Pursuant to the long-term contracts between ČD and the Czech Regions, six of the Czech Regions may undertake tenders on a competitive basis in the next eight years which represented approximately 38 per cent. of train-kilometres in 2010. As of the date of this Prospectus, the only Czech Regions that have undertaken such public tenders are the Liberec Region, the South Bohemian and the Ústí Region.

On 9 March 2016, the government of the Czech Republic (the "Government") approved a resolution outlining the funding mechanism for the Czech Regions and their respective regional passenger rail transport for the period between 2020 and 2034. The approved document retains the current funding mechanism, i.e., the Czech Regions will receive from the State budget the same amount as before (adjusted for inflation) and are not obliged to undertake tenders on a competitive basis (however, they may choose to do so), but newly requires the Czech Regions to arrange a minimum number of services

per day in order to qualify for the State budget funding. There is no assurance that the Czech Regions will renew their contracts for the provision of regional passenger rail transport with ČD after 2019. In addition, pursuant to the terms of the Memorandum, the Czech Regions may choose to undertake tenders on a competitive basis to choose the provider of regional passenger transport. The Liberec Region and the Ústí Region have published in the Official Journal of the EU their intention to organize open tenders with relation to specific regional routes for the period following the expiry of the existing long-term contracts between ČD and the respective Czech Regions in 2019. In February 2016, the South Moravian Region approved a plan to purchase passenger train units worth CZK 7.0 billion (approximately EUR 259.0 million) which are to be operated after the long-term contract with ČD expires in 2019 by an operator which is yet to be selected by the region.

If more Czech Regions decide to undertake public tenders in the future, ČD may not be successful in such public tenders and therefore there can be no guarantee that ČD would renew its current contracts. The Group also cannot guarantee that any renewal of contracts or new contracts for the provision of regional passenger rail transport will be on substantially the same terms or for the same scope of services as currently provided. Any of these risks could have a material adverse impact on the Group's business, results of operations, credit rating, cash flow, financial position or prospects.

Domestic Long-distance Passenger Transport

ČD provides long-distance passenger rail transport pursuant to long-term contracts entered into between ČD and the State. The State compensates ČD for the verifiable losses which ČD incurs when providing long-distance domestic passenger rail services at prices that are set by the State. Most of the long-term contracts entered into between ČD and the Ministry of Transport regarding the provision of regional transport services are to expire in 2019. The Ministry of Transport has already taken steps in order to open the long-distance passenger rail transport market to the competition, including publishing a time sheet specifying which railway routes will be subject to public tenders. The time sheet anticipates that the parties successful in such tenders will commence their service on the specified routes in the period from 2014 to 2028, depending on the route in question. As of the date of this Prospectus, the process of public tenders for selection of the railway routes operators is delayed and no contract has yet been awarded by the Ministry of Transport. As of the date of this Prospectus, only one contract regarding long-distance transport on the Brno – Olomouc route has been extended until 2025. The Group cannot provide any assurance that the renewal of the current long-term contracts will occur, that any renewal of contracts or new contracts will be on substantially the same terms or for the same scope of services as currently provided. Consequently, in any future tender, ČD might not be awarded some or all tendered contracts. ČD's competitors in these public tenders may include Czech low-cost passenger rail operators, such as the privately held companies RegioJet and LEO Express, as well as significant passenger rail operators from neighbouring countries, such as German Deutsche Bahn and Austrian ÖBB. Should ČD not be awarded some or all tendered contracts, it may have a material adverse effect on the Group's business, results of operations, credit rating, cash flow, financial position or prospects.

Czech regional elections taking place in October 2016 could result in a change in the public transport policies and priorities of some Czech Regions

A substantial part of the revenues of the Group's Passenger Transport Business comprises compensation paid to ČD by the Czech Regions. It cannot be ruled out that the public transport policies and priorities of the Czech Regions will change as a result of the Czech Regional elections which are currently scheduled for October 2016. The newly elected regional governments may decide to prioritize other modes of public transport (in particular the bus transport) over the railway transport or to organize competitive tenders on the operation of regional passenger railway services. In the event of a change in a public policy, this could result in a failure to renew contracts between ČD and some Czech Regions for regional passenger rail service and have a material adverse impact on the Group's business, results of operations, cash flow, financial position or prospects.

The Group's substantial leverage and debt service obligations could adversely affect its business and prevent it from fulfilling its obligations with respect to its indebtedness and from obtaining sufficient funding for investments in its assets and their maintenance

The Group has a substantial amount of outstanding indebtedness. As of 31 December 2015, the Group had total loans and borrowings of CZK 37.2 billion.

The level of the Group's indebtedness could have important consequences, including, but not limited to:

- (i) limiting the Group's ability to obtain sufficient funding to make crucial investments into essential assets, primarily rolling stock, and into their maintenance; this may result in obsolescence and deterioration of such assets, which may adversely affect the quality of service provided to customers (including an increased risk of accident or injury), the ability of the Group to compete in tenders for the provision of passenger rail transport services to the State and the Czech Regions and might also result in a breach of certain agreements with third parties (mainly insurance contracts and contracts with the State and the Czech Regions concerning the provision of public service passenger transport), leading to increased liabilities of the Group, and may cause members of the Group to lose their licences;
- (ii) making it difficult for the Group to satisfy its obligations with respect to its indebtedness;
- (iii) requiring the allocation of a substantial portion of the Group's cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow for, and limiting the ability to obtain additional financing to fund, working capital, capital expenditures, acquisitions, joint ventures or other general corporate purposes;
- (iv) restricting its operations through certain covenants in the Group's debt agreements; and
- (v) decreasing the Group's credit rating, limiting the Group's ability to borrow additional funds and increasing the cost of any such borrowing.

Any of the above could have a material adverse effect on the Group's business, results of operations, cash flow, financial position or credit rating and on the Group's ability to satisfy its debt obligations, including the Notes.

The Group is involved in litigation and arbitration, the negative outcome of which may have a material adverse effect on the Group, and there can be no assurance that any provisions created by the Group in respect of such proceedings would be adequate to cover the potential losses

The Group is involved in several legal proceedings and in proceedings by Czech regulatory agencies. As of 27 April 2016, the aggregate amount of all claims, for which the amount claimed against the Group has been specified and of which ČD management is aware, is CZK 9,174 million (see "Description of the Issuer – Disputes" for more information).

Adverse monetary awards or judgments in litigation or arbitral proceedings, individually or in the aggregate, could have a material adverse effect on the Group's business, results of operations or financial condition. Further, such judgments or decisions might include restrictions on the Group's ability to conduct business, which could increase the cost of doing business and limit the Group's prospects for future growth. In addition, any potential loss in litigation or arbitral proceedings may result in negative publicity for the Group and damage its reputation.

As of 31 December 2015, the Group maintained provisions in relation to legal, regulatory and administrative proceedings in the amount of CZK 1,353 million. However, the Group has not recorded provisions in respect of all legal, regulatory and administrative proceedings to which the Group is a party or to which it may become a party. In particular, the Group has not recorded provisions in cases in which the outcome is unquantifiable or that the Company currently expects to be ruled in its favour. Additionally, the Group may not record provisions for the full amount of the claim, but rather for its estimate of the likely outcome. As a result, the Company cannot give any assurance that its provisions will be adequate to cover all amounts payable in connection with any such proceedings. The Company's failure to quantify sufficient provisions or to assess the likely outcome of any proceedings could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows or prospects

The Group is exposed to competition from other providers of rail transport, which may adversely affect the Group's market position, results of operations or financial position

The Group has a dominant position in the rail transport market in the Czech Republic, with ČD's market share of 86.0 per cent. for the provision of passenger rail transport and ČD Cargo's market share of 61.0

per cent. for the provision of freight rail transport, as of 31 December 2015, according to preliminary data published by the Ministry of Transport.

Passenger Transport Business

ČD has historically been the dominant provider of passenger rail transport, both domestic long-distance to the State and regional to the Czech Regions. Based on the Group's current long distance transport contract with the State, up to 15 per cent. of the Group's long-distance segment (measured according to the 2010 schedule) may be gradually tendered each year, in order to allocate in tenders up to 75 per cent. of the total transport timetable by 2019. The Czech Republic, acting through the Ministry of Transport, has ordered 38 million train-kilometres of transport services for the 2010 schedule.

In connection with the opening of the passenger rail market in the Czech Republic, the Government established a timetable for tenders of particular railway lines in Resolution No.758/2014 of September 2014. As of the date of the Prospectus, the Group expects four tenders, which represent approximately 5.5 per cent. of ČD's total revenues from passengers in the year ended 31 December 2015. No tender has been completed. The following tenders have been announced:

- The first tender, for the Ostrava – Opava – Krnov – Olomouc line, which started in 2012 has been cancelled by the Ministry of Transport ; and
- The second tender, for the Plzeň – Most line, opened in 2015 and was stopped by the Czech Competition Office, which decided that the contract cannot be executed.

Since no other tenders have been officially announced yet, the timetable established in Resolution No.758/2014, is delayed and the Group expects operation of these lines to be delayed. Due to the ongoing liberalisation of the market for provision of passenger rail transport, other passenger rail operators from the Czech Republic as well as from neighbouring countries have been challenging ČD's dominant position in certain areas and they may gain market share on the regulated or commercial routes in the future.

For example, in September 2011, the privately held company RegioJet started operating its own regular passenger service on the main train route in the Czech Republic between Prague and Ostrava, which had until then been operated solely by ČD, and privately held company LEO Express commenced operation of its own regular passenger service on this route in November 2012. The Ministry of Transport announced in February 2016 that regulation on the Prague – Ostrava route aimed at reducing the current high traffic volume might be introduced, which may negatively impact the operation of regional passenger transport and freight transport.

According to statements made by RegioJet, it is also looking to commence operating regular passenger services on other routes which are currently exclusively operated by ČD. Both RegioJet and LEO Express are currently operating regular passenger services on routes between Prague and Staré Město u Uherského Hradiště and between Prague and Košice, Slovakia (via Ostrava). RegioJet is also operating a regular passenger service on the route between Prague and Zvolen, Slovakia (via Ostrava) (see "*Description of the Issuer – Business Overview – Passenger Transport Business*" for more information).

As a result, there is a risk that the number of public railway passenger contracts ČD is awarded in the future may decrease and the current long-term contracts in place with the State and the Czech Regions might not be renewed or might be materially reduced or amended. It is possible that other passenger rail operators, including Czech low-cost passenger rail operators, as well as significant passenger rail operators from neighbouring countries, will increasingly compete on commercial and international routes in the future. Any of these risks could have a material adverse effect on the Group's business, results of operations, cash flow, financial position or credit rating.

Freight Transport Business

ČD Cargo currently competes against other companies that provide rail freight transport, truck freight transport and, to a smaller extent, ship carriers and providers of tube transport systems. The European rail freight transport business is highly concentrated and ČD Cargo's ability to efficiently compete in the market may depend on its ability to form strategic alliances or other forms of cooperation with rail freight operators in other neighbouring countries (see "*Description of the Issuer – Business Overview – Freight Transport Business*" for more information). Should ČD Cargo's competitors develop any technological or

other business advantage, or should ČD Cargo fail to establish such strategic alliances or other forms of cooperation, or should ČD Cargo lose a significant business or customer to a competitor, this could have a material impact on the Group's Freight Transport Business' market share and, as a result, on the Group's results of operations or financial position.

Breakdowns, operational failures as well as natural disasters, extreme weather conditions, human error or sabotage may cause delays or interruptions in the Group's operations, increase capital expenditures and harm the Group's business and reputation

The Group's operations as well as the railway systems on which the Group operates, including primarily the Czech railway system owned and operated by SŽDC and the related infrastructure, may be adversely affected by many factors, including a breakdown or failure of equipment, natural disasters and extreme weather conditions, human error or sabotage. Any physical damage to the railway system, the related infrastructure or the Group's facilities and assets may be costly to repair and any outages may cause the Group to lose revenues due to its inability to provide transport services in accordance with the contracts with its customers.

Further, an accident, derailment or other incident involving the Group's railway operations could result in damage or loss to the Group's property, rolling stock and also disrupt the Group's services and give rise to potential claims by its customers, mainly passengers and freight shippers. For example, in the five years prior to the date of this Prospectus, trains operated by the Group were involved in the following major accidents:

- a collision of a Pendolino high speed train with a truck at a road intersection in Studénka in 2015, which resulted in three casualties and damages of approximately CZK 216.3 million;
- an accident involving a passenger train in Prague in 2015 where the train did not stop properly in the station, which resulted in damages of approximately CZK 82.4 million; and
- a derailment of a passenger train in Horažďovice in 2015 which was caused by junctions improperly set by SŽDC, which resulted in damages of approximately CZK 7.2 million.

In the event of a serious accident involving passengers the Group may also need to provide additional assistance to the affected passengers, in excess of any reimbursement from insurance payments. If a significant uninsured event was to occur, which would cause the Group to incur significant unbudgeted expenditures; this could have a material adverse effect on the Group's business, results of operations or financial position.

In addition, any of the above events could have a material adverse impact on the Group's reputation and the attractiveness of its services in the future. An adverse change in the perception of the Group's safety record could result in customers switching to other means of transport, to other rail transport providers or, due to public pressure, force the Government to divest some of the Group's operations to third-party operators. As a carrier and operator of rolling stock with a relatively high average age (see "*Description of the Issuer – Property – Rolling Stock*" for more information) the Group may also be responsible for spillage or leakage from rolling stock transporting environmentally sensitive materials, the cost of which may exceed any reimbursement received from relevant insurance, which could have a material adverse effect on the Group's business, results of operations or financial position.

The Group's transport services and their quality are dependent on the quality of the railway system on which it operates and on timetables established with SŽDC

The transport services the Group provides, and their quality, are dependent on the quality of the railway system on which it operates, primarily the Czech railway system. Any closures or extensive reconstructions could disrupt the Group's operations, limit its services, cause delays and force the Group to use alternative and longer routes or use substitute bus transport, which could have a material adverse effect on the Group's business, operating results or financial position.

For example, in 2015, the Company incurred extraordinary expenditures of approximately CZK 500 million related to the temporary closures of the railways due to construction works carried out by SŽDC. These costs mainly comprised the costs of the provision of substitute bus transport, overtime costs and compensations for delays. Any such further closures could have a material adverse effect on the Group's

business, results of operations or financial position. Further, the ability of the Group to provide rail transport services is to a larger extent dependant on timetables to be established between SŽDC and the other rail transport providers. Adverse changes in SŽDC's financial stability may have a material adverse impact on the Group's ability to provide adequate quality of service, which in turn may increase operation costs or inefficiencies. This could have a material adverse effect on the Group's business, operating results or financial position.

The Group relies on IT systems and technologies to operate its business and any failure of these systems could have an adverse effect on its business

The Group relies on IT systems and technologies for coordination of scheduling, dispatching and other aspects of its railway operations as well as accounting, ticket sales for passenger trains, tracking freight deliveries and numerous other functions. Hardware and software used by the Group may be damaged by human error, natural disasters, power loss, sabotage, computer viruses and other internal or external events. Significant disruption to information systems, including computer hardware, software or communication devices, may lead to operation stoppages, breach of security policies or other problems that may have an adverse effect on the Group. In addition, should the Group not have sufficient sources of funds to acquire and operate such systems, ČD's competitiveness may be harmed and this would have an adverse effect on the Group.

The success of the Group's operations depends to a large extent on highly qualified personnel and the ability to attract and retain key managers or senior executives as well as sufficiently skilled labour force

The Group's business requires specific knowledge of the industry, therefore the Group's ability to maintain its competitive position and to implement its business strategy is largely dependent on its ability to retain key managers and other personnel with significant industry knowledge and experience, necessary for the specific services the Group provides, and on the ability to attract and retain additional qualified personnel. Any loss of personnel or the inability to attract additional personnel with the necessary experience may force the Group to increase its levels of compensation to remain competitive and could have a material adverse effect on the Group's business and operating costs, market position, ability to execute strategic goals, and therefore on its results of operations, financial condition, cash flows or prospects.

The Group depends on good relations with its workforce and any significant disruption or industrial action triggered by the labour unions or third parties could adversely affect the Group's operations

The Group is one of the ten largest employers in the Czech Republic. The majority of Group's employees are unionised and possess certain bargaining and other rights. These employment rights may require the Group to spend substantial time and resources in altering or amending employees' terms of employment or making staff reductions.

If the Group is unable to maintain good relationships with its workforce or to reduce its workforce without violating the terms of any applicable collective bargaining agreements, while also retaining qualified personnel required to effectively operate its business, the Group could experience a labour disturbance, which could have a material adverse effect on its ability to maintain its current market position or execute its strategic goals.

Further, the Group's employees may cease or suspend working in the event of industrial action and newly negotiated terms may be put in place as a result of such industrial action. This could harm the Group's operations and significantly increase costs mainly in relation to healthcare costs and compensation. Any increase in the Group's costs, which is not accompanied by commensurate increases in efficiency and productivity, could have a material adverse effect on the Group's business, results of operations or financial position.

The Group may be adversely affected by the nature of its contracts with suppliers

Suppliers who provide goods or services to the Group need to fulfil specific technical requirements stemming from the specific nature of the Group's business, as well as the applicable regulations and the Group's internal rules. This limits the number of eligible suppliers and restricts the Group's choices and competitiveness among suppliers. Any changes in relation to the abovementioned technical requirements

may cause a decrease in the number of suppliers the Group can choose between, an increase in prices, shortages in supply or delays, which could have a material adverse effect on the Group's business, results of operations or financial position.

The customers of ČD Cargo are relatively concentrated and a loss of some of these customers could have a material adverse effect on the Group's business, financial condition or results of operations

ČD Cargo's business depends to a large extent on a limited number of key customers. In the year ended 31 December 2015, approximately 67 per cent. of ČD Cargo's revenues were derived from its top 20 customers, most of which operate in the mining, metallurgy, power, chemical, automotive and intermodal transport industries. As a result, it is critical that ČD Cargo maintains close relationships with its key clients.

The loss of one or more of ČD Cargo's key customers, a substantial decrease in demand from any of its key customers or counter party risk associated with any of these customers could result in a substantial loss of revenues which could, in turn, have a material adverse effect on the Group's business, financial condition, results of operations or prospects.

Furthermore, ČD Cargo is exposed to credit risk which relates to the non-payment or non-performance by customers with respect to trade receivables. The failure of its customers to perform their obligations or the possibility that they may terminate their agreements with ČD Cargo could result in ČD Cargo being unable to meet its working capital requirements. Financial difficulties experienced by customers, including bankruptcies, restructurings and liquidations, or potential financial weakness in the industry, increase this risk. The failure of a customer to pay outstanding amounts owed to ČD Cargo could have a materially adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group's business requires significant capital expenditures.

Modernisation of rolling stock requires significant capital expenditures. According to the current investment plan for the period between 2015 and 2025, the Group is planning to invest CZK 27.0 billion (approximately EUR 2.2 billion) into modernisation of the rolling stock, according to data pursuant to International Financial Reporting Standards as adopted by the EU ("IFRS"), not taking into account subsidies. The Group may not be able to obtain all the necessary funding to finance the investments and modernisations necessary to stay competitive. Additionally, changes in the legal framework, delays in supply of such equipment and subsequent delays in putting newly acquired equipment into operation may have adverse effects on the Group's ability to fulfil the scope of services pursuant to contracts with third parties in relation to passenger or freight transport and could have a material adverse effect on the Group's business, results of operations or financial position. Such changes may also harm the Group's ability to compete in tenders for both passenger and cargo services.

The Group is exposed to commodity risks which could adversely affect the Group's business, results of operations or financial position

Purchases of fuel or electricity represent significant costs to the Group which can be subject to price volatility. Accordingly, any significant increases in fuel or electricity prices could have a material adverse effect on the Group's business, results of operations or financial position.

In addition, the availability of fuel or energy can be subject to limitations on their supply, including due to cancellations or limitations on extraction or import of gas or other commodities, outages or limitations on power production or refinery production, damaged transmission infrastructure, political uprisings or wars or to laws (which may or may not come into effect) or other means stipulating mandatory allocation or contribution systems of such supplies. Should significant stoppage or lack of availability of fuel or energy supplies occur, the Group's business, results of operations or financial position may be adversely affected (see "Description of the Issuer – Risk Management – Commodity Risk" for more information).

The Group is exposed to interest rate risks which could adversely affect the Group's business, results of operations or financial position

The Group utilises external financing that bears floating or fixed interest rates, including bank loans, domestic bonds, Eurobonds and promissory notes. Any changes in floating interest rates or any changes in fixed interest rates of contracts to be entered into, or the Group's limited ability to enter into such contracts bearing or resulting in fixed interest rates, could have a material adverse effect on the Group's

business, results of operations or financial position (see “*Description of the Issuer – Risk Management – Interest Rate Risk*” for more information).

The Group is exposed to liquidity risks which could adversely affect the Group’s business, results of operations or financial position

The Group may have, in certain cases in the future, limited access to short-term financing or may incur obstacles in terms of securing short-term funding when experiencing liquidity issues. For example, some financial institutions may not extend short-term credit lines or promissory note facilities to the Group. The exposure to liquidity constraints could have a material adverse effect on the Group’s business, results of operations or financial position (see “*Description of the Issuer – Risk Management – Liquidity Risk*” for more information).

The Group is exposed to currency fluctuation risk which could adversely affect the Group’s business, results of operations or financial position

The Group is exposed to the risk of fluctuations in the value of the Czech crown relative to the Euro and, to a lesser extent, also to other currencies. The Group’s currency fluctuation risk stems mainly from ČD Cargo’s operations and ČD’s debt denominated in Euro. Therefore any loss resulting from a fluctuation in the euro or any other foreign currency exchange rate could have a material adverse effect on the Group’s business, results of operations or financial position. (see “*Description of the Issuer – Risk Management – Foreign Currency Exchange Rate Risk*” for more information).

The Group is exposed to credit risk which could adversely affect the Group’s business, results of operations or financial position

The Group is exposed to credit risk, mainly in relation to customers of ČD Cargo, suppliers of rolling stock and financial institutions to which the Group has mark-to-market exposure. The Group monitors its exposure to the credit risk of such third parties on a regular basis. Nonetheless, such monitoring cannot guarantee that the Group will prevent all losses or liquidity constraints incurred in relation to credit issues of third parties. Any such credit issues could have a material adverse effect on the Group’s business, results of operations or financial position.

Additionally, as the top 20 clients of ČD Cargo account for approximately 67 per cent. of ČD Cargo’s revenues, any deterioration in the credit quality of one or more such clients could have a material adverse effect on the Group’s business, results of operations or financial position (see “*Description of the Issuer – Risk Management – Credit Risk*” for more information).

Risks Related to the Group’s Industry

An increase in costs incurred in relation to using the rail network poses risks to the Group

ČD and ČD Cargo, as well as other rail transport providers in the Czech Republic, incur costs payable to SŽDC for the usage of the rail network. These costs, expressed as a maximum price per unit, are set by SŽDC following an assessment by the Ministry of Transport. Any increases in the amount to be paid to SŽDC, not accompanied by equivalent pro-rated compensation from parties using the public rail service, would have an adverse impact on the Group. In the case of cessation of business by SŽDC, any potential negotiations or standstills with its successor may pose risks to the Group and as a result may have a material adverse effect on the Group’s business, results of operations or financial position.

Due to relatively low oil prices, the Group may become subject to increasing competition from providers of other modes of transport, which could adversely impact the Group’s market share in the transport market

The Group may become subject to increasing competition from providers of other modes of transport, primarily bus, car and air transport, in the passenger transport market and with trucks and, to a limited extent, ship carriers in the freight transport market. The reduction in oil prices in recent years led to the lower costs for these modes of transport and thus increased their attractiveness. If the price of oil further decreases or stays on the relatively low current level, customer interest in railway transport might decrease and render railway transport less attractive in general. This could have a material adverse effect on the Group’s business, results of operations or financial position.

ČD Cargo is exposed to the development of, and any deterioration in, certain industries and the demand for certain commodities.

ČD Cargo's operations consist mainly of the transport of commodities, including iron and machine industry products, construction materials, chemical products and liquid fuels, wood and paper products, foods and farming products, coal and automotive (see "Description of the Issuer – Business Overview – Freight Transport Business" for more information). As a result, ČD Cargo's revenues and results of operations are dependent on the demand for these commodities, which is directly linked to any trends or changes in the industries which use these commodities and in the economy, which may affect the volume of commodities being transported. Any significant deterioration in any of these industries could have a material adverse effect on the Group's business, results of operations or financial position.

The Group could incur significant costs for violations of applicable environmental laws and regulations.

As a transport company, the Group's operations are subject to extensive national and local laws and regulations governing emissions and the transport of products that are hazardous to the environment. In carrying out the Group's environmental policies, the Group adheres to international standards and best practices. Compliance with environmental regulations is an ongoing process and as such, new laws and regulations, the imposition of tougher requirements, increasingly strict enforcement or new interpretations of existing environmental laws may require the Group to modify its operations, incur substantial unbudgeted costs to comply with current or future regulations or incur fines or penalties for environmental violations that could have a material adverse effect on the Group's business, results of operations or financial position.

The Group's operations depend on obtaining and maintaining licences and permits necessary for the operation of its business.

The Group conducts its business operations under various licences and permits which authorise it to carry out a full range of railway-related business activities, such as a transport company licence and certification. As a result, the Group's activities are dependent upon the grant, renewal or continuance in force of these licences and permits, which in certain circumstances may be valid only for a defined time period, may be subject to limitations and may provide for withdrawal in certain circumstances. There can be no assurance that such licences and permits will be granted, renewed or continue in force and, if so, on what terms. Failure to obtain necessary licences or permits or any suspension or termination thereof could have a material adverse effect on the Group's business, results of operations, financial position, prospects and the value of the Notes.

Country risks

The Group can incur limitations on procurement due to the Public Tender Procurement Law

The Group is subject to public procurement rules stipulated in the Public Procurement Act when tendering services and supplies with value in excess of CZK 2 million or when tendering construction works with value in excess of CZK 6 million (in each case excluding the applicable value added tax), as of the date of this Prospectus. In the event of a qualified tender under the Public Procurement Act, the Group is obligated to follow the stipulated procedures, which might limit its ability to procure such tender in a timely manner. This may harm the Group's ability to compete in tenders for both passenger and cargo services and have an adverse effect on the Group's business, results of operations or financial position.

Further, the Parliament of the Czech Republic approved a new act regulating public procurement, which is to come into effect on 1 October 2016 and is intended to implement the relevant EU directives and introduce new principles, concepts and processes (see "Regulatory Framework – Public Procurement Laws" for more information). As with any new legislation, the new act has a level of uncertainty, as its application and interpretation by Czech courts or other authorities is not possible to predict at this stage and the Group cannot guarantee that the new legislation will not have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Inability of the Czech Republic or the Czech Regions to discharge their financial obligations when due may adversely affect the Group's market position, results of operations or financial position

A significant amount of ČD's revenues are generated through compensation received from budgets of the State and the Czech Regions for the provision of regional and domestic long-distance passenger transport. Any inability of the State or the Czech Regions to discharge their financial obligations when due or any austerity measures undertaken by the State or the Czech Regions, may have a material adverse effect on the Group's business, results of operations and financial position and may harm the Group's ability to meet its liabilities.

The legal infrastructure and the law enforcement system in the Czech Republic are less developed compared to Western Europe

The legal infrastructure and the law enforcement system in the Czech Republic are less developed when compared to some Western European countries. The average length of judicial proceedings in commercial matters in the Czech Republic in 2013 (according to the statistics published on the official website of the Czech Ministry of Justice) was 13 months and may be longer when taken together with appeals, extraordinary remedial procedures or proceedings before the Czech Constitutional Court. In some circumstances, it may not be possible to obtain legal remedies to enforce contractual or other rights in a timely manner or at all. Shifts in government policies and regulations and fiscal measures tend to be less predictable than in countries with more developed democracies. A lack of legal certainty or the inability to obtain effective legal remedies in a timely manner or at all may have a material adverse effect on the Group's business, results of operations or financial position.

The impact of the new Czech Civil Code on businesses in the Czech Republic is subject to significant uncertainty

As of 1 January 2014, a broad reform of Czech private law came into effect. The Czech civil law was completely revised into a new Czech Civil Code (Act No. 89/2012 Coll., as amended) and the existing Czech Commercial Code was replaced by the new act No. 90/2012 Coll., on Commercial Companies and Cooperatives (Business Corporations Act) as amended (the "**Czech Corporations Act**"). These changes impacted a wide variety of aspects of civil and corporate legal undertakings in the Czech Republic, including basic concepts of interpretation of legal acts, intentions of parties, contractual autonomy and basic corporate matters. Although certain limited market practice has developed since the introduction of these changes, it is still not possible to predict the application and interpretation of these new legal rules by Czech courts or other authorities. Relevant case law may not become available for a significant period of time, thus impacting legal certainty in the Czech Republic. As these factors are outside of the Group's control, it cannot guarantee that the political, economic or legal development in the Czech Republic will be favourable to its business undertakings.

Czech insolvency law

The courts of the Czech Republic (the "**Czech Courts**") would have jurisdiction to commence insolvency proceedings in respect of a debtor whose centre of main interests is situated in the Czech Republic (within the meaning of the Council Regulation (EC) No 1346/2000 of 29 May 2000 on insolvency proceedings, as amended). Czech insolvency law might, in certain aspects, significantly differ from insolvency laws in other jurisdictions or might not apply at all. For example, a Czech Court cannot declare a debtor insolvent if the State or a Czech Region assumes or guarantees the debts of such debtor. It may be that the Czech insolvency law as applied in the practice of the Czech Courts does not protect creditors' rights as efficiently as laws of other jurisdictions or at all and thus, such lack of protection may have a material adverse effect on the rights of the Group companies upon the insolvency of their debtors as well as on the rights of the Noteholders under the Notes upon the insolvency of ČD.

Changes in laws or regulations in the Czech Republic may have a material adverse effect on the Group

The Group is subject to a number of laws and regulations, in particular Czech and EU railway transport laws, tax laws, environmental protection laws, public procurement laws and anti-trust laws. Changes in these laws or regulations are outside the control of the Group and could have a material adverse effect on the Group.

For example, passenger transport in the Czech Republic is subject to a reduced value added tax (“VAT”) rate and fare prices for non-commercial passenger transport, including the applicable VAT, are capped by a Government regulation. Any increase of the applicable VAT rate could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Risks arising from the opening of the passenger railway market to competition before the necessary conditions have been established

Unlike its competitors, ČD owns a large number of railway stations that are indispensable for the operation of passenger rail transport and bears the costs of their maintenance and operation. These railway stations are publicly accessible for all passengers, irrespective of whether they are using the transport services of ČD or other passenger rail transport operators. Czech laws do not require other passenger rail transport operators to pay any fees to ČD for using their railway stations. Accordingly, if the Czech Republic does not introduce an obligation for other passenger rail transport operators to pay fees to ČD for using their railway stations or if the Group is unable to sell or transfer such railway assets, the obligation to bear the costs of maintaining and operating such railway stations may constitute a disadvantage for the Group with respect to its competitors (see “*Description of the Issuer – Property – Expected Sale of Property*” for more information).

Similarly, ČD is obliged to provide subsidised tickets to a select group of persons defined by Czech law, including the current and former employees of ČD, ČD Cargo and SŽDC. ČD does not receive any compensation for doing so and this obligation does not apply to ČD's competitors. Accordingly, if this obligation continues to apply only to ČD it may constitute a disadvantage for the Group with respect to its competitors.

Additionally, no single regulator authorised to resolve conflicts between market participants and between market participants and SZDC has been established. The railway market is heavily regulated in the areas of market access, railway capacity allocation and price-setting, each of which is overseen by a separate regulator. As a result, any such disputes may need to be resolved by recourse to the current three regulating bodies and/or the Czech Courts, which can lead to lengthy, complicated and expensive proceedings. ČD, as the original sole railway services provider, may be more likely to be subject to such proceedings, which may put the Group at a disadvantage as compared to its competitors.

If ČD is at a competitive disadvantage as compared to its competitors for the above reasons or for any other reasons, this could have a material adverse effect on the Group's business, results of operations, financial position or prospects.

A majority of the Group's operations are located in the Czech Republic, and any significant downturn in the economy of the Czech Republic and/or any significant political, economic or legal uncertainties in the Czech Republic could have a material adverse effect on the Group's business, results of operations, financial position, cash flows or prospects

The majority of the Group's operations are located in the Czech Republic and the Group is therefore exposed to economic risks associated with the Czech Republic and, to a lesser extent, certain other European countries (including Germany, Austria, Poland and Slovakia). This is particularly relevant for the Group's Freight Transport Business and due to its counter-cyclical nature to a lesser extent also to the Group's Passenger Transport Business. The economy of the Czech Republic is vulnerable to external shocks, such as the global economic and financial crisis which commenced in the second half of 2008 and the recent financial turmoil in many Eurozone countries. A significant decline in the economic growth of any of the country's trading partners, in particular Germany, Austria, Poland and Slovakia, could in the future have an adverse effect on the Czech Republic's balance of trade and adversely affect its economic growth.

There can be no assurance that any crises, slowdown or economic volatility such as the recent Eurozone crisis or similar events will not negatively affect investor confidence in markets relevant for the Group's businesses. Any such external shocks or changes in economic, regulatory, administrative or other policies of the Government, as well as political or economic developments in the Czech Republic (including potential changes in the Czech Republic's credit ratings) over which the Group has no control could have a material adverse effect on the Group's business, results of operations, financial position, cash flows or prospects.

Political developments in the Czech Republic could negatively impact economic conditions in the Czech Republic

The most recent general elections in the Czech Republic were held in October 2013 and the government was formed by three coalition parties: the Czech Social Democratic Party (*Česká strana sociálně demokratická*), ANO 2011 and the Christian and Democratic Union – Czechoslovak People's Party (*Křesťanská a demokratická unie – Československá strana lidová*). The next general elections in the Czech Republic are scheduled to take place in October 2017. The Group can give no assurance that there will be no change in the Government or its policy prior to the expiration of its current mandate or that any future Government will continue in the current economic, fiscal, and regulatory policies, nor can there be any assurance that any changes in such policies will not have a material adverse effect on the Group's business, results of operations, prospects or financial position.

In addition, the State is the sole shareholder of ČD and the Government exercises its shareholder rights through a Steering Committee (the "**Steering Committee**"), which comprises of seven members appointed for an indefinite period by the Government: three representatives of the Ministry of Transport, and one representative of each of the following four ministries: the Ministry of Finance, the Ministry of Defence, the Ministry of Industry and Trade, and the Ministry for Regional Development (see "*Description of the Issuer – Management*" for more information). Accordingly, the Group may be negatively affected by changes to key decision-makers at, and/or the strategy of, any of these ministries, for example a policy change in position towards state support of passenger rail transport. Any such changes could have a material adverse effect on the Group's business, results of operations or financial position or prospects.

Risks arising from terrorist acts or war conflict

Potential terrorist acts or similar events, war or conflict, the threat of war or conflict or the reaction of the Czech Republic to such acts or events, could significantly disrupt the Group's activities. Given the Group's size and activities, the Group is considered as a strategic asset to the Czech Republic and thus the Group could be targeted during such conflicts or could be used by the Czech Republic in response to such attacks. The materialization of these risks could have a material adverse impact on the Group's business, results of operations, credit rating, cash flow, financial position or prospects.

Risks Related to the Notes

There is no active trading market for the Notes.

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

The Notes may be redeemed prior to maturity for taxation reasons.

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Czech Republic or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Change of tax law

Statements in this Prospectus concerning the taxation of investors are of a general nature and are based upon current tax law and published practice in the jurisdictions stated. Such law and practice is, in principle, subject to change, possibly with retrospective effect, and this could adversely affect investors.

In addition, any change in the Issuer's tax status or in taxation legislation or in practice in a relevant jurisdiction could adversely impact (i) the ability of the Issuer to service the Notes and (ii) the market value of the Notes.

Modification and waivers and substitution

The “*Terms and Conditions*” below contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The value of the Notes could be adversely affected by a change in English law or administrative practice

The “*Terms and Conditions*” below are based on English law in effect as at the date of issue of the relevant Notes. No assurances can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

The Notes will be represented by the Global Note Certificate except in certain limited circumstances described in the Global Note Certificate. The Global Note Certificate will be registered in the name of a nominee for, and deposited with, the common safekeeper for Euroclear and Clearstream, Luxembourg. Individual Note Certificates evidencing holdings of Notes will only be available in certain limited circumstances. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Note Certificate. While the Notes are represented by the Global Note Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Global Note Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificate.

Holders of beneficial interests in the Global Note Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Note Certificate will not have a direct right under the Global Note Certificate to

take enforcement action against the Issuer in the event of a default under the Notes but will have to rely upon their rights under the Deed of Covenant.

Investors who purchase Notes in denominations that are not an integral multiple of EUR100,000 may be adversely affected if Definitive Note Certificates are subsequently required to be issued

As the Notes have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of EUR 100,000 (or its equivalent) that are not integral multiples of EUR 100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination.

If Definitive Notes are issued, holders should be aware that Definitive Notes which have a denomination that is not an integral multiple of EUR100,000 or its equivalent may be illiquid and difficult to trade.

New safekeeping structure

The Issuer intends that the Notes will be registered on issue in the name of a nominee for Euroclear or Clearstream, Luxembourg (as defined below) as common safekeeper. This does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

Credit rating may not reflect all risks

The Notes are expected upon issue to be rated Baa2 by Moody's. The credit rating assigned to the Notes may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

Certain assets of the Issuer may be subject to immunity and/or the Issuer may be obliged to provide certain services and assets to the State or other persons

The Issuer carries out passenger and freight transport business and provides passenger transport services in public interest. Since such parts of the Issuer's operations might be of importance in specific situations (including, among others, any force majeure events) or for specific purposes (including, among others, military or public interest), under the applicable laws, the Issuer's assets (or a portion thereof) used to carry out such operations may be subject to immunity from execution or other legal process, and/or the Issuer may be obliged to provide certain services and assets to the State or other persons, in such situations or for such purposes. This could potentially adversely affect the pool of assets available for enforcement of any obligation of the Issuer under the Notes and/or may have a material adverse effect on the Group's business, financial condition and results of operations.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note Certificate (if issued):

The EUR 400,000,000 1.875 per cent. Notes due 2023 (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 15 (*Further issues*) and forming a single series therewith) of České dráhy, a.s. (the “**Issuer**”) are constituted by a deed of covenant dated 25 May 2016 (as amended or supplemented from time to time, the “**Deed of Covenant**”) entered into by the Issuer and are the subject of a fiscal agency agreement dated 25 May 2016 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, Citigroup Global Markets Deutschland AG as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes). Citibank, N.A., London Branch as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), the transfer agents named therein (the “**Transfer Agents**” which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). References herein to the “**Agents**” are to the Registrar, the Fiscal Agent, the Transfer Agents and the Paying Agents and any reference to an “**Agent**” is to any one of them. Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and subject to their detailed provisions. The “**Noteholders**” (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. **Form and Denomination**

The Notes are serially numbered and in registered form in denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof (each such denomination an “**Authorised Holding**”).

The Notes are intended to be issued under the new safekeeping structure and are represented by registered certificates (“**Note Certificates**”) and, save as provided in Condition 2(c) (*Transfers*), each Note Certificate shall represent the entire holding of Notes by the same holder.

2. **Register, Title and Transfers**

- (a) *Register*: The Registrar will maintain a register (the “**Register**”) in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the “**Holder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly. A certificate (each, a “**Note Certificate**”) will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.
- (c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to

prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

- (d) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “**business day**” means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (e) *No charge:* The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (f) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.
- (g) *Regulations concerning transfers and registration:* All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar (such approval not to be unreasonably withheld or delayed). A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3. **Status**

The Notes constitute direct, general, unconditional and, subject to Condition 4 (*Negative Pledge*) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

4. **Negative Pledge**

So long as any Note remains outstanding (as defined in the Agency Agreement):

- (a) the Issuer shall not create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Indebtedness or any Guarantee of any Indebtedness; and
- (b) the Issuer shall procure that none of its Subsidiaries will create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Indebtedness or any Guarantee of any Indebtedness,

without at the same time or prior thereto (i) securing the Notes equally and rateably therewith or (ii) providing such other security for the Notes as may be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

In these Conditions:

“**Audited Statements**” means the Issuer's audited annual financial statements (consolidated, if applicable) prepared in accordance with the International Financial Reporting Standards as adopted by the EU (“**IFRS**”);

“**Guarantee**” means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (a) any obligation to purchase such Indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (d) any other agreement to be responsible for such Indebtedness;

“**Hedging Obligations**” means, with respect to the Issuer, the obligations pursuant to:

- (a) any interest rate swap agreement, interest rate cap agreement or interest rate collar agreement or any other agreement or arrangement designed to protect such entity against fluctuations in interest rates; or
- (b) any foreign currency futures contract or option agreement or any other agreement or arrangement designed to protect such entity against fluctuations in foreign currency rates;

“**Indebtedness**” means any indebtedness (other than a trade payable arising in the ordinary course of business) of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (a) amounts raised by acceptance under any acceptance credit facility;
- (b) amounts raised under any note purchase facility;
- (c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases, including, without limitation, sale and lease back transactions;
- (d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and
- (e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

“**Material Subsidiary**” means, at any time, any Subsidiary of the Issuer, whose total assets attributable to the Issuer represent more than 10 per cent. (based on net book value under IFRS or in accordance with Czech GAAP, in case such Subsidiary does not report under IFRS) of the total assets or revenues of the Issuer and the Subsidiaries, all as determined by reference to the most recent audited financial statements (or, as the case may be, audited consolidated financial statements) of such Subsidiary and the most recent consolidated Audited Statements, provided that a certificate of the Auditors (as defined in the Agency Agreement) of the Issuer that, in their opinion, any Subsidiary of the Issuer is or is not or was or was not at any particular time a Material Subsidiary shall, in the absence of a manifest error, be conclusive and binding on all parties;

“**Permitted Security Interest**” means:

- (a) any Security Interest in existence on 25 May 2016 to the extent that it secures Indebtedness outstanding on such date;

- (b) any Security Interest arising by operation of law and in the ordinary course of business of the Issuer or any of its Subsidiaries which does not (either alone or together with any one or more other such Security Interests) materially impair the operation of such business and which has not been enforced against the assets to which it attaches, including, without limitation, any Security Interest subsisting in a security transfer of ownership (*zajišťovací převod práva*);
- (c) any Security Interest granted upon or with regard to any property or assets to secure the purchase price thereof or the cost of improvement or repair of all or any part of such property or assets or to secure Indebtedness incurred solely for the purpose of financing the acquisition, improvement (including costs such as interest incurred during construction and finance costs) or repair of all or any part of such property or assets and transactional expenses related thereto provided that the maximum amount of Indebtedness secured by any such Security Interest does not exceed the purchase price or cost of improvement or repair of such property or assets (such purchase price assessed in terms of the transaction as a whole) or the Indebtedness incurred solely for the purpose of financing the acquisition, construction, improvement or repair of such property or assets;
- (d) any Security Interest granted pursuant to Hedging Obligations of the Issuer;
- (e) any Security Interest on or relating to any property or assets hereafter acquired by the Issuer and existing on the date of acquisition (so long as such Security Interest was not created in contemplation of the acquisition of such property or assets);
- (f) any Security Interest arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Security Interest permitted by any of the exceptions set out in sub-paragraphs (a) to (k), provided that the Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest;
- (g) any Security Interest acquired from a Person which is merged with or into the Issuer or any Security Interest existing on any asset of a Person which existed at the time such Person becomes a Subsidiary of the Issuer (so long as such Security Interest was not created in contemplation of such Person being merged with or into the Issuer or becoming a Subsidiary of the Issuer);
- (h) any Security Interest over assets of a Subsidiary which secures only Indebtedness owing by such Subsidiary to the Issuer or to another wholly-owned Subsidiary of the Issuer;
- (i) any Security Interest created in connection with any judicial or administrative proceedings, provided that the Issuer defends itself duly against the related claim, until the final and non-appealable judicial or administrative decision in respect of such claim is given; and
- (j) any Security Interest that does not fall within sub-paragraphs (a) to (j) above and that secures Indebtedness which, when aggregated with Indebtedness secured by all other Security Interests permitted under this sub-paragraph (k), does not exceed EUR 10,000,000 (or its equivalent in other currencies);

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“**Security Interest**” means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

“**Subsidiary**” means, in relation to any Person (the “**first Person**”) at any particular time, any other Person (the “**second Person**”):

- (a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

5. **Limitation on Asset Sales**

The Issuer shall not, and shall procure that each of its Subsidiaries does not, sell, lease, transfer or otherwise dispose of (each such action, a “**disposal**”) by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets to any person, except where:

- (a) (i) the consideration received by it or such Subsidiary is not less than the Fair Market Value of the assets or revenues disposed and (ii) immediately before or after giving effect to such disposal, no potential Event of Default shall have occurred and be continuing as a result of such disposal; or
- (b) such disposal is made to the Issuer or another wholly-owned Subsidiary of the Issuer.

“**Fair Market Value**” means with respect to any property or asset, the fair market value of such property or asset at the time of the event requiring such determination (i) in respect of any asset or property up to EUR 15,000,000, as determined in good faith by the Issuer; (ii) with respect to any asset or property in excess of EUR 15,000,000 but less than EUR 25,000,000, as confirmed by a board resolution of the Issuer; or (iii) with respect to any asset or property of EUR 25,000,000 or above, as determined by an independent appraiser (which shall be an investment banking firm, an accountancy firm, an appraiser or external audit firm, in each case which is reputable and in good standing, selected by the Issuer, provided it is not an affiliate of the Issuer or any Subsidiary).

6. **Interest**

The Notes bear interest from 25 May 2016 (the “**Issue Date**”), at the rate of 1.875 per cent. per annum, (the “**Rate of Interest**”) payable in arrear on 25 May in each year (each, an “**Interest Payment Date**”), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation of the corresponding Note Certificate, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be EUR 1,875 in respect of each Note of EUR 100,000 denomination and EUR 18.75 in respect of each integral amount of EUR 1,000 denomination thereafter. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount, where:

“**Calculation Amount**” means EUR 1,000;

“**Day Count Fraction**” means, in respect of any period, the number of days in such period, from (and including) the first day to (but excluding) the last day, divided by the number of days in the Regular Period in which such period falls; and

“**Regular Period**” means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

7. Redemption and Purchase

- (a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 25 May 2023, subject as provided in Condition 8 (*Payments*).
- (b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 16 (*Notices*) (which notice shall be irrevocable), at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, if:
 - (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Czech Republic or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 25 May 2016; and
 - (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this sub-paragraph, the Issuer shall deliver to the Fiscal Agent:

- (A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and
- (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Upon the expiry of any such notice as is referred to in this Conditions 7(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 7(b).

- (c) *Redemption at the option of the Noteholder following a put event*: If at any time while any Note remains outstanding, either of the following events occurs (each, as applicable, a “**Put Event**”):
 - (i) a Change of Control; or
 - (ii) a Restructuring Event; and
 - (A) (if at the start of the Put Event Period the Notes are rated by any Rating Agency with a rating above Investment Grade) a Rating Downgrade occurs below Investment Grade and the Notes are not restored by such Rating Agency within such Put Event Period to an Investment Grade rating; or
 - (B) (if at the start of the Put Event Period the Notes are rated by any Rating Agency with a rating below Investment Grade) a Rating Downgrade occurs and the Notes are not restored by such Rating Agency within such Put Event Period to a rating of a level equivalent to its rating at the start of the Put Event Period; or

- (C) (if at the start of the Put Event Period the Notes are not rated by any Rating Agency) within 21 days thereafter a rating in respect of the Notes has not been obtained which is at least as high as a rating equivalent to the lower of: (i) Investment Grade; or (ii) a rating that is three notches below the rating assigned to the Czech Republic at such time,

then the Holder of each Note will have the option (the “**Put Option**”) (unless, prior to the giving of the Put Event Notice (as defined below), the Issuer gives notice of its intention to redeem the Notes under Condition 6(b) (*Redemption for tax reasons*)) to require the Issuer to redeem that Note on the Optional Redemption Date (as defined below), at 100 per cent. of its principal amount together with (or, where purchased, together with an amount equal to) accrued interest up to but excluding the Optional Redemption Date.

For the purposes of this Condition:

“**Change of Control**” shall be deemed to have occurred if the government of the Czech Republic ceases to own, directly or indirectly (through any governmental agency or political subdivision thereof or otherwise), 75 per cent. or more of the issued ordinary share capital of the Issuer or otherwise ceases to have Control of the Issuer;

“**Control**” means the power to direct the management and policies or affairs of an entity, directly or indirectly, and whether through the ownership of voting capital, by contract or otherwise;

“**Put Event Period**” means the period: (i) commencing on the date that is the earlier of (A) the date of the first public announcement of the relevant Change of Control or Restructuring Event and (B) the date of the earliest Potential Put Event Announcement (as defined below), if any; and (ii) ending on the date which is 90 days after such date specified in (i) above;

“**Investment Grade**” means BBB-/Baa3, or their respective equivalents for the time being, or better;

“**Rating Agency**” means any of the following: (i) Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.; (ii) Moody's Investor Services, Inc.; (iii) Fitch Rating Limited or (iv) any other rating agency of equivalent international standing specified from time to time by the Issuer, and, in each case, their respective successors or affiliates;

a “**Rating Downgrade**” shall be deemed to have occurred if, within the Put Event Period, the rating assigned to the Notes by any Rating Agency is: (i) withdrawn; or (ii) lowered by one or more notches;

“**Potential Put Event Announcement**” means any formal public announcement or statement by the Issuer or a formal resolution of the government of the Czech Republic, relating to any specific or potential Change of Control or Restructuring Event to occur within 90 days of the date of such announcement or statement;

“**Relevant Cargo Assets**” means the shares in ČD Cargo, a.s.;

“**Relevant Passenger Assets**” means those assets relating to the operation of passenger rail services in the Czech Republic (including, for the avoidance of doubt, all regional, long-haul, high-speed and commercial passenger services), and including, *among others*, all engines, train sets, rolling stock, rail track, real estate and communication systems, which are necessary for the provision of such passenger rail services; and

“**Restructuring Event**” means any restructuring of the business of the Issuer and its Subsidiaries following the consummation of which there is a change in:

- (i) the legal or beneficial Control, and/or ownership of more than 50 per cent., of the Relevant Cargo Assets and/or its related cashflows, whether or not the Issuer or a Subsidiary of the Issuer continues to Control the operation of such Relevant Cargo Assets; or
- (ii) the legal or beneficial Control, and/or ownership of more than 50 per cent., of the Relevant Passenger Assets and/or its related cashflows, as determined by reference to the book value of such assets in the most recently published Audited Statements, whether or not the Issuer or a Subsidiary of the Issuer continues to Control the operation of such Relevant Passenger Assets.

Within three business days of the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a “**Put Event Notice**”) to the Noteholders in accordance with Condition 16 (*Notices*) specifying the nature of the Put Event and the circumstances giving rise to it and the procedure for exercising the Put Option contained in this Condition.

To exercise the Put Option, the Noteholder must deposit any applicable Note Certificate to the Specified Office of any Agent for the account of the Issuer within the period (the “**Put Period**”) of 45 days after the day on which the Put Event Notice is given, together with a duly signed and completed Put Option Notice in the form (for the time being current and substantially in the form set out in the Agency Agreement) obtainable from the Specified Office of any Agent.

Subject to the deposit of any such Note Certificates to the Specified Office of an Agent for the account of the Issuer as described above, the Issuer shall redeem the Notes in respect of which the Put Option has been validly exercised as provided above on the date which is 30 business days following the end of the Put Period (the “**Optional Redemption Date**”). No Note Certificate, once so deposited with a duly completed Put Option Notice in accordance with this Condition 7(c), may be withdrawn; *provided, however, that* if, prior to the relevant Optional Redemption Date, the Notes evidenced by any such Note Certificate become immediately due and payable or, upon due presentation of any such Note Certificate on or prior to the end of the Put Period, payment of the redemption moneys is improperly withheld or refused on the relevant Optional Redemption Date, the relevant Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note Certificate at its Specified Office for collection by the depositing Noteholder. For so long as any outstanding Note Certificate is held by an Agent in accordance with this Condition 7(c), the depositor of such Note Certificate and not such Agent shall be deemed to be the holder of the Notes evidenced by such Note Certificate for all purposes.

If the rating designations employed by the Rating Agency are changed from that which is described in the definition of “Investment Grade” above, or if a rating is assigned by another Rating Agency, the Issuer shall determine, with the agreement of the relevant Rating Agency, the rating designations which are most equivalent to the prior rating designations and this Condition 7(c) shall be construed accordingly.

- (d) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in sub-paragraphs (a) (*Scheduled Redemption*) to (b) (*Redemption for tax reasons*) above.
- (e) *Purchase:* The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.
- (f) *Cancellation:* All Note Certificates representing Notes so redeemed or purchased by the Issuer or any of its Subsidiaries shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Notes shall be cancelled forthwith. Any Note Certificate so surrendered for cancellation may not be reissued or resold and upon such cancellation the obligations of the Issuer in respect of any such Note shall be discharged.

8. Payments

- (a) *Principal*: Payments of principal shall be made by euro cheque drawn on, or, upon application by a Noteholder to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a euro account (or other account to which euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (b) *Interest*: Payments of interest shall be made by euro cheque drawn on, or upon application by a Noteholder to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a euro account (or other account to which euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System and (in the case of interest payable on redemption) upon the due date for payment.
- (c) *Interpretation*:
- In these Conditions:
- “**TARGET2**” means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;
- “**TARGET Settlement Day**” means any day on which TARGET2 is open for the settlement of payments in euro;
- and
- “**TARGET System**” means the TARGET2 system.
- (d) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (e) *Payments on business days*: Where payment is to be made by transfer to a euro account (or other account to which euro may be credited or transferred), payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Noteholder shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 8 arriving after the due date for payment or being lost in the mail. In this Condition 8(e), “**business day**” means:
- (i) in the case of payment by transfer to a euro account (or other account to which euro may be credited or transferred) as referred to above, any day which is a TARGET Settlement Day; and
- (ii) in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, any day on which banks are open for general business (including dealings in foreign exchange and foreign currencies) in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).
- (f) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note Certificate, the Issuer shall procure that the amount and date of such payment are noted

on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

- (g) *Record date:* Each payment in respect of a Note will be made to the Person shown as the holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the close of business on the relevant Record Date.

9. **Taxation**

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Czech Republic or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

- (a) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the Czech Republic other than the mere holding of the Note; or
- (b) more than 30 days after the Relevant Date except to the extent that the holder of such Note would have been entitled to such additional amounts on surrendering such Note Certificate representing such Note for payment on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in a city in which banks have access to the TARGET System by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 9 (*Taxation*).

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Czech Republic, references in these Conditions to the Czech Republic shall be construed as references to the Czech Republic and/or such other jurisdiction.

10. **Events of Default**

If any of the following events occurs and is continuing:

- (a) *Non-payment:* the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof (unless its failure to pay is caused by an administrative or technical error and the payment is made within 3 business days) or fails to pay any amount of interest in respect of the Notes within 30 days of the due date for payment thereof; or
- (b) *Breach of other obligations:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for 30 calendar days after written notice thereof, addressed to the Issuer by

any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or

(c) *Cross-default of Issuer or Subsidiary:*

- (i) any Indebtedness of the Issuer or any of its Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;
- (ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Subsidiary or (*provided that* no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or
- (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds EUR 15,000,000 (or its equivalent in any other currency or currencies); or

- (d) *Unsatisfied judgment:* one or more non-appealable judgment(s) or order(s) for the payment of an amount, individually or in the aggregate, exceeding EUR 15,000,000 (or its equivalent in any other currency or currencies) is rendered against the Issuer or any of its Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 calendar days after the date(s) thereof or, if later, the date therein specified for payment; or
- (e) *Security enforced:* a secured party (i) takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries or (ii) otherwise enforces any Security Interest over the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries; or
- (f) *Insolvency, etc:* (i) the Issuer or any of its Material Subsidiaries becomes insolvent (*předlužen*) or is unable to pay its debts as they fall due (*platebně neschopný*); (ii) any corporate action, legal proceedings or other procedure or step is taken in relation to: (1) the suspension of payments or a moratorium of any Indebtedness; (2) bankruptcy (*úpadek*) or discharge (*oddlužení*) of the Issuer or any of its Material Subsidiaries; or (3) a reorganization (*reorganizace*) or a similar arrangement with any creditor of the Issuer or any of its Material Subsidiaries unless the petition to commence such proceedings or procedure is discharged, stayed or dismissed within 30 calendar days of such commencement; (iii) an administrator, receiver, administrative receiver, compulsory manager, liquidator or other similar officer of the Issuer or any of its Material Subsidiaries or the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries is appointed; (iv) the Issuer or any of its Material Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it; or (v) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or
- (g) *Winding up, etc:* an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst the Issuer or such Material Subsidiary remains solvent); or

- (h) *Analogous event*: any event occurs which under the laws of the Czech Republic has an analogous effect to any of the events referred to in sub-paragraphs (d) (*Unsatisfied judgment*) to (g) (*Winding up, etc.*) above; or
- (i) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes, or
- (j) *Government intervention*: (i) all or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Subsidiaries is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government or (ii) the Issuer or any of its Subsidiaries is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets and revenues;

then Noteholders holding not less than one-quarter of the aggregate principal amount of the outstanding Notes may, by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, declare the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders.

11. **Prescription**

Claims against the Issuer for payment in respect of the Notes shall become void unless made within ten years (in the case of principal) or five years (in the case of interest) of the appropriate Relevant Date in respect of them.

12. **Replacement of Note Certificates**

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

13. **Agents**

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar, principal paying agent and additional or successor paying agents and transfer agents; provided, however, that the Issuer shall at all times maintain a fiscal agent and a registrar and a paying agent in an EU member state.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 16 (*Notices*).

14. **Meetings of Noteholders; Modification**

- (a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal

amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a “**Reserved Matter**”)) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification:* The Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of the Issuer, not materially prejudicial to the interests of the Noteholders.

15. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

16. **Notices**

Notices to the Noteholders shall be valid if published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) and/or the Luxembourg Stock Exchange's website, www.bourse.lu, or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading.

17. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

18. **Governing Law and Jurisdiction**

- (a) *Governing law:* The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.
- (b) *English courts:* The courts of England have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising out of or in connection with the Notes (including a dispute regarding any non-contractual obligation arising out of or in connection with the Notes) and accordingly, any suit, action or proceedings arising out of or in connection therewith (together referred to as “**Proceedings**”) may be brought in such courts.
- (c) *Appropriate forum:* The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) *Service of Process:* The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with Part 37 of the Companies Act 2006. If such Person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a Person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.
- (e) *Consent to enforcement etc.:* The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.
- (f) *Waiver of immunity:* To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

There will appear at the foot of the Conditions endorsed on each Note Certificate the names and Specified Offices of the Paying Agents, the Registrar and any Transfer Agents as set out at the end of this prospectus.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will be represented by a Global Note Certificate that will be registered in the name of a nominee for, and deposited with, the common safekeeper for Euroclear and Clearstream, Luxembourg.

The Notes are intended to be held in a manner which would allow Eurosystem eligibility – that is, in a manner which would allow the Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Interests in the Global Note Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See – “*Book Entry Procedures*”.

Except in the limited circumstances described below, owners of interests in the Global Note Certificate will not be entitled to receive physical delivery of Note Certificates. The Notes are not issuable in bearer form.

Exchange for Note Certificates

The Global Note Certificate will become exchangeable in whole, but not in part, for Note Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so, or (b) any of the circumstances described in Condition 9 (*Events of Default*) of the “*Terms and Conditions of the Notes*” occurs.

Whenever the Global Note Certificate is to be exchanged for Note Certificates, such Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Fiscal Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Amendment to the Terms and Conditions of the Notes

In addition, the Global Note Certificate will contain provisions which modify the “*Terms and Conditions of the Notes*” as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

Payments: Payments of principal and interest in respect of the Notes evidenced by the Global Note Certificate will be made against presentation for endorsement by the Fiscal Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of the Global Note Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note Certificate, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.

Payments on business days: In the case of all payments made in respect of the Global Note Certificate, “business day” means any day on which the TARGET System is open.

Payment Record Date: Each payment in respect of the Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the “**Record Date**”) where “Clearing System Business Day” means Monday to Friday inclusive except 25 December and 1 January.

Exercise of Put Option: In order to exercise the option contained in Condition 6(c) (*Redemption and Purchase—Redemption at the option of the Noteholder following a put event*) of the “*Terms and Conditions of the Notes*” the holder of the Global Note Certificate must, within the period specified in the “*Terms and Conditions of the Notes*” for the deposit of the relevant Note Certificate and Put Option Notice (as defined in Condition 6(c) (*Redemption and Purchase—Redemption at the option of the Noteholder following a put event*) of the “*Terms and Conditions of the Notes*”) deliver the same to the Specified Office of any Agent. Any such notice will be irrevocable and may not be withdrawn.

Notices: Notwithstanding Condition 15 (*Notices*) of the “*Terms and Conditions of the Notes*”, so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”), notices to Holders of Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System. A Notice will be valid if published, for so long as the Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of such exchange or of applicable law or regulations, such notices shall be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Prescription: Claims against the Issuer for payment in respect of the Notes while the Notes are represented by a Global Note Certificate shall become void unless it is presented for payment within ten years (in the case of principal) or five years (in the case of interest) of the appropriate Relevant Date (as defined in Condition 8 (*Taxation*) of the “**Terms and Conditions of the Notes**”), in respect of them.

Meetings: For the purposes of any meeting of Noteholders, the holder of the Notes represented by the Global Note Certificate shall (unless the Global Note Certificate represents only one Note) be treated as two persons for the purposes of any quorum requirements of, a meeting of Noteholders and as being entitled to one vote in respect of each integral currency unit of the currency of the Notes.

Events of Default: If principal in respect of any Note is not paid when due, the Holder of a Note represented by the Global Note Certificate may elect for direct enforcement rights against the Issuer under the terms of a Deed of Covenant executed as a deed by the Issuer on 25 May 2016 to come into effect in respect of a principal amount of Notes up to the aggregate principal amount in respect of which such failure to pay has occurred in favour of the persons entitled to such payment as accountholders with a clearing system. Following any such acquisition of direct rights, the Global Note Certificate and the corresponding entry in the register kept by the Registrar will become void as to the specified portion. However, no such election may be made in respect of Notes represented by the Global Note Certificate unless the transfer of the whole or a part of the holding of Notes represented by the Global Note Certificate shall have been improperly withheld or refused.

Book Entry Procedures

Custodial and depository links are to be established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See “—*Settlement and Transfer of Notes*” below.

Investors may hold their interests in the Global Note Certificate directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**”), and together with Direct Participants, “**Participants**”) through organisations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their

respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear and Clearstream, Luxembourg as the holder of a Note evidenced by a Global Note Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of a Global Note Certificate and in relation to all other rights arising under a Global Note Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note Certificate the common safekeeper by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective interests in the principal amount of the Global Note Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer expects that payments by Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by a Global Note Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of a Global Note Certificate in respect of each amount so paid. None of the Issuer, the Fiscal Agent or any other Agent (as named in the Fiscal Agency Agreement), will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in a Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in a Global Note Certificate held within a clearing system are exchanged for Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers, conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note Certificate to such persons may be limited.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of

Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

USE OF PROCEEDS

The Issuer will use the net proceeds of the issue of the Notes for general corporate purposes, including, without limitation, the repayment of certain financial indebtedness of the Group and the financing of the Group's investment plan (see "*Description of the Issuer—Business Strategy—Investment Plan*").

SELECTED FINANCIAL AND OPERATING INFORMATION

The following tables set out selected consolidated financial information relating to the Group. All information has been extracted from the audited consolidated financial statements of the Group for the years ended 31 December 2015 and 2014 (the “Financial Statements”). The Financial Statements have been prepared in accordance with IFRS. The Group’s statutory auditor is Deloitte Audit s.r.o.

Selected consolidated income statement data

	Year ended 31 December	
	2015	2014
	<i>(CZK thousands)</i>	
Revenues from principal operations.....	33,083,317	33,036,221
Other operating income	4,679,238	3,700,728
Purchased consumables and services	(16,935,870)	(16,271,198)
Employee benefit costs	(12,524,798)	(12,106,999)
Depreciation and amortisation.....	(6,221,891)	(5,884,708)
Other operating losses, net	(1,892,832)	(610,835)
Profit before interest and tax.....	187,164	1,863,209
Financial expenses.....	(1,427,523)	(1,219,510)
Other gains (losses), net	60,751	(114,650)
Share of income of joint ventures and associates.....	11,415	13,931
Profit (loss) before tax	(1,168,193)	542,980
Income tax expense	(206,804)	(386,774)
Profit (loss) for the year	(1,374,997)	156,206
Foreign exchange rate gains or losses from the transfer of foreign branches	(4,981)	(14,188)
Cash flow hedging	(364,751)	(280,325)
Relating income tax	(9,213)	(10,597)
Other comprehensive income (loss) for the year (items that may be reclassified in profit or loss), net of tax	(378,945)	(305,110)
Total comprehensive income (loss) for the year	(1,753,942)	(148,904)
EBITDA⁽¹⁾	6,409,055	7,747,917

Notes:

(1) Defined as profit (loss) before interest, tax, depreciation and amortisation. EBITDA is a measure not defined by IFRS and therefore should not be considered in isolation or as substitute for profit for the period as a measure of operating performance or for cash flows from operating activities as a measure of liquidity.

Selected consolidated balance sheet data

	As of 31 December	
	2015	2014
	<i>(CZK thousands)</i>	
Property, plant and equipment.....	74,332,726	74,999,328
Investment property.....	1,957,502	2,140,185
Intangible assets.....	569,143	594,896
Investments in joint ventures and associates.....	188,077	187,875
Deferred tax asset	27,596	5,858
Other financial assets.....	735,677	1,812,882
Other assets	26,546	106,998
Total non-current assets.....	77,837,267	79,848,022
Inventories	1,248,767	1,199,967
Trade receivables	3,452,721	3,127,474
Tax receivables	24,745	60
Other financial assets.....	760,875	125,807
Other assets	1,461,431	1,151,710
Cash and cash equivalents.....	3,972,429	4,042,971
Assets held for sale	33,550	49,454
Total current assets	10,954,518	9,697,443
TOTAL ASSETS	88,791,785	89,545,465
Share Capital.....	20,000,000	20,000,000
Reserve and other funds	15,760,054	16,046,019
Retained earnings	(161,526)	1,276,631
Equity attributable to equity holders of the parent company.....	35,598,528	37,322,650
Non-controlling interest.....	623,234	775,505
Total equity.....	36,221,762	38,098,155

Loans and borrowings	25,693,410	33,135,989
Deferred tax liability.....	887,530	751,416
Provisions	856,505	826,019
Other financial liabilities	1,510,850	1,183,234
Other liabilities	603,840	581,252
Total non-current payables	29,552,135	36,477,910
Trade payables	6,200,868	6,694,581
Loans and borrowings	11,498,193	3,646,394
Tax payables	12,140	88,951
Provisions	1,790,376	1,288,592
Other financial payables	684,109	654,401
Other payables	2,832,202	2,596,481
Total current payables	23,017,888	14,969,400
TOTAL LIABILITIES	88,791,785	89,545,465

Selected key indicators

	As of 31 December	
	2015	2014
	<i>(CZK millions, unless indicated otherwise)</i>	
EBIT ⁽¹⁾	187	1,863
Leverage ⁽²⁾	59.2%	57.5%
Current liquidity ⁽³⁾	47.6%	64.8%
Capital expenditures	6,500	5,945
Return on capital employed ⁽⁴⁾	0.3%	2.5%
Average full-time equivalent employees.....	23,947	24,163

Notes:

- (1) Defined as profit (loss) before interest and tax.
- (2) Defined as external funding divided by total assets.
- (3) Defined as short-term assets divided by short-term liabilities.
- (4) Defined as EBIT divided by total assets minus short-term liabilities.

Operating information

	Year ended 31 December	
	2015	2014
Passenger Transportation Business		
Number of passengers (millions)	169.7	170.1
Traffic performance ⁽¹⁾	7,170	6,952
Transport performance ⁽²⁾	117.8	119.0
Average traffic distance (kilometres)	42	41
Freight Transportation Business		
Traffic volume (millions tonnes)	66.4	68.6
Traffic performance ⁽³⁾	11,095	11,622
Transport performance ⁽²⁾	21.60	22.40
Average traffic distance (kilometres)	167	169

Notes:

- (1) In terms of the transport of one rail passenger by rail over a distance of one kilometre.
- (2) In terms of kilometres travelled by trains.
- (3) In terms of the transport of one tonne of freight by rail over a distance of one kilometre.

DESCRIPTION OF THE ISSUER

Overview

The Group is the largest railway transport provider in the Czech Republic, accounting for approximately 86.4 per cent. and 89.2 per cent. of all passenger railway transport as measured in passenger kilometres (i.e., the measurement of transport of one passenger over a distance of one kilometre) in 2015 and 2014, respectively, and 60.9 per cent. and 68.0 per cent. of all freight railway transport in the Czech Republic in terms of tonne-kilometres (i.e., the measurement of transport of one tonne of goods over a distance of one kilometre) in 2015 and 2014, respectively, according to preliminary data from the Ministry of Transport. The Group is also one of the largest employers in the Czech Republic, with an average number of employees of 23,947 for the year ended 31 December 2015.

The Group derives the bulk of its revenues from its railway operations, primarily its Passenger Transport Business, which offers passenger rail transport in the Czech Republic and other European countries, and its Freight Transport Business, which offers freight railway transport services across Europe. The Group's operations also include ancillary activities: its Asset Management Business includes the management, leasing and operation of certain Group assets, primarily real estate, and the Group's Other Business engages in providing telematics services to railway transport companies and railway infrastructure administrators, rolling stock repair services, testing services, railway transport research and development and railway catering services.

Revenues from principal operations of the Group's Passenger Transport Business represented 63.7 per cent. and 62.7 per cent. of its total revenues from principal operations for the years ended 31 December 2015 and 2014, respectively. In 2015, the Group had an overall passenger turnover of 7,170 million passenger-kilometres, a 3.1 per cent. increase compared to 6,952 million passenger-kilometres in 2014. Revenues from principal operations of the Group's Freight Transport Business represented 34.1 per cent. and 35.4 per cent. of its total revenues from principal operations for the years ended 31 December 2015 and 2014, respectively. In 2015, the Group had an overall freight turnover of 9,934 million tonne-kilometres, a 5.4 per cent. decrease compared to an overall freight turnover of 10,499 million tonne-kilometres in 2014. The Group's other revenues from principal operations represented 2.3 per cent. and 2.0 per cent. of its total revenues from principal operations for the years ended 31 December 2015 and 2014, respectively.

The Group primarily conducts its operations on the Czech State railway network, which is currently ranked the ninth largest railway network in the EU as measured by the length of lines operated in the country. According to the International Union of Railways ("UIC"), The Group is ranked the eighth largest railway transport operator in the EU in terms of the volume of passenger transport, providing a transport link between Eastern and Western Europe. The Group provides freight transport through its 100 per cent. owned subsidiary ČD Cargo, which was ranked the fourth largest railway transporter in the EU, in terms of tonnes carried in 2015, according to UIC.

General Information about ČD

The founder and sole shareholder of ČD is the State, which exercises its shareholder rights through a Steering Committee. ČD was incorporated and registered in the Commercial Register on 1 January 2003 after the passing of the Act on the Joint Stock Company Czech Railways (77/2002 Coll., as amended) (the "Act on Czech Railways").

ČD is a joint stock company, incorporated and operating under Czech law. Its registered office is at Nábřeží L. Svobody 1222, 110 15 Prague 1, Czech Republic, and its telephone number is +420 972 111 111. The identification number of ČD is 709 94 226 and it is registered in the Commercial Register maintained by the Municipal Court in Prague under Section B, Insert 8039. The registered share capital of ČD is CZK 20 billion divided into 20 shares with a nominal value of CZK 1 billion each. All shares have been issued and are fully paid.

No dividends have been declared or paid since ČD's incorporation. The Articles of Association of ČD do not allow for issuing preferred stock. ČD may benefit from dividends paid by its subsidiaries. The framework dividend policy of the Group stipulates that at least 51 per cent. of the funds made available for dividends are to be paid to ČD. The dividends received by ČD (on an unconsolidated basis) amounted to CZK 76.7 million in 2015 and CZK 116.8 million in 2014 according to the IFRS.

Relationship with the State

The Government exercises its rights as the sole shareholder of ČD by means of a Steering Committee. The members of the Steering Committee are appointed by the Government (see “–*Management – Steering Committee*”). In the past, the Government supported ČD through subsidies and by guaranteeing loans in the total amount of EUR 165.0 million provided to ČD between the years 2003 and 2007 through the European Company for the Financing of Railroad Rolling Stock (“EUROFIMA”), a supranational body supporting the development of rail transport in Europe, for financing purchases of rail vehicles. The maturity of each loan was ten years with bullet repayment. One of these loans, in the amount of EUR 30.0 million, provided in 2007 is due in April 2017; the remaining loans have been repaid.

In the years ended 31 December 2015 and 2014, the Group did not receive any financial support from the State and no support is planned in the future, except for the compensation pursuant to a contract for provision of regional and domestic long-distance passenger rail transport to the Czech Regions and the State (see “–*Pricing, Compensations and Tariff Regulation*” below for more information).

Relationship with SŽDC

Under the current legislation, the owner of the majority of railway routes in the Czech Republic is the State, represented by the state organization SŽDC. SŽDC is responsible for the operation of the Czech railway infrastructure, both national and regional, and for ensuring its operation, maintenance, modernization, development and repair as well as preparation of railway timetables. Further, SŽDC is responsible for the preparation and execution of public service contracts with railway transport providers and for controlling the use of railway infrastructure and rail operations. All railway transport providers need to have a contract with SŽDC and be allocated route capacity, which is provided at a price set for each year pursuant to a decree of the Ministry of Finance and a declaration issued by SŽDC pursuant to the Railway Act and published in the Transport and Tariff Bulletin.

SŽDC was incorporated together with ČD on 1 January 2003, as part of the restructuring of the former state organization Czech Railways. ČD assumed the assets used to operate railway transport and to ensure the serviceability of railway routes, while SŽDC took over the management of the railway infrastructure, i.e., railway construction and modernization, and represented the State as the owner of the railway infrastructure.

In July 2008, ČD formally transferred the role of servicing the railway infrastructure to SŽDC by transferring approximately 10,000 employees and the related assets for a purchase price of approximately CZK 12 billion. In September 2011, ČD transferred to SŽDC its railway operation services, i.e., traffic control and train operations services, which included approximately 9,300 of ČD’s employees for a purchase price of CZK 389.9 million. As a result, since 1 September 2011, ČD no longer performs any railway operation services, besides operation of minor railways owned by the Group which are primarily spur tracks, branch line and side tracks in the railway stations.

The transfer of the remaining assets relating to railway operation services from ČD to SŽDC, mainly consisting of railway operation buildings (with several exceptions including Prague – Masaryk Station or Brno Main Station) was approved by the Government in 2015, however the transfer is yet to be approved by ČD and SŽDC (see “– *Property – Expected Sale of Property*” below for more information).

Key Strengths

The Group believes that it benefits from the following key strengths:

- well-diversified operations with ČD Cargo’s revenues correlating to the industrial activity of the Czech economy;
- advantageous geographical position: the location of the Czech Republic in the centre of Europe facilitates pan-European transport, serving as a link between Eastern and Western Europe;
- know-how and assets: ČD has a dominant position for the provision of passenger rail transport within the Czech Republic and is in possession of decisive know-how and assets for the provision of a complex rail transport service, for instance the train depots, maintenance facilities and other infrastructure necessary for operations of rail transport as well as staff experienced in the industry;

- long-term contracts: ČD holds long-term contracts for the operation of passenger rail transport (see “*Material Contracts*” for more information);
- the Group’s network: the Group’s network is one of the most dense in Europe enabling it to compete effectively with road transport; and
- labour costs in the Czech Republic are lower than in some neighbouring countries.

Passenger Rail Transport

ČD’s provision of passenger rail transport benefits from the long-term operating contracts entered into with the Czech Republic and the Czech Regions (see “—*Material Contracts*” for more information). As ČD has transported over 80 per cent. of all rail passenger journeys in the Czech Republic per year, it has had an effective monopoly on passenger rail transport services in the country.

Freight Rail Transport

ČD Cargo operates in a fully competitive freight transport market and faces strong competition in all its segments, especially export, import and transit. Nevertheless, the Group believes that ČD Cargo enjoys a dominant share in the Czech freight rail transport market mainly due to the following advantages:

- it benefits from strong long-term relationships with its customers; and
- its end-markets are well-diversified, thus mitigating the risks associated with reliance on a limited number of product categories.

ČD Cargo’s market share in the year ended 31 December 2015 was as follows:

Tonne km (without empty rolling stock of carriers)	Freight rail transport (without empty rolling stock of carriers) Share of ČD Cargo (per cent.)
Local.....	82
Import.....	49
Transit.....	50
Export.....	48
Total.....	61

Source: Preliminary statistical data of ČD Cargo and Ministry of Transport

Business Strategy

The Group aims to maintain its dominant position in the market both in the passenger and freight segments. In addition to concrete steps being implemented by the passenger and freight units as outlined below, the management also intends to sell non-core assets (See “— *Property — Expected Sale of Property*” below) and implement cost reduction projects, in particular introduction of a central sourcing system, migration of service procurement into a new information system and optimisation of the management of the stock of spare parts and materials, that are aimed at further enhancing the Group’s efficiency (See “— *Relationship with SŽDC*” above).

The Group has a funding policy based on maintaining its access to diverse sources of funding (including leasing, supplier credits, bank debt and bonds) and a balance between short term and long term debt. Its funding policy involves reliance on a diversified banking pool (composed of domestic and international banks) and maintenance of adequate headroom under its bank lines. The Group’s funding policy requires its debt to be refinanced at least six months in advance of its maturity and to maintain sufficient headroom under any financial covenants related to its indebtedness.

Passenger Transport Business

ČD’s strategy in the passenger transport segment is to:

- further strengthen its competitiveness and profitability on key lines (lines with revenues above CZK 100 million per year);
- continue the modernisation of the rolling stock;

- further connect regional and long distance transport within integrated transport systems; ČD's integrated network is a unique competitive advantage and a barrier to entry for potential competitors;
- further implement the revenue management plan and dynamic tariffs for peak and non-peak hours; the project for the upgrade of the entire clearance system is being implemented and is expected to be completed in 2018;
- continuously improve ČD's channels for e-communication such as Facebook and Instagram, and simplify of the ticketing process; new e-applications and e-shop are expected to be released in the summer of 2016.

Freight Transport Business

ČD Cargo's strategy in the freight rail transport area is to keep its dominant position in the Czech rail freight transport market and to grow its European operations. For 2016, ČD Cargo intends to concentrate on the following fields of activity:

- expansion to foreign transport markets in cooperation with subsidiaries;
- investment in modern rolling stock and interoperable locomotives;
- optimization of internal processes with the goal of increasing productivity and competitiveness of ČD Cargo on the freight rail transport market;
- promotion of a customer friendly approach and strong sales support; and
- diversification of the portfolio of the transported commodities.

Investment Plan

The Group is enhancing the quality of its trains and rolling stock to increase the competitiveness of the services it offers in connection with the on-going opening of the passenger transport market to competition. The priority of the Group's investment plan for the period between 2016 and 2025 is to enhance the quality of service provided on the key lines and of rolling stock for tenders to operate rail passenger services. The investment plan anticipates that the acquisitions of the new rolling stock will be financed during the second EU programming period (between 2014 and 2020). The investment plan also anticipates that EU funds will be used for the installation of European Train Control System (the "ETCS") equipment to rail vehicles (of up to 663 locomotives, electric and diesel train units and driving cars), which is required pursuant to the European Rail Traffic Management System (the "ERTMS") National Implementation Plan. In addition to EU funds, these projects are expected to also be financed through a mixture of internal and external funds including, among others, the proceeds of the issue of the Notes. The investment plan contemplates investments up to the depreciation amount starting in 2017.

Passenger Transport Business

According to the current investment plan prepared in accordance with Czech GAAP and approved by the Board of Directors and Supervisory Board, ČD has budgeted to invest approximately CZK 19 billion (approximately EUR 700 million) by 2020 not taking into account subsidies, the majority of which has been allocated to the purchase of new rolling stock. ČD plans to modernise its rolling stock with the aim to reduce the average age of its vehicles to below 25 years by 2025. Therefore, it plans to invest, for the period between 2016 and 2025, CZK 23.7 billion (approximately EUR 860.0 million) not taking into account subsidies. The actual amount invested may, however, differ materially from the amount budgeted.

Regional

During the period between 2011 and 2015, ČD put more than 90 new electric and diesel multiple units into operation for regional passenger transport. Most trains were partially funded by the regional operating funds' subsidies provided by the EU under the Regional Operating Programmes. The total amount of subsidies granted to ČD reached CZK 2.9 billion and the total cost of the projects amounted to CZK 7.5 billion. For the second programming period, which ends in 2020, ČD is preparing a number of

projects for electric and diesel regional trains targeted at drawing subsidies from the Operational Programme Transport. On the basis of these projects, ČD may acquire up to 100 new train units for regional passenger transport. ČD expects the total amount of subsidies available under the Operational Programme Transport for regional trains to reach CZK 13.0 billion during the period between 2017 and 2020.

Long-distance

Under the modernisation programme introduced in 2010, ČD put into operation more than 325 modernised long-distance passenger coaches between 2011 and 2015. In 2015 and 2016, ČD signed contracts for the modernisation of additional 80 passenger coaches that can reach a speed of 160-200 km/h. At the end of 2015, new electric trains for domestic fast train lines started being delivered. Such deliveries will continue through 2016.

Since 2014, new Railjet high speed trains have been used on the Praha – Wien – Graz route in cooperation with ÖBB. In the second half of 2016, ČD intends to start operating modernised trains (up to 90 modernised passenger coaches which can reach a 200 km/h speed) on the Praha – Berlin – Hamburg route in cooperation with DB.

For the period between 2017 and 2020, ČD has announced tenders for framework contracts for the supply of up to 50 new electric and diesel trains to operate on routes announced for tenders in connection with the opening of the rail passenger market in the Czech Republic and for new passenger coaches that are able to reach a speed of 200 km/h and new multisystem electric locomotives. The trains for the tenders related to the opening of the market are to be funded by EU subsidies provided under the Operational Programme Transport. ČD expects the total amount of subsidies available under the Operational Programme Transport for long-distance trains to reach CZK 7.3 billion during the period between 2017 and 2020.

Commercial

On the key domestic route Praha – Ostrava, the Group intends to modernise the interior of its Pendolino high speed trains in order to improve the quality of ČD services. The Group expects the modernisation to take place in 2017 and 2018 and the total cost to amount to approximately CZK 168.0 million.

Freight Transport Business

According to the current investment plan for 2016 approved by the Supervisory Board of ČD Cargo on 16 December 2015 and the current mid-term investment plan included in a business forecast approved by the Board of Directors of ČD Cargo on 9 February 2016, ČD Cargo has budgeted to invest up to CZK 7.5 billion by 2020 (according to IFRS). The actual amount invested may differ materially from the amount budgeted.

ČD Cargo's investment plan is mainly based on the acquisition of new interoperable locomotives and other modern technology for international freight rail transport, and also on the modernisation and reconstruction of its existing fleet.

History

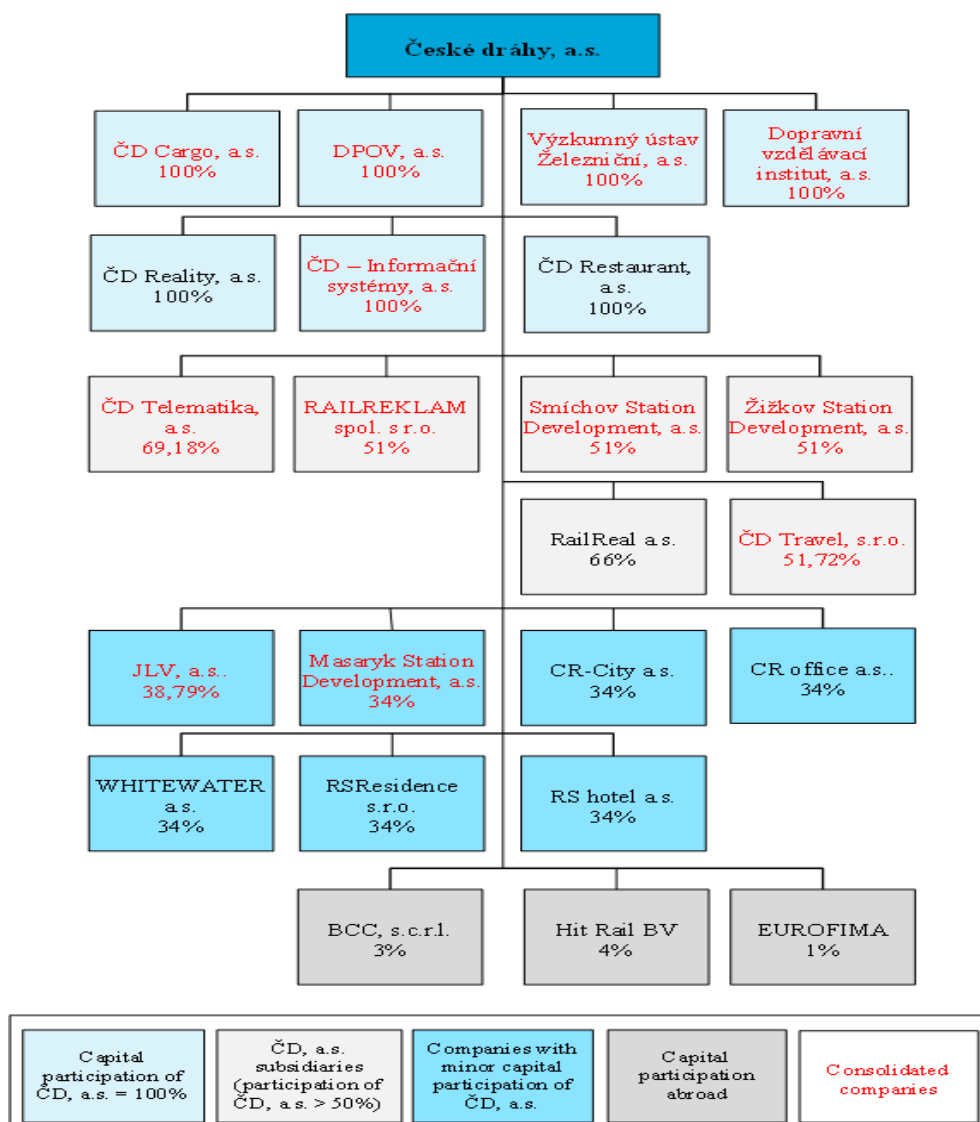
The following timeline provides an overview of the evolution of the Group:

- January 2003: ČD was incorporated and registered in the Commercial Register with the State as its sole shareholder.
- December 2007: ČD Cargo was formed as an independent joint-stock company and wholly-owned subsidiary of ČD as part of the restructuring of ČD. Since then, ČD has focused on operating passenger rail transport and ČD Cargo has taken over the operation of the railway freight transport business.
- July 2008: ČD transferred the role of servicing the railway infrastructure to SŽDC by transferring approximately 10,000 employees and the related assets for a purchase price of approximately CZK 12 billion.

- August 2011: ČD transferred the railway operation services to SŽDC by transferring approximately 9,300 ČD employees and related assets for a purchase price of CZK 389.9 million. As a result, ČD no longer performs any railway operation services as of 1 September 2011.
- June 2015 and July 2015: ČD increased its ownership interest in ČD Telematika from 59.31 per cent. to 66.70 per cent. and to 69.18 per cent., respectively.

Group Structure

The following chart provides an overview of the simplified Group structure as of the date of this Prospectus:



The Group comprises ČD and 23 subsidiaries. ČD holds majority interest in 13 of these subsidiaries. The following table provides an overview of companies that are consolidated in the Financial Statements as of and for the year ended 31 December 2015:

Subsidiary	Ownership Interest
	<i>(per cent.)</i>
ČD Cargo.....	100.0
DPOV, a.s. (“DPOV”).....	100.0
Dopravní vzdělávací institut, a.s. (“DVI”).....	100.0

ČD - Informační Systémy, a.s. (“ČD - Informační Systémy”)	100.0
Výzkumný Ústav Železniční, a.s. (“VUZ”)	100.0
CD Generalvertretung GmbH	100.0
CD - Generalvertretung Wien GmbH	100.0
Koleje Czeskie Sp. z o.o.	100.0
Generálne zastúpenie ČD Cargo, s.r.o.	100.0
Auto Terminal Nymburk, s.r.o.	100.0
ČD Logistics, a.s.	78.0
ČD - Telematika a.s. (“ČD Telematika”)	69.18
Terminal Brno, a.s.	66.93
ČD travel, s.r.o. (“ČD Travel”)	51.72
RAILREKLAM, spol. s r.o. ⁽¹⁾ (“Railreklam”)	51.0
Smíchov Station Development, a.s. ⁽¹⁾ (“SSD”)	51.0
Žižkov Station Development, a.s. ⁽¹⁾ (“ŽSD”)	51.0
ČD-DUSS Terminál, a.s.	51.0
RAILLEX, a.s.	50.0
JLV, a.s. (“JLV”)	38.79
Masaryk Station Development, a.s. (“MSD”)	34.0
BOHEMIAKOMBI, spol. s r.o.	30.0
Ostravská dopravní společnost, a.s.	20.0

Note:

(1) The articles of association require a unanimous consent of all shareholders for all resolutions falling within the scope of the general meeting.

The other subsidiaries are not consolidated in the Financial Statements as of and for the year ended 31 December 2015 as they were determined by ČD not to be of material importance to the Group according to total assets, revenues and equity. No shares of any of the companies within the Group are publicly traded on any regulated market.

The following table provides an overview of the key direct and indirect subsidiaries of ČD as of 31 December 2015:

Subsidiary	Description
ČD Cargo	<p>ČD has 100.0 per cent. ownership interest.</p> <p>ČD Cargo provides freight transport services with main deliveries comprising of industrial and agricultural products, raw materials, fuels, goods, containers and oversized loads. It also rents freight cars, railway sidings and provides other transport services.</p>
DPOV	<p>ČD has 100.0 per cent. ownership interest.</p> <p>DPOV is one of the leading companies in the Czech Republic providing rolling stock repair services. The principal role of DPOV in the Group is to provide periodic medium- and high-grade repairs, modernisations, renovations and other various types of common maintenance of railway vehicles. Besides the Group companies, the customers of DPOV include foreign railway companies, predominantly from Germany and Poland.</p>
VÚŽ	<p>ČD has 100.0 per cent. ownership interest.</p> <p>VÚŽ provides special testing services with the main activities being certification and compliance-assessment of products and quality systems with a special focus on products and sub-systems for the interoperability of the railway system. VÚŽ assesses conformity of defined products, including rolling stock, infrastructure, control command, signalling and energy, with European technical requirements.</p>
ČD Telematika	<p>ČD has 69.18 per cent. ownership interest.</p>

		<p>ČD Telematika provides telecommunications services, including internet, data, voice and other supplementary services. It also operates the second largest telecommunication infrastructure in the Czech Republic enabling ČD Telematika to offer services in relation to data access points, central data storage and server farms. ČD Telematika's customers mainly include large businesses or major telecommunications providers.</p>
JLV		<p>ČD has 38.79 per cent. ownership interest.</p> <p>JLV provides railway accommodation and catering services and the development of railway accommodation and catering services. JLV's significant partners in the field of catering are ČD and Deutsche Bahn. Other services provided by JLV also include operation of restaurants, bars, coffee shops and food stores.</p>
SSD		<p>ČD has 51.0 per cent. ownership interest. The articles of association require a unanimous consent of all shareholders for all resolutions falling within the scope of the general meeting.</p> <p>SSD was established to develop and service the Prague-Smíchov train station.</p>
ŽSD		<p>ČD has 51.0 per cent. ownership interest. The articles of association require a unanimous consent of all shareholders for all resolutions falling within the scope of the general meeting</p> <p>ŽSD was established to develop and service the Prague-Žižkov freight station.</p>
ČD Travel		<p>ČD has 51.72 per cent. ownership interest.</p> <p>ČD travel provides good quality, affordable holidays for a wide range of clients. It organises holidays both in the Czech Republic and abroad. Holidays abroad include transport service either by plane or bus, or, less often, by train. Most clients travel to Croatia, Greece and Turkey. The agency plans sightseeing tours in all parts of Europe. The number of clients in 2015 amounted to 15,000, which ranks it among other mid-sized travel agencies.</p>
ČD systémy	Informační	<p>ČD has 100 per cent. ownership interest.</p> <p>ČD Informační systémy provides IT services (including applications for passenger and freight rail transport and administration of railway infrastructure, SAP and other ERP (Enterprise Resource Planning) applications). It also operates central data storage and server farms.</p>
MSD		<p>ČD has 34.0 per cent. ownership interest. The articles of association require a unanimous consent of all shareholders for all resolutions falling within the scope of the general meeting</p> <p>MSD develops and services the Prague-Masarykovo nádraží train station.</p>
RAILREKLAM		<p>ČD has 51.0 per cent. ownership interest. The articles of association require having a unanimous consent of the parties for significant resolutions of the general meeting of the shareholders.</p> <p>RAILREKLAM rents advertising space at stations and on trains.</p>
DVI		<p>ČD has 100 per cent. ownership interest.</p> <p>DVI provides training and education for workers in the railway sector.</p>

Business Overview

The Group operates through four principal businesses segments: the Passenger Transport Business, the Freight Transport Business, the Asset Management Business and Other Business. The Group's Passenger Transport Business includes regional, domestic and international long-distance and commercial transport. The Group's Freight Transport Business includes the provision of comprehensive freight transport across Europe. The Group's Asset Management Business includes the management, leasing and operation of certain Group assets, primarily real estate. Other Business activities the Group undertakes include provision of telematic services to railway transport companies and railway infrastructure administrators, rolling stock repair services, testing services, railway transport research and development and railway accommodation and catering services.

The Group's overall economic performance for the year ended 31 December 2015 resulted in a loss of CZK 1,375 billion. This result was mainly due to one-off costs: an arbitration award in the dispute with Škoda Transportation a.s. of approximately CZK 700 million, large-scale closures (resulting in a loss of approximately CZK 500 million), an accident involving a Pendolino train, and increases of certain other expenses. The low prices of fuel and energy had a positive impact on ČD Group's expenses. However, the price decline related to fuel and energy particularly improved road carriers' competitive potential, resulting on part of the railway transport being transferred to road transport.

The table below outlines key financial data for the Group's businesses for the years ended 31 December 2015 and 2014:

	Year ended 31 December	
	2015	2014
	<i>(in CZK millions)</i>	
Passenger Transport Business		
Revenues from principal operations	21,075	20,723
Total revenue from principal operations and other operating income (sales)	23,255	22,335
Purchased consumables and services.....	(9,009)	(8,619)
Staff costs	(7,056)	(6,877)
EBITDA from continuing operations	4,236	4,519
Depreciation/amortization.....	(4,580)	(4,397)
EBIT from continuing operations	(344)	122
Profit (loss) for the period	(1,398)	(865)
Asset Management Business		
Revenues from principal operations	0	0
Total revenue from principal operations and other operating income (sales)	1,001	927
Purchased consumables and services.....	(478)	(502)
Staff costs	(258)	(260)
EBITDA from continuing operations	(400)	135
Depreciation/amortization.....	(230)	(240)
EBIT from continuing operations	(630)	(105)
Profit (loss) for the period	(619)	(92)
Freight Transport Business		
Revenues from principal operations	13,132	13,629
Total revenue from principal operations and other operating income (sales)	13,891	14,124
Purchased consumables and services.....	(7,542)	(7,735)
Staff costs	(3,978)	(3,808)
EBITDA from continuing operations	2,172	2,554
Depreciation/amortization.....	(1,210)	(1,075)
EBIT from continuing operations	962	1479
Profit (loss) for the period	480	877
Other		
Revenues from principal operations	0	0
Total revenue from principal operations and other operating income (sales)	4,207	3,684
Purchased consumables and services.....	(2,949)	(2,533)
Staff costs	(1,397)	(1,353)
EBITDA from continuing operations	615	581
Depreciation/amortization.....	(332)	(332)
EBIT from continuing operations	283	249
Profit (loss) for the period	276	255
Elimination and reconciliation⁽¹⁾		
Revenues from principal operations	(1,124)	(1,316)
Total revenue from principal operations and other operating income (sales)	(4,592)	(4,333)
Purchased consumables and services.....	3,042	3,118
Staff costs	164	191
EBITDA from continuing operations	(215)	(41)
Depreciation/amortization.....	130	159
EBIT from continuing operations	(85)	118
Profit (loss) for the period	(114)	(19)
Total		
Revenues from principal operations	33,083	33,036
Total revenue from principal operations and other operating income (sales)	37,762	36,737
Purchased consumables and services.....	(16,936)	(16,271)
Staff costs	(12,525)	(12,107)
EBITDA from continuing operations	6,408	7,747
Depreciation/amortization.....	(6,222)	(5,885)
EBIT from continuing operations	186	1,862
Profit (loss) for the period	(1,375)	156

Notes:

(1) The "Elimination and reconciliation" section describes eliminations of intergroup relations.

The table below outlines key operating data of the Group for the years ended 31 December 2015 and 2014:

Operating information

	Year ended 31 December	
	2015	2014
Passenger Transportation Business		
Number of passengers (millions).....	169.7	170.1
Traffic performance ⁽¹⁾	7,170	6,952
Transport performance ⁽²⁾	117.8	119.0
Average traffic distance (kilometres)	42	41
Freight Transportation Business		
Traffic volume (millions tonnes).....	66.4	68.6
Traffic performance ⁽³⁾	11,095	11,622
Transport performance ⁽²⁾	21.60	22.40
Average traffic distance (kilometres)	167	169

Notes:

- (1) In terms of the transport of one rail passenger by rail over a distance of one kilometre.
- (2) In terms of kilometres travelled by trains.
- (3) In terms of the transport of one tonne of freight by rail over a distance of one kilometre.

Passenger Transport Business

The Group provides passenger transport through ČD. The Passenger Transport Business consists of three segments: regional passenger transport, long-distance passenger transport (domestic and international) and commercial passenger transport (i.e., on the non-regulated Prague – Ostrava route), with each of these activities varying in revenues and profitability.

The Group's Passenger Transport Business generated total revenue from principal operations and other operating income (sales) of CZK 23,255 million and EBITDA of CZK 4,236 million in the year ended 31 December 2015, which represented 55.0 per cent. of its total sales (in each case before eliminations).

The Group's Passenger Transport Business remains unprofitable on a stand-alone basis, as tariffs are set below economically reasonable levels to keep prices set at a level affordable to end users, which does not cover the cost of the service to the Group. Revenues are generated from tickets sales and from compensation received from the Czech Regions and from the Ministry of Transport. Due to the high density of the network and low occupancy rates, regional rail transport is, to a large extent, dependent on the compensation received. Compensation from the State budget totalled CZK 4,409 million and CZK 4,250 million in 2015 and 2014, respectively, and compensation from budgets of the 14 Czech Regions amounted to CZK 9,105 million and CZK 8,978 million in 2015 and 2014, respectively. The segment of long-distance transport has shown positive trends and higher levels of financial self-sustainability.

Regional Passenger Transport

Regional transport comprises transport of passengers over short distance in day coach trains. The main purpose of the regional routes is to serve local communities at regulated prices. In 2015, regional transport volumes represented approximately 38.2 per cent. of total passenger-kilometres services provided by ČD in terms of train kilometres. The volumes of regional transport remained approximately the same in 2015 as compared to 2014: regional transport volumes amounted to 2,739 million passenger-kilometres in the year ended 31 December 2015 and 2,734 million passenger-kilometres in the year ended 31 December 2014, and represented approximately 33.5 per cent. and 34.2 per cent. of total revenues of the of the Group's Passenger Transport Business (excluding any compensations received from the State and Czech Regions and revenues from operations of ČD's coaches abroad) in the years ended 31 December 2015 and 2014, respectively. Regional services are provided to all fourteen Czech Regions.

Passenger transport is provided by ČD on the basis of long-term contracts concluded with all Czech Regions which specify remuneration to be provided for the public service obligation carried out by ČD. Most of these contracts are to expire in 2019. (see “– Pricing, Compensation and Tariff Regulation – Passenger Transport Business – Regional – Overview” and “– Material Contracts” for more information).

ČD strengthens its business mainly by modernization of rolling stock and by increasing the quality of its services (including complementary services, thus creating a complex transport product). In the last two years, there has been a focus on the implementation of e-applications, e-shop platform and on the introduction of dynamic tariffs and revenue management principles.

Current Czech legislation allows for the liberalization of the regional railway transport market and Czech Regions may undertake tenders on a competitive basis. However, the only Czech Regions that have held tenders are the Liberec Region, the Ústí Region and the South Bohemian Region. ČD still operates the routes in the Liberec Region. In the Ústí Region, five local routes are operated by privately owned companies and the service runs only on weekends from March until October. The tender organized by the South Bohemian Region has not been concluded yet. The Liberec Region and the Ústí Region have published in the Official Journal of the EU their intention to organize open tenders with relation to specific regional routes for the period following the expiry of the existing long-term contracts between ČD and the respective Czech Regions in 2019. The Group believes that no further tender will take place before the expiration of the current long-term regional contracts in 2019, but there is no assurance that this will be the case (see “*Risk Factors – Failure to renew contracts between ČD and the Czech Regions for regional passenger rail transport and the State for long-distance passenger rail transport or changes in compensation payable pursuant to these contracts could have a material adverse effect on the Group’s business, results of operations, credit rating or financial position.*” for more information). As of the date of this Prospectus, ČD retains a dominant position in the passenger rail transport market.

Other providers of regional passenger transport include:

- a privately owned company GW Train Regio (formerly Viamont a.s.) operates five routes in the Karlovarský and Královehradecký regions, including the Karlovy Vary - Mariánské Lázně route and the Sokolov – Kraslice route. In the Moravskoslezský region it operates the Vrbno – Milovice route and in the Liberecký region it operates the Kořenov – Harrachov national border line;
- a privately owned company Veolia Transport operates the Šumperk - Kouty nad Desnou route;
- Vogtlandbahn-GmbH, a subsidiary of Italian rail operator Ferrovie dello Stato Italiane, operates the Liberec – Zittau route;
- a privately owned company Jindřichohradecká místní dráha operates two routes – Jindřichův Hradec – Nová Bystřice and Jindřichův Hradec – Obrataň;
- the German company Arriva, a subsidiary of Deutsche Bahn, operates the Prague – Benešov route and the Prague – Trenčín, Slovakia route;
- a privately owned company KŽC Doprava operates two routes in the Ústecký Region – Česká Kamenice – Kamenický Šenov and Libochovice – Roudnice nad Labem;
- a privately owned company Railway Capital operates two routes in the Ústecký Region – Kadaň-Pruněřov – Podbořany and Lovosice – Třebívlice – Most; and
- a privately owned company MBM rail operates the Ústí nad Labem-Střekov – Zubrnice route.

In March 2016, the Government approved the funding mechanism for Czech Regions and their respective regional passenger transport until 2034. The approved document retains the current mechanism, i.e., the Czech Regions are not obliged to undertake tenders on a competitive basis (but may choose to do so).

Long-Distance Passenger Transport (domestic and international)

Domestic long-distance transport includes all services except for the Prague – Ostrava route (due to its non-regulated nature, this service is included in *Commercial Passenger Transport* below). International long-distance transport offers services to various countries in Europe, including a daily service from the Czech Republic to Germany, Poland, Slovakia, Hungary and Austria.

In 2015, long-distance transport represented approximately 50.9 per cent. of total passenger-kilometres services provided by ČD in terms of train kilometres and generated approximately 54.5 per cent. of total revenues of the Group’s Passenger Transport Business (excluding any compensation paid by the Czech

Regions and the State and revenues from operations of ČD's coaches abroad) It is provided pursuant to an agreement entered into with the Czech Republic acting through the Ministry of Transport. Pursuant to the agreement, ČD secures both domestic and international routes on the basis of the public service obligation until 2019. Revenues are generated from tickets sales and from compensation received from the Ministry of Transport due to the prices set by the State.

ČD's key international operations are based on the long-term contracts (for five years, with the option to extend for an additional five years) with DB and ÖBB and the Convention concerning International Carriage by Rail between national passenger rail transport operators. The Convention stipulates that only national carriers may operate the route within the borders of the relevant country. Although proceeds from ticket sales are collected by the carrier where the passenger embarks the journey, revenues are shared between national carriers according to the distance travelled in respective countries. Settlement of the revenues is undertaken by a clearing house once a month.

ČD continues to extend cooperation on key international lines with other foreign national railway operators in Germany, Poland, Slovakia, Austria and Hungary. The Group's revenues from operations on these lines represent a high share of its total revenues. In 2014, ČD started Railjet operations on the Prague – Wien – Graz route under a ten-year contract entered into with its strategic partner ÖBB. In May 2014, ČD entered into a five-year contract (with an option to extend for five more years) with Deutsche Bahn for servicing the Prague – Berlin – Hamburg route and in June 2015, ČD entered into a five-year contract (with an option to extend for five more years) with ZSSK for the international daily service between the Czech Republic and Slovakia. Operation of a new express segment on the Prague – Linz route is expected to commence in 2017 and long-term cooperation with a German partner on the Prague – Munich route is expected to commence in 2018.

Commercial Passenger Transport

In 2015, commercial transport volumes represented approximately 10.9 per cent. of total passenger-kilometres services provided by ČD in terms of train kilometres and amounted to 12.0 per cent. of total revenues of the Group's Passengers Transport Business.

In the non-regulated commercial passenger transport market, the Prague-Ostrava-Košice (SK) line is the line subject to the highest competition. ČD's two main local competitors, Leo Express and RegioJet, have significantly increased the level of service provided to customers on this line since the commencement of their operations in 2012 and 2011, respectively. As a reaction to this market change, ČD has undergone several cost optimisation and customer oriented reforms in 2015 (mainly focused on differentiating its products Ex and SC Pendolino, improving the service in SC Pendolino's first class, improving catering services, and providing a broader variety of services in the second class and new services for children, such as cinemas, increase in the number of coaches with Wi-Fi, new on-board portal (infotainment), new on-board minibars, a new loyalty program, dynamic tariff and the general modernisation of Ex coaches). ČD has also opened a tender for the modernization of SC Pendolino coaches. After implementation of these cost optimisation and customer oriented reforms, the decrease in revenues on this line has been offset by a decrease in expenses resulting from these cost optimisation reforms.

Further competition from bus operators and the planned partial opening of the long distance market starting in 2017 are increasing passenger's quality requirements for transport services. ČD is therefore currently opening tenders for modernization of its rolling stock according to its investment plan. The modernisation programme's focus is on the increase of ČD's competitiveness in the long distance transport segment. With the aim of decreasing the total debt of ČD, the Group plans to reinvest in the acquisition of new rolling stock and the modernisation of existing rolling stock only on the key lines which generate the majority of ČD's revenues in the long distance transport sector.

According to statements made by RegioJet a.s., it also aims to commence the operation of regular passenger services on other routes currently exclusively operated by ČD. (See "*Risk Factors — Risks Related to the Group's Business and Industry — Business risks — The Group is exposed to competition from other providers of rail transport, which may adversely affect the Group's market position, results of operations or financial position*" for more information).

The Ministry of Transport announced in February 2016 that regulation of all companies operating on the Prague – Ostrava route might be introduced due to the high traffic volume, which is expected to negatively impact the operation of regional passenger transport and freight transport.

Freight Transport Business

The Group provides freight transport services through ČD Cargo and its subsidiaries.

The Group's Freight Transport Business generated total revenue from principal operations and other operating income (sales) of CZK 13,891 million and EBITDA of CZK 2,172 million in the year ended 31 December 2015, which represented 33 per cent. of its total sales (in each case before eliminations).

ČD Cargo is one of the largest providers of freight rail transport in Europe and the only provider to service the entire area of the Czech Republic. ČD Cargo offers comprehensive transport of a wide range of products across Europe, from raw materials to consumer products and products with high added value (such as automotive and machinery products), as well as containers and non-standard consignments such as military equipment or large construction components. The Group's Freight Transport Business is divided into two main segments: transport of whole trains and transport of individual wagon loads (i.e. single-wagon business).

As of the date of this Prospectus, ČD Cargo is not a beneficiary of any compensation from the State as its services are provided solely on a commercial basis.

The Group's Freight Transport Business further offers certain ancillary services, such as renting of wagons and locomotives, forwarding services, storage and the delivery of goods, operations of railway sidings, customs services, storage or maintenance and repairs of traction vehicles.

The following map shows the import and export freight transport routes, including ports, operated by the Group's Freight Transport Business in the year 2015:



The table below sets forth the composition of the freight transported by the Group's Freight Transport Business for the years ended 31 December 2015 and 2014:

	Year ended 31 December	
	2015	2014
	<i>(in millions of tonnes)</i>	
Solid fuels	16.3	15.0
Metal and mining	14.2	14.8
Large containers	8.7	12.2
Building materials	4.5	4.1
Automotive	1.7	1.5
Other	21.0	21.0
Total	66.4	68.6

In 2015, the Group had an overall freight turnover (including empty runs) of 11,094 million tonne-kilometres (i.e., the measurement of transport of one tonne of goods over a distance of one kilometre), a 4.5 per cent. decrease as compared to an overall freight turnover of 11,622 million tonne-kilometres in 2014. This change was primarily due to a decrease in the transport of large containers because a major client started insourcing the transport of containers and due to a large-scale strike of locomotive drivers in Germany.

The freight market can be divided into local, transit, export and import. Combined freight volumes of transit, export and import represented together approximately 59.0 per cent. and 65.5 per cent. of ČD Cargo's freight volumes in 2015 and 2014, respectively. The remaining segment of the freight market is the local market (approximately 41.0 per cent. of total volumes in 2015) where ČD Cargo dominates the market and operates the largest railcar fleet.

The table below sets forth the composition of the freight transported by the Group's Freight Transport Business for the years ended 31 December 2015 and 2014:

	Year ended 31 December			
	2015		2014	
	<i>(in million tonnes)</i>	<i>(%)</i>	<i>(in million tonnes)</i>	<i>(%)</i>
Local	27.2	41.0	23.7	34.4
Export	12.8	19.3	16.3	23.8
Import	20.1	30.3	21.9	32.0
Transit	6.3	9.4	6.7	9.8
Total	66.4	100	68.6	100

As of the date of this Prospectus, the main customers of the Group's Freight Transport Business, with most of which the Group has long-term contracts, are NH - TRANS, SE, CARBOSPED, spol. s r.o., MORAVIA STEEL a.s., Maersk Line A/S, ČEZ, a. s., EP Cargo a.s.

Asset Management Business

The Group's Asset Management Business includes the management, leasing and operation of certain assets of the Group, mainly real estate: as of 31 December 2015, the Group administered 6,025 buildings, of which 1,153 were railway stations.

The Group's Asset Management Business generated total revenue from principal operations and other operating income (sales) of CZK 1,001 million and negative EBITDA of CZK 400 million in the year ended 31 December 2015, which represented 2 per cent. of its total sales (in each case before eliminations). Other key figures are stated in the table above.

In 2003, ČD as lessor and Grandi Stazioni Česká republika, s.r.o. as lessee entered into three lease agreements regarding Prague Main Station, Karlovy Vary Station and Mariánské Lázně Station, respectively. Grandi Stazioni Česká republika, s.r.o. undertook to renovate the station buildings and after the renovation had been completed, it started subletting the premises to stores, restaurants and other tenants in order to recoup its investment. The lease agreement regarding Prague Main Station is set to expire in October 2016 with an option to extend the agreement until 2046. The lease agreement for the station in Karlovy Vary was cancelled in 2010, and the agreement for the Mariánské Lázně station was extended until 2039. Karlovy Vary Station is no longer owned by ČD; Prague Main Station and

Mariánské Lázně Station are expected to be transferred to SŽDC as a part of the contemplated asset sale, including the lease agreements. See “—Property—Expected Sale of Property—Expected Sale of Property Related to the Railway Operation”. In 2008, ČD as lessor and a privately owned company Brno new station development a.s. as lessee entered into the lease agreement regarding the Brno Main Station and the adjacent land plots. The lease agreement is to expire in 2048.

The Group owns 1,153 railway stations. The long-term condition of some of the railway stations is poor, requiring significant expenses for their maintenance, repairs and renovations. In terms of the current needs and services provided, many railway station buildings are significantly oversized. Optimising the management of railway station buildings is part of the efforts made by ČD in finding a solution to funding the operations of publicly-accessible premises. For the use of these buildings to be economically sustainable, they will have to undergo construction optimisation so that their premises can be used for the provision of services related to transport and related commercial services. In addition, the railway stations are part of the railway route under the Act on Railways and ČD has to provide access to publicly-accessible premises to other transporters in a non-discriminatory manner. As a result, ČD is working at developing a method for how to charge for access, or a fair division of the costs among the involved transporters. The costs of maintenance (including, among others, energy, repairs, employees, services and depreciations) of the railway stations owned by the Group were CZK 648 million and CZK 639 million in the years ended 31 December 2015 and 2014, respectively. The Group is finalizing the process of selling the majority of the above railway stations to SŽDC (See “— Property – Expected Sale of Property – Expected Sale of Property Related to the Railway Operation” for more details).

In 2008, ČD commenced the process of selling its non-core assets including buildings and land plots to private investors. The final stage of this process is ongoing as of the date of this Prospectus (see “— Property – Expected Sale of Property” below for more information). Further, intensive renovation works were undertaken at the Prague Main Station and the Prague - Masaryk Station in 2015.

Other Business

Other activities the Group undertakes include provision of telematic services to railway transport companies and railway infrastructure administrators, rolling stock repair services, certain IT services, educational services, testing services, railway transport research and development, travel services, advertising and railway catering services.

The Group’s Other Business generated total revenue from principal operations and other operating income (sales) of CZK 4,207 million and EBITDA of CZK 615 million in the year ended 31 December 2015, which represented 10 per cent. of its total sales (in each case before eliminations). For further information see “*Description of the Issuer—Group Structure*”.

Pricing, Compensation and Tariff Regulation

Passenger Transport Business – Regional

Overview

Regional passenger transport is governed by long-term contracts entered into between ČD and the Czech Regions. In 2009, the Government signed a Memorandum which allocates funds from the State budget in the amount of CZK 2.649 billion per year (allocated to each of the Czech Regions according to volume of transport undertaken; the amount is indexed every year according to the average annual consumer price index) to be made available to the Czech Regions in the form of compensation to pay for the provision of railway transport services in the Czech Regions in a given year (see “— Business Overview – Passenger Transport Business – Regional Passenger Transport” for more information.). According to Memorandum, approximately 98.0 per cent. of the total compensation for the Czech regions is paid to ČD.

The compensation equals the amount of estimated eligible costs (which include, among other things, depreciation of long-term assets, such as the rolling stock used for operation of the relevant lines) including a 2 per cent. margin to allow for a reasonable profit associated with the provision of passenger transport. The compensation is pre-agreed each year based on projections and paid to ČD monthly on a pro-rata basis (therefore not constraining ČD in terms of liquidity). At the end of the year, the difference between estimated costs and actual figures is settled. ČD believes it can achieve profit of up to 5 per cent.

resulting from higher efficiencies or higher revenues with respect to the original projections. The pre-agreed compensations can be adjusted in case of higher energy costs of more than 10 per cent., or of an increase of the fee for using the rail infrastructure beyond the inflation rate, or if there are any changes to the taxation system. These costs are indexed on an annual basis according to the consumer price index.

In its resolution No. 590 dated 20 July 2011, the Government resolved to reduce the funds payable to the Czech Regions under the Memorandum from CZK 2.649 billion to CZK 2.049 billion per year from 2012 to 2014, thereby disregarding the terms of the Memorandum. While the Government has never formally repealed this resolution, from 2012 up to the date of this Prospectus, the State has nevertheless been providing the Czech Regions with the amount of funds specified in the Memorandum. However, the Group cannot provide any assurance that the Government will follow the terms of the Memorandum in the future. Any failure by the Government to follow the terms of the Memorandum could lead to a decrease in the compensation payable to ČD for verifiable losses incurred by ČD when providing regional passenger rail services.

In its resolution No. 191 dated 9 March 2016, the Government approved the participation of the State in the funding of regional passenger rail transport services between 2020 and 2034. Total funding to be provided by the State in 2020 will be CZK 2.859 billion. Most of the long-term contracts entered into between ČD and the Czech Regions or the State concerning the provision of rail passenger services by ČD expire in 2019. The Group is currently negotiating with the regional authorities and other relevant bodies to enter into contracts for public transport services upon the expiration of the current contracts in 2019. Approximately 14.0 per cent. of ČD's obligations have already been secured beyond 2019. The potential competitors for the new long-term contracts with the Czech Regions are the privately held companies currently operating in the Czech Republic, in particular RegioJet a.s. and LEO Express a.s., as well as significant passenger rail operators from neighbouring countries, such as the German Deutsche Bahn or its subsidiary Arriva (see "*Risk Factors — Failure to renew contracts between ČD and the Czech Regions for regional passenger rail transport and the State for long-distance passenger rail transport or changes in compensation payable pursuant to these contracts could have a material adverse effect on the Group's business, results of operations, credit rating or financial position*" for more information).

Liberalisation of the regulated regional passenger transport in the Czech Republic

Pursuant to the long-term contracts between ČD and the Czech Regions, most of which are to expire in 2019, six of the Czech Regions may undertake tenders on a competitive basis in the next eight years which represented approximately 38 per cent. of train-kilometres in 2010. As of the date of this Prospectus, the only Czech Regions that have undertaken such public tenders are the Liberec Region, the South Bohemian and the Ústí Region. In addition, two Czech Regions (the Ústí Region and the Liberec Region) published in 2015 and 2016, respectively, in the Official Journal of the EU their intention to organise tenders with relation to certain specific regional routes for the period following the expiry of the existing long-term contracts between ČD and these Czech Regions in 2019. In February 2016, the regional assembly of the South Moravian Region approved a plan to purchase passenger train units worth CZK 7 billion (approximately EUR 259 million) which are to be operated after the long-term contract with ČD expires in 2019 by an operator which is yet to be selected by the region. ČD believes it is unlikely that the market will open again before the end of the current contracts. It is also anticipated that the regional transport market opening might attract a smaller number of new entrants as compared to long-distance passenger transport due to its greater reliance on regional compensation and the regional areas are less profitable routes. Such entrants may also include Czech low-cost passenger rail operators, such as privately held RegioJet a.s. and LEO Express a.s., as well as significant passenger rail operators from neighbouring countries, such as the German Deutsche Bahn's subsidiary Arriva.

Passenger Transport Business - Long-Distance (domestic and international)

Overview

Long-distance passenger transport is provided pursuant to an agreement with the State which has similar terms and conditions to the contracts governing regional passenger transport (see "*Business Overview – Passenger Transport Business – Regional Passenger Transport*" for more information).

The compensation covers estimated losses and is equal to the amount of estimated eligible costs (which include, among other things, depreciation of long-term assets, such as the rolling stock used for operation of the relevant lines) less sales, including fair profit and can be adjusted in case of higher energy costs of

more than 10 per cent., higher profit of more than 5 per cent., changes in transport volume or changes in taxation. Unless mutually agreed upon, changes to volumes of transport for the purposes of calculations do not deviate by more than 5 per cent. from the actual volumes from the previous year.

Liberalisation of the regulated long-distance passenger transport in the Czech Republic

Long-haul rail transport is regulated by the State through the Ministry of Transport. Gradual liberalisation has been discussed since 2004. ČD signed a long-term contract with the Czech Republic acting through the Ministry of Transport in 2009, which outlines the possibility of the gradual opening of this market segment to competition by organising tenders for logically and operationally linked parts of the transport timetable. Over the ten-year period of the contract, each year up to 15 per cent. of the long-haul segment (measured according to the 2010 schedule), may be gradually tendered so that by 2019 up to 75 per cent. of the total transport timetable may have been allocated in tenders. The volume of transport services ordered by the Czech Republic acting through the Ministry of Transport for the 2010 schedule was 38 million train-kilometres.

In connection with the opening of the passenger rail market in the Czech Republic, the Government established the timetable for tenders of particular railway lines in Resolution No.758/2014 from September 2014. As of the date of the Prospectus, the Group expects four tenders, which represent approximately 5.5 per cent. of ČD's total revenues from passengers. No tender has been completed. The following tenders have been announced:

- The first tender, for the Ostrava – Opava – Krnov – Olomouc line, which started in 2012 has been cancelled by the Ministry of Transport ; and
- The second tender, for the Plzeň – Most line, opened in 2015 and was stopped by the Czech Competition Office, which decided that the contract cannot be executed.

Since no other tenders have been officially announced yet, the timetable established in Resolution No.758/2014, is delayed and the Group expects operation of these lines to be delayed.

ČD's competitors in these public tenders may include Czech low-cost passenger rail operators, as well as significant passenger rail operators from neighbouring countries (see “*Business Overview — Passenger Transport Business — Regional Passenger Transport*” and “*Risk Factors Related to the Group's Business — Industry risks — The Group is exposed to competition from other providers of rail transport, which may adversely affect the Group's market position, results of operations or financial position*” for more information).

Passenger Transport Business - Commercial

Commercial passenger transport is undertaken by ČD and other carriers. ČD and other carriers base their decision to conduct business on commercial routes purely on economic grounds and set prices according to desired profitability. Revenues are generated from ticket sales; neither State compensation nor compensation from the Czech Regions is provided.

Freight Transport Business

ČD Cargo's revenues are 99 per cent. attributable to individual contracts where pricing is set in each individual case and is based purely on commercial grounds. Although ČD Cargo's tariffs can be taken into consideration, the prices charged by competitors, costs of service or a long-term potential relationship benefit for ČD Cargo are recognised as the main factors driving the prices of ČD Cargo's services. In certain cases set forth in the internal policies, the Commercial Council consisting of a Director of Economics, a Director of Operations and a Director of Commerce must approve the terms and conditions of a price proposal.

The remaining ČD Cargo customers are charged in accordance with ČD Cargo's standard tariffs, which also set out the standard terms and conditions. Domestic freight, which is not stipulated by individual contracts, is governed by the Tariff for Transport of Complete Wagon Loads (“**TVZ**”). International union tariffs are agreed with the respective foreign freight operators.

Domestic and International Freights

ČD Cargo provides freight transport to destinations both within and outside the Czech Republic. Domestic freight transport is undertaken by ČD Cargo whereas international freight is provided by ČD Cargo or by ČD Cargo in cooperation with foreign freight operators. ČD Cargo enters into such cooperation if it does not fulfil the prerequisite conditions for operating in the respective country or if such cooperation is more beneficial for ČD Cargo due to, for example, the low utilisation of inbound vehicles returning from abroad or other factors affecting profitability.

Alternatively, ČD Cargo can provide freight transport to final destination, subject to obtaining licences for operating rail transport in the respective country. As of the date of this Prospectus, ČD Cargo is licensed to provide freight transport in Poland, Slovakia and to a limited extent, in Germany, Austria and Hungary.

The Railway Network

The Czech railway network is currently among the densest railway networks in the EU in terms of surface area of the country per one kilometre of railway route, exceeding that of both Germany and France. As of 31 December 2015, it consists of 9,467 kilometres of railway routes (as compared to 9,459 kilometres of railway routes as of 31 December 2014), of which 3,218 kilometres is electrified (as compared to 3,216 kilometres of railway routes as of 31 December 2014), and the related infrastructure includes 254 unmanned railway stations, 899 passenger railway stations and 8,041 railway crossings. SŽDC operates the national and regional railway network in the Czech Republic and is responsible for its operation, modernisation and development. A total of 94 transport providers operated on the Czech railway network in 2015.

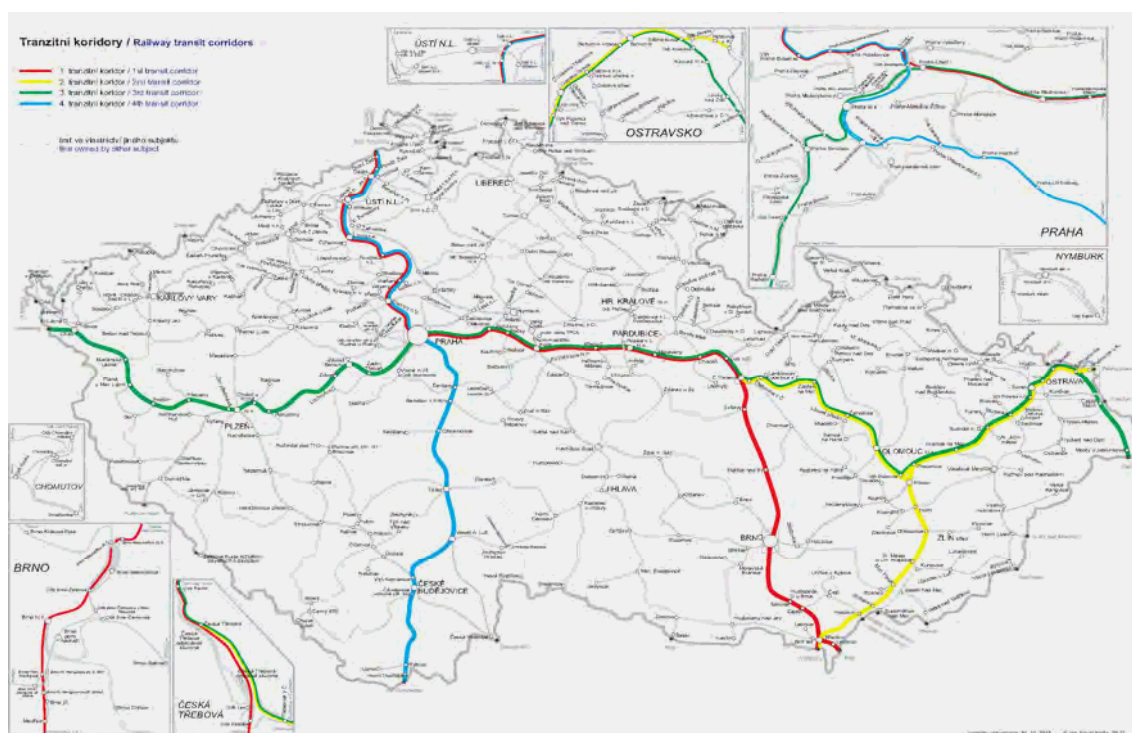
The Group originally also operated and serviced the national railway network, but it gradually transferred these activities to SŽDC (see “- *Relationship with SŽDC*” above for more information). The Group now operates only the railways it owns and which are primarily minor railway spur tracks, branch lines and side tracks in the railway stations. The railway system is currently connected to the railway network of four neighbouring countries (Germany, Austria, Poland and Slovakia), via 36 international railway junctions.

As of the date of this Prospectus, there is no new railway track under construction in the Czech Republic. However, SŽDC is investing in the modernization of the existing railway system. The whole Czech railway system uses the same gauge (1435 millimetres), except for 79 kilometres of tracks operated by a privately-owned company Jindřichohradecké místní dráhy, a.s. Four different systems are being used to power the electrified railway routes.

Pursuant to the Railway Act No. 266/1994 Coll., as amended (the “**Railway Act**”) and the Network Statement on National and Regional Rail issued by SŽDC, SŽDC allows carriers to access and use the railway network, subject to the fulfilment of certain conditions. SŽDC allocates the route capacity for a regulated price, which is set pursuant to the decree of the Ministry of Finance for a particular year and a declaration issued by SŽDC pursuant to the Railway Act and published in the Transport and Tariff Bulletin.

The Group’s Passenger Transport Business and Freight Transport Business operate on the majority of the existing railway routes in the Czech Republic.

The map below provides an overview of the current and planned railway routes as of 30 October 2015:



Source: SŽDC, as of 30 October 2015.

Property

Overview of Group Property

As of 31 December 2015, the Group owned 6,025 buildings, of which 1,153 were railway station buildings, 948 were rolling stock depot buildings, 3,933 were apartments and the remaining buildings included, among others, blocks of flats, stores, buildings for employees, garages and hostels.

Expected Sale of Property

Because the Group owns significant non-core assets, the maintenance of which requires substantial amounts, it intends to continue to streamline its asset base by selling some of these non-core assets to SŽDC as well as to private investors.

Expected Sale of Property Related to the Railway Operation

Certain assets of ČD necessary for the function of railway operation remain to be transferred out of ČD. The transfer of the final part of the assets to SŽDC was approved by the Government on 21 December 2015. The assets primarily include 1,569 buildings and related plots of land. The assets also include the Prague Main Railway Station, which is currently subject to a lease agreement with the Italian firm Grande Stazioni as lessee, which is in charge of restoring the building. The lease is due to terminate on 16 October 2016. Excluded from this transfer are 87 assets, including Prague – Masaryk Station (see “— Sale of Prague – Masaryk Station Property to Penta” below for more information) and Brno Main Station, due to third parties rights or due to the loss of their original function in relation to railway operations.

The proposed purchase price is CZK 3.3 billion and is based on an expert opinion and approved by the European Commission. The sale has still to be approved by the relevant corporate bodies of both parties. ČD’s Board of Directors and Supervisory Board approved the sale and its related contractual documentation in April 2016 and its Steering Committee is expected to approve such documentation after the Government’s confirmation of the financing mechanism. SŽDC also approved the contractual documentation in April 2016, and is yet to sign it. The execution of the transaction is expected to be completed in 2016. If approved and executed by all parties, all railway infrastructure with the above

described exception will be owned, maintained and operated by SŽDC and ČD will continue to only provide passenger and freight transport services.

Sale of Prague – Masaryk Station Property to Penta

On 19 January 2016, ČD entered into a set of agreements with the Czech investment group Penta (the majority owner of MSD), regarding the restoration of the Prague – Masaryk station and the development of the surrounding land plots. Pursuant to these agreements, Penta is to acquire 10,300 square metres at Na Florenci Street, where it intends to build a shopping and office centre. In addition, future development of other land plots surrounding the Prague – Masaryk station is to be prepared and a part of the land plots is to be leased by ČD to MSD until 2036 and part until 2056. Subject to obtaining the relevant building permits for such future development projects, Penta is to acquire a part of these lands plots, with the first purchase agreement (in respect of the land plot at Na Florenci Street) to be entered into in early May 2016 and the next set of purchases expected to happen in the next few years.

The total purchase price under the agreement is CZK 600 million (subject to adjustments based on the size of commercial space in the new development), of which CZK 235 million in respect of the land plot at Na Florenci Street is due by the end of June 2016. The purchase price was determined based on a mechanism included in the agreement entered into between ČD and Penta in 2004. Further, Penta undertook to invest through MSD additional CZK 36 million into the restoration of the main building of Prague – Masaryk Station.

The agreement is the result of negotiations between the shareholders of MSD, i.e. ČD and Penta, and of Penta exercising its pre-emptive purchase right to the property based on an agreement entered into between ČD and Penta in 2004. The railway station building itself is to remain in the ownership of ČD and may be transferred to SŽDC in the future.

Expected Sale of Property to Private Investors

ČD is in the final stage of the process of selling its other non-core assets to private investors. This process commenced in 2008 and has included the sale of non-core buildings (administration buildings, workshops, garages, warehouses) and non-core land plots predominantly surrounding railway stations. In the ongoing last phase commenced in 2015, which is expected to unfold over the next 15 years, ČD aims to sell primarily smaller buildings and land plots to individuals.

As of 31 March 2016, the overall estimated market value of the assets for sale to private investors is CZK 6.8 billion, of which buildings represent CZK 1.9 billion and land plots CZK 4.9 billion. In 2015, 2014, 2013 and 2012 the Group has realized sales of non-core assets amounting to CZK 0.3 billion, CZK 0.2 billion, CZK 0.4 billion and CZK 0.5 billion, respectively.

The sale process has been hindered by the varying quality and attractiveness of the assets and by the various factors affecting the real estate market.

Rolling Stock

The Group operates its own fleet of traction vehicles, passenger railcars and freight railcars. As of 31 December 2015, the railcar fleet owned comprised 29,458 railcars.

Passenger Transport Business

As of 31 December 2015, ČD owned 2,079 traction vehicles with the average age of the traction vehicles being 29.5 years since the date of production and 19 years since the date of last modernisation. As a result of its investment plan, ČD aims to reduce the average age of its fleet (as measured since the date of production) to 25 years by 2025.

ČD's key suppliers of rolling stock include: ŠKODA VAGONKA a.s., Pars nova a.s., PESA Bydgoszcz SA, Siemens, ŠKODA TRANSPORTATION, ŽOS Trnava a.s., Krnovské opravny a strojirny s.r.o., DPOV and ŽOS Vrútky a.s.

In 2016, ČD plans to purchase eight electric multiple units for fast train lines (which are expected to be delivered by the end of April 2016) and modernize 63 passenger coaches with speed of up to 160 km/h (18 of which are expected to be delivered by the end of April 2016), 72 passenger coaches of speed of

200 km/h (11 of which are expected to be delivered by the end of April 2016) and 12 double-deck regional passenger coaches (which will be modernized in the second half of 2016).

In the year ended 31 December 2015, the cost of maintenance of the traction vehicles was CZK 2,457 million. The below table provides an overview of the traction vehicles owned by the Group and their age as of 31 January 2016:

Traction vehicles	Number of traction vehicles for passenger transport				
	Inventory count by age				
	Total	0-10 years	11-20 years	21-30 years	older
Trailers of electric and diesel sets	248	100	40	0	108
Electric locomotives	309	81	14	89	125
Electric train sets.....	303	173	46	0	84
Diesel locomotives	223	19	61	42	101
Diesel railcars and sets ⁽¹⁾	703	336	76	37	254
Control cars.....	293	275	18	0	0
Total traction vehicles	2,079	984	255	168	672

Note:

(1) unit is reported as a single piece.

As of 31 January 2016, ČD owned 2,308 passenger train units with the average age of 33.5 years since the date of production and 23.4 years since the date of last modernisation. In the year ended 31 December 2015, the cost of maintenance of the passenger train units was CZK 1,037 million.

The below table provides an overview of the passenger train units owned by the Group and their age as of 31 January 2016:

Passenger train units	Number of passenger train units				
	Inventory count by age				
	Total	0-10 years	11-20 years	21-30 years	Older
Sleeping and restaurant units.....	82	47	19	3	13
International transport units.....	884	417	47	5	415
Four-axle units for domestic transport	887	115	51	425	286
Trailer and individual control railcars.....	425	140	44	0	241
Other passenger units ⁽¹⁾	40	13	0	0	27
Total passenger units.....	2,308	732	161	433	982

Note:

(1) other passenger units include military, baggage, parlour and other.

Freight Transport Business

As of 31 December 2015, ČD Cargo's fleet consisted of 848 traction vehicles. The average age of ČD Cargo's fleet was 34 years (38 years for electric locomotives and 31 years for diesel locomotives). In the year ended 31 December 2015, the cost of maintenance of the traction vehicles was CZK 554 million.

The table below provides an overview age of traction vehicles owned by ČD Cargo as of 31 December 2015

Traction vehicles	Number of traction vehicles for freight transport				
	Inventory count by age				
	Total	0-10 years	11-20 years	21-30 years	older
Electric locomotives	382	31	0	70	281
Diesel locomotives	466	35	17	112	302
Total traction vehicles	848	66	17	182	583

As of 31 December 2015, ČD Cargo possessed 25,863 freight train units. The average age of ČD Cargo's freight train units was 31 years. In the year ended 31 December 2015, the cost of maintenance of the freight train units was CZK 331 million.

The table below provides an overview of the age of towed freight train units owned by ČD Cargo as of 31 December 2015:

Cargo train units	Number of cargo train units				
	Inventory count by age				
	Total	0-10 years	11-20 years	21-30 years	Older
Cargo train units	25,863	730	954	9,205	14,974

Material Contracts

Certain contracts with a value exceeding CZK 2 million, or CZK 6 million in the case of construction works, are subject to the Public Procurement Act and ČD or its subsidiaries such as ČD Cargo must comply with the applicable procedures before awarding such contracts. It is usually necessary to hold a public tender to which any entity fulfilling the qualification criteria may apply and submit its bid. Such tenders are, for instance, held to select suppliers of new rolling stock, electricity or diesel or providers of maintenance services. In exceptional cases, it is possible to award a contract directly to an entity selected by ČD or its subsidiary. This can be done, for instance, in cases when a damaged rolling stock can be repaired only by its producer, because other entities are not capable of doing so (see “*Risk factors – Country risks – The Group can incur limitations on procurement due to the Public Tender Procurement Law*” and “*Regulatory Framework – Public Procurement Laws*” for more information).

When awarding a contract for the provision of passenger transport in the public interest, the Czech Regions and the Ministry of Transport, respectively, must proceed in accordance with Act. No. 194/2010 Coll., on public services in passenger transport and on the amendment of other laws (the “**Public Services Transport Act**”). Under the Public Services Transport Act, the Czech Regions and the Ministry of Transport are authorized to award a passenger transport contract directly to a provider selected without holding a public tender. (see “*Risk factors – Risks Related to the Group’s Business and Industry – Business risks – Failure to renew contracts between ČD and the Czech Regions for regional passenger rail transport and the State for long-distance passenger rail transport in connection with the gradual opening of the Czech market to competition or changes in compensation payable pursuant to these contracts could have a material adverse effect on the Group’s business, results of operations, credit rating or financial position*” for more information.)

Passenger Transport Business

The Group considers the following agreements as the most material for its passenger rail transport activities:

- Regional passenger services – ČD is a party to long term contracts with each of the 14 Czech Regions, such contracts having been entered into for the respective periods until 2019. The contracts stipulate the provision of regional passenger transport in the public interest by ČD. The volumes of transport for the coming years are to be stipulated in amendments to these contracts.
- Long-distance passenger services – ČD concluded a 10-year contract with the Ministry of Transport in 2009 to secure the traffic needs of the Czech Republic in the public interest. In 2015 and 2014, ČD provided pursuant to this contract approximately 34.0 and 33.8 million train-kilometres, respectively. The volumes of transport for the following years are to be stipulated in amendments to this contract.
- Capacity allocation agreement – this agreement was entered into between ČD and SŽDC on 30 June 2009 for an indefinite period. The agreement governs payments to SŽDC in respect to capacity allotment, usage of railway infrastructure and other services (such as publishing rail schedules, etc.) and stipulates the maximum price set by a decree by the Ministry of Finance.
- Purchase of electricity – ČD is a party to a contract with ČEZ Prodej s.r.o. which provides for supplies of traction electricity from 1 January 2015 until 31 December 2016.
- Sourcing of diesel – ČD is a party to a contract with UNIPETROL RPA, s.r.o., entered into on 1 July 2014, for the supply of diesel fuel. This contract was awarded following a public tender which ČD carried out in accordance with the Public Procurement Act. At the same time, ČD is a party as the lessor to an agreement, entered into on the same day, for rent of diesel fuel storage facilities to UNIPETROL RPA, s.r.o. Both contracts expire on 30 June 2017.

- Supply of rolling stock – ČD is a party to a number of contracts concerning the supply of train units and train coaches to ČD, which were awarded by ČD in multiple tenders. The most material of these contracts have been entered into with Škoda Transportation, ŠKODA VAGONKA a.s., Pars nova a.s., Stadler Pankow GmbH, ŽOS Vrútky a.s., Krnovské opravny a strojírny s.r.o., CZ LOKO a.s., PESA Bydgoszcz, SA and Siemens s.r.o. as suppliers.
- Heavy maintenance and rolling stock repair services – ČD is a party to a contract with DPOV, a wholly-owned subsidiary of ČD, dated 21 February 2007, as amended, pursuant to which DPOV provides ČD with rolling stock repair services. In addition, ČD is also a party to contracts with ŽOS Vrútky a.s., CZ LOKO, a.s. and Pars nova a.s., according to which suppliers provides ČD with heavy maintenance and rolling stock repair services . Other new external contractors have been selected following a public tender, which ČD carried out in accordance with the Public Procurement Act.

Freight Transport Business

The Group considers the following agreements the most material agreements for its freight rail transport activities:

- Capacity allocation agreement - this agreement was entered into between ČD Cargo and SŽDC on 31 December 2009 for an indefinite period. The agreement stipulates a maximum price set by a decree of the Ministry of Finance and terms under which SŽDC can renegotiate the price once a year.
- Material supplies agreement – this agreement between ČD Cargo and ČD was entered into on 24 March 2010 for an indefinite period. The agreement stipulates the conditions of diesel, engine oil and replacement parts supplies.
- Electricity supply agreement – on 13 January 2016, ČD Cargo and ČD entered into a contract for the provision of traction electricity by ČD to ČD Cargo in 2016.

Related Party Transactions

ČD conducts related party transactions with other Group companies, and other entities owned by the State. Out of these, SŽDC and ČEZ Group are the most significant. The Group follows arm's length principles for all related party transactions.

SŽDC

The relationship of the Group with SŽDC is based on the evolution of the railway industry as outlined in “*Industry Overview*” below. SŽDC, as the current owner and operator of the railway network in the Czech Republic, is responsible for the operation, modernisation and development of the railway system in the Czech Republic, which is essential for the Group's business (see “- *Railway Network*”).

Pursuant to capacity allocation agreements, the Group uses the railway network infrastructure operated by SŽDC for carrying out its business activities (see “- *Material Contracts*”). The relationship with SŽDC has been formed by Government policies in respect of the railway industry in the Czech Republic in general and the restructuring of the Group in particular (see “- *Relationship with SŽDC*” and “- *Property — Expected Sale of Property*”).

For transactions with SŽDC and other related party transactions, please refer to Note 31 to the Financial Statements as of and for the year ended 31 December 2015.

Disputes

From time to time, the Group is involved in litigation and arbitration in the ordinary course of its business activities regarding, among other things, damages, contractual relationships and real estate ownership. The Financial Statements as of and for the year ended 31 December 2015 include provisions created in relation to certain proceedings in the amount of CZK 1,353 million. As of 26 April 2016, the Group was involved in six material actions as defendant. An action is considered material when the amount in dispute exceeds CZK 50 million. As of 27 April 2016, the aggregate amount of all claims, for which the

amount claimed against the Group has been specified and of which ČD management is aware, is CZK 9,174 million.

The most relevant pending or potential material disputes and actions against the Group or related to the Group's business activities are as follows:

Dispute with Škoda Transportation

On 9 April 2004, ČD and Škoda Transportation entered into a purchase agreement. Pursuant to this agreement, Škoda Transportation was to deliver to ČD 20 electrical triple-system locomotives in 2008 and 2009. Škoda Transportation was also to secure certification of the relevant railway authorities for the operations of the locomotives in the Czech Republic, including the relevant approvals for operations in Germany, Austria, Hungary, Slovakia and Poland.

The supply of locomotives was delayed by more than four years (the locomotives were supplied on an ongoing basis in 2013 – 2014, with the last locomotive being supplied on 25 February 2014). In a dispute before the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic (the "**Arbitration Court**"), Škoda Transportation was seeking payment due to an alleged wrongful set-off of liabilities under the purchase agreement against the claimed contractual penalty by ČD and accrued default interest, while ČD was seeking payment of a contractual penalty and accrued default interest, and the provision of appropriate approvals for operations of the locomotives on the railways on the territory of Germany and Austria.

On 16 November 2015, the Arbitration Court ruled in favour of Škoda Transportation, ordering ČD to pay to Škoda Transportation CZK 1,221 million, consisting of CZK 468 million representing payment of the remaining part of the purchase price (including VAT) plus default interest and CZK 754 million representing adjustment for inflation (including VAT). ČD paid all due amounts, however considers the ordered payments to be unlawful and challenged it before the District Court in Prague 1 on the grounds, among others, that one of the arbiters of the Arbitration Court was biased due to personal connections with Škoda Transportation. The dispute is expected to last several years and the outcome is uncertain.

Alleged unlawful state aid claim

In April 2015, RegioJet filed legal action demanding that ČD return state aid of approximately CZK 7 billion and default interest due to the alleged breach of the standstill clause (Article 108(3) of the Treaty on the Functioning of the EU) and unfair competition. The alleged unlawful state aid was in the form of allegedly excessive purchase price of CZK 12 billion for the assets required for the maintenance of the railway, which were transferred from ČD to SŽDC in 2008 (see "*– Relationship with SŽDC*" for more information). In May 2015, ČD was asked by the court to provide its reply to the claim. ČD provided a statement to the effect that it disagrees with the allegations and considers them to lack any merit. In April 2016, STUDENT AGENCY k.s., the sole shareholder in RegioJet was admitted to the proceedings by the court as an additional plaintiff. ČD appealed this court decision. However, due to the inherent complexity of the issue at hand, it is impossible to anticipate the outcome of the legal dispute. Should the Court conclude that ČD has received unlawful state aid, ČD could be required to repay any such amounts together with interest to the State and compensate its competitors for damages incurred as a result of the provision of such amounts.

Claim for damages by Leo Express

On 10 July 2014, LEO Express commenced proceedings against ČD for damages in the amount of CZK 418.9 million. LEO Express claimed that it incurred these damages due to ČD's alleged predatory pricing practices. On 10 December 2015, the Municipal Court in Prague dismissed LEO Express's claim for lack of evidence. LEO Express appealed the decision to the High Court in Prague, which has not decided yet.

Claim for damages by RegioJet

On 1 June 2015, RegioJet commenced proceedings against ČD for damages in the amount of CZK 717.0 million. The claimed damages were allegedly caused to RegioJet by ČD's alleged predatory pricing practices on the Prague – Ostrava route. ČD denies the allegations.

Alleged abuse of Dominant Position in the Railway Freight Transport Market

In July 2008, the Czech Competition Office imposed on ČD a fine of CZK 270.0 million for the abuse of a dominant position in the freight market, which was reduced by the Chairman of the Czech Competition Office to CZK 254.0 million in May 2009. According to the Czech Competition Office, ČD abused its dominant position in the market for rail freight of large volumes of natural resources and raw materials in breach of both the Czech Act on the Protection of Competition (143/2001 Coll.), as amended, and the Treaty on the Functioning of the EU.

ČD has appealed the decision to the Regional Court in Brno and ultimately to the Supreme Administrative Court, which cancelled the previous decision of the Regional Court in Brno due to unlawful procedure in defining the relevant market and returned the matter to the Regional Court in Brno for further proceedings. In April 2016, the Regional Court in Brno cancelled the decision of the Chairman of the Czech Competition Office issued in May 2009 and returned the matter to it for further proceedings.

ČD Telematika Land Easements Disputes

ČD Telematika is facing claims by SŽDC for compensations for land easements established on claimants' land plots on which the optical network infrastructure owned by ČD Telematika is installed. The arbitration proceeding before the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic (*Rozhodčí soud při Hospodářské komoře České republiky a Agrární komoře České republiky*) was commenced in 2015 and the award is expected to be rendered during 2016. The total amount involved in the dispute is CZK 240 million.

Alleged abuse of Dominant Position on the Prague-Ostrava Route

In February 2012, based on a complaint filed by RegioJet, the Czech Competition Office commenced administrative proceedings against ČD regarding the alleged abuse of ČD's dominant position on the Prague – Ostrava route by alleged setting of low temporary prices for the passenger rail transport services in an attempt to eliminate competition. The Czech Competition Office is currently in the process of collecting supporting evidence and it will subsequently either issue a statement of objections, which will formally open the proceedings against ČD, or it will not issue the statement of objections and will discontinue the proceedings. In April 2016, the officials of the Czech Competition Office and the European Commission carried out an unannounced inspection at the premises of the Group and seized certain documents relating to the operations of the Group at the Prague – Ostrava route. While ČD believes that the complaint is unfounded, the Group can give no assurance that the Czech Competition Office or the European Commission will not impose any sanctions in these proceedings.

Audits of Subsidies Used from the Regional Operational Programme for the Acquisition of Railway Vehicles

On 28 January 2014, the Audit Body of the Czech Ministry of Finance (the “AB”) commenced an audit of ČD's operations. On 22 December 2015, ČD received the final audit report on all the audited projects. Based on the final audit report, individual regional authorities are claiming a refund of a proportionate part of the subsidy from the relevant amount of calculated ineligible expenses according to AB's methodology, referring to AB's recommendations and conclusions. ČD disagrees with the audit conclusions, refuses to pay the claimed amounts and is pursuing the relevant procedural defence. As of 27 April 2016, ČD recorded nine calls to perform the refund the proportionate part of the subsidy in the total amount of CZK 476.7 million and the management of the Group estimates that the maximum amount that can be claimed by the Czech Regions based on the conclusions of the audits is CZK 515.3 million.

Police investigation of public procurement

In March 2016, the Czech police commenced investigation of alleged price fixing in public tenders of SŽDC relating to planning and reconstructions of Czech railway tracks. As of the date of this Prospectus, six individuals and three companies have been formally charged with a crime, including ČD's subsidiary VÚŽ and two of its managers. As of the date of this Prospectus, the investigation is still ongoing and the date of the trial has not been set

Unjust enrichment claim against ČD Cargo by SŽDC

SŽDC commenced proceedings against ČD Cargo as it claims ČD Cargo obtained unjust enrichment by off taking traction electricity in 2009 for which it did not pay to SŽDC. After several lower court decisions, the High Court in Prague approved a court settlement between the parties in February 2015.

According to this settlement, ČD Cargo is obliged to pay to SŽDC a total of CZK 314.0 million, to be paid in 60 monthly instalments of CZK 5.2 million with the first instalment due in June 2015.

Claim against ČD Cargo by SŽDC

SŽDC commenced proceedings against ČD Cargo claiming that ČD Cargo failed to pay to SŽDC the price for using the railway capacity allocated to it in the period from 2008 to 2010 in the amount of approximately CZK 127.2 million. After several lower court decisions, the parties arrived on 30 May 2014 at a settlement; according to the terms of the settlement, ČD Cargo is obliged to pay to SŽDC a total amount of CZK 164.2 million, to be paid in 36 monthly instalments of CZK 4.6 million with the first instalment due in June 2014.

Licences and Insurance

Licences

A valid national licence must be obtained for the provision of railway transport pursuant to the Railway Act. To obtain this licence, certain prerequisite conditions must be met including, among others, professional capability, integrity and the operability of rail cars for conducting the railway business.

Passenger Transport Business

As of the date of this Prospectus, ČD holds all required licences for the provision of passenger transport in the Czech Republic, including a licence and a certification of the transport company (pursuant to the Railway Act) that is awarded depending on compliance of the operation and safety management systems with the Ministry of Transport regulation no. 376/2006 Coll. The licence has been awarded for an indefinite period of time and the certification is valid for five years. The current certification is to expire in February 2018, when ČD intends to apply for its renewal for a further five years.

ČD also holds a European licence that would allow, subject to compliance with other conditions set by the legislation of the respective member state of the EU (“**Member State**”), for provision of passenger rail transport within the EU. The licence was granted by the Railway Office of the Czech Republic on 1 November 2003 for an indefinite term. The licence shall be amended upon any change of circumstances under which the licence was granted and which are stated in that licence (e.g. change in the ČD’s Board of Directors or a change of railway transport volume). The licence can be revoked, among others, by the decision of the Railway Office of the Czech Republic.

Freight Transport Business

As of the date of this Prospectus, ČD Cargo holds all required licences for the provision of freight transport in the Czech Republic, including a licence and a certification of the transport company (pursuant to the Railway Act) that is awarded depending on compliance of the operation and safety management systems with the Ministry of Transport regulation no. 376/2006 Coll. The licence has been awarded for an indefinite period of time and the certification is valid for five years. The current certification is for an indefinite term.

To be eligible to provide freight transport in foreign countries, ČD Cargo needs to be awarded all licences and certifications as requested by the respective countries including ČD Cargo’s drivers having passed all prerequisite exams. As of the date of this Prospectus, ČD Cargo can provide freight transport through its subsidiaries in Hungary, Poland, Slovakia, Germany and Austria. ČD Cargo is planning to expand into further foreign countries.

Insurance

The Group maintains a comprehensive set of insurance policies to cover those risks that they believe to be usual in the area of its key activities.

As of the date of this Prospectus, the Group does not maintain insurance in relation to damages to train units due to lower benefits of such insurance (insurance premiums demanded by insurance companies are relatively high). ČD believes that this is usual business practise among other European rail transport operators.

ČD carries the following insurance cover:

- third party liability insurance for long-distance and regional transport (environmental damage insurance included) for claims up to CZK 300 million for an individual incident, and an aggregate total of CZK 600 million in one year (this insurance carries an excess of CZK 3 million per event);
- third party liability insurance for its fleet of cars for claims up to CZK 70 million for each incident (there is no excess);
- car insurance coverage (CASCO insurance) for its fleet of cars with an age of up to three years (the total amount that may be claimed varies depending on the value of the car (there is an excess of 2 per cent. of the value of the claim, with a minimum excess of CZK 2,000));
- directors' and officers' liability insurance (D&O) up to a total amount of CZK 1 billion;
- statutory insurance for damage during occupational accident or disease; and
- minor insurance policies, such as property insurance with respect to booking offices and stores.

ČD Cargo entered into contracts including third party liability insurance arising from rail vehicle operations on national and regional routes and a third party liability insurance of a holder of railway vehicles in Europe except Germany (up to a liability cap of CZK 250 million) and liability insurance of a holder of railway vehicles in Germany (up to a liability cap of EUR 20,452,000). The Group has not made any material insurance claims under any of these policies.

Although the Group is covered by the industry standard insurances the Company cannot provide any assurance that the insurance will be sufficient or provide effective coverage under all circumstances and against all hazards or liabilities to which the Group may be exposed. Damages or third party claims for which the Group is not fully insured could materially and adversely affect Group's business, financial condition, results of operations, cash flows and prospects. However, the Group believes that its policies are in accordance with customary industry practices, including deductibles and coverage amounts.

The Group has initiated a public tender to insure its most significant items of rolling stock. It expects to receive proposals in the next month or two, after which it will analyse if such insurance would be effective by comparing the insurance premiums to be paid with the average amount of damages which are to be covered by the insurance and which the Group incurred during the preceding ten years.

Environmental Protection

Passenger Transport Business

ČD's Department of Quality Assurance and Environmental Protection under the Rolling Stock Division is responsible for supervising and monitoring ČD's implementation of legislative amendments and compliance with all relevant legislation. For this purpose, the Group established the Register of Legal and Other Requirements, which is updated regularly, so that members of the Group are informed about any eventual changes in the area of environmental protection without undue delay so that internal regulations can be updated and relevant training provided. ČD's internal policies aim to ensure compliance with applicable environmental legislation and the Group's executive management is regularly updated of the legislative changes or new legislation coming into effect. .

In order to comply with environmental regulations the Group focuses, among others, on the following areas and activities:

- Rehabilitation of soil and underground water: rehabilitation of soil and underground water and elimination of the consequences of extraordinary emergency leakage of hazardous substances into the environment.
- Water management: monitoring the quality of drinking and sewage water; updating emergency plans for establishments in which hazardous substances are handled; and updating the simplified emergency plans for all railway stations.

- Air protection: checking the technical state and operation of the combustion stationary source; measuring air pollution; measuring the efficiency of energy use; and checking and cleaning the combustion gas circuit.
- Waste management: disposal of hazardous and other waste so that it can be used or disposed of; establishing a register of waste types and waste management; monitoring waste production and checking the appropriate classification of individual waste types into categories; reduction of hazardous waste; checking the obligatory system of taking back selected used products; checking waste collection and sorting.
- Nature and landscape protection: maintenance of greenery, with an emphasis on the safety of operations and the travelling public, and the removal of weeds, where a mechanical process is preferred to the use of chemicals.
- Chemical substances and agents: training and supervising the management of chemicals and chemical substances.
- Information systems: maintenance of the software for recording hazardous waste management and air protection, including the Ecologist Handbook.
- Noise pollution and vibrations – compliance with applicable noise limits.

ČD is holding an annual environmental audit that is aimed at monitoring individual environmental issues of ČD. Results of the audit are presented to local state administration authorities.

Freight Transport Business

On 27 May 2008, ČD and ČD Cargo entered into a cooperation agreement with respect to certain environmental matters with the emphasis on ČD Cargo's side, on the rolling stock repair units. The issues outlined in the agreement include, among other things, reduction of waste production, enhancing building insulation, prevention of diesel leakages in the soil and mitigation risks associated with ecological disasters.

ČD Cargo holds an environment management system certificate indicating compliance with the code of conduct relating to environmental policy within the Czech Republic. The certificate is valid until July 2016 and ČD Cargo underwent a re-certification audit and is currently awaiting the issuance of new EMS (ISO 14001) compliance certificates which are to be valid until June 2018.

Risk Management

The principal activities of the Risk Management department are as follows: improving the risk monitoring and evaluation processes by introducing a systemic approach to identifying, analysing, measuring, managing, monitoring, reporting, consolidating and communicating all significant business risks using one unified, integrated system (including IT tools and applications such as eRisk). The key objective of the risk management system is to limit the adverse impact of risks on the financial results of the Group, i.e. to minimise the impacts of unutilised opportunities on revenues and to minimise impacts on costs.

In accordance with the approved ČD Risk Management Policy, ČD's Risk Management Committee was established to fulfil an important management role under the risk management system and to fulfil the function as a permanent advisory body to the Board of Directors. Across the Group, unified risk categorisation is applied and continuous monitoring of significant risks in all major categories is carried out to allow ČD's management to be informed on a timely basis of the current state of affairs in the area of risk management.

Market risks

Due to the passenger and freight railway transport activities it undertakes, the Group is sensitive to fluctuations of market values that impact the financial results and cash flows. Significant market risks represent risks which would not allow the Group to meet its business objectives. The basic goal of the Group's market risk management is to mitigate the impacts of market risks on the financial results and cash flows (in view of the cost of measures leading to the mitigation of the relevant negative impact).

Basic market risks to which the Group is exposed include currency risk, interest rate risk, and commodity risk. The Group manages market risks by using a system of limits and principles pursuant to the approved risk appetite or based on more-detailed specifications as approved by the Risk Management Committee and the Board of Directors. The risk appetite is defined on the basis of the Earnings at Risk method comparing the difference between the real and planned values for a given year. In respect of the above-listed market risks, the risk appetite assessment is extended to include the Cash Flow at Risk method, with a probability quantile of 95 per cent. based on twelve months rolling forward, or based on stress tests. Once a year, the Group re-assesses the identification of significant market risks and the risk appetite.

The Group ensures that financial risk limits are adhered to using standard hedging transactions on financial markets.

Liquidity risk

The principal objective of liquidity management of the Group is to provide sufficient funds to settle due payables. The principal source of liquidity risk is the fiscal situation and solvency of major clients to whom the Group provides services, including the Czech state and the individual Czech regions. In addition, the Group is exposed to liquidity risk arising from the debt service related to ČD's existing and future debt and liabilities arising from concluded supplier contracts.

A key tool of liquidity risk management is short-term and mid-term cash flow monitoring. Analysis of liquidity matters are prepared at least on a weekly basis with the results forming the basis of decisions relating to meeting the Group's liabilities and drawing down available credit lines.

In order to minimise the risk of insufficient operating funding, the parent company concludes binding lending limits with banks with the minimum period of 12 months. The Group has a number of credit lines available from its relationship banks, namely revolving and overdraft facilities that are allocated among members of the Group, and a promissory notes programme established by ČD. To facilitate long-term investment needs, the Group uses a combination of its operating cash flow, proceeds from the sale of tangible assets and external long-term sources, such as bond issuances, long-term loans and leasing facilities. The Group also makes use of financing available from EUROFIMA for the purchase of rolling stock for passenger transport. Ancillary external sources of funding are also used for the modernisation of locomotives or rolling stock, including financial leasing contracts (see *“Risk Factors – Risk Factors Related to the Group's Business and Industry – Business Risks – The Group is exposed to liquidity risks which could adversely affect the Group's business, results of operations or financial position”* for more information).

Interest rate risk

The Company is exposed to the risk of interest rate changes because it borrows funds at both fixed and floating interest rates. The Group monitors its exposure to floating interest rates arising mainly from external financing and aims to mitigate the risk by entering into financing structures with fixed interest rates or by concluding appropriate interest rate hedging transactions. For this purpose, the Group concludes contracts for interest rate swaps so that the proportion of long-term external sources of funding with floating interest rates does not exceed the maximum level of 50 per cent. The hedging is regularly assessed to bring the opinions on the development of interest rates into line with the defined level of acceptable risk. This treatment provides for the application of the economically most effective hedging strategies. (See *“Risk Factors – Risk Factors Related to the Group's Business and Industry – Business Risks – The Group is exposed to interest rate risks which could adversely affect the Group's business, results of operations or financial position”* for more information).

Foreign currency exchange rate risk

As the Group undertakes transactions denominated in foreign currencies (mainly the income from international transport, received loans and issued bonds), it is exposed to foreign currency exchange rate risks. The Group monitors its exposure and aims to mitigate foreign currency exchange rate risks predominantly by natural hedging, i.e., using revenues (in the particular currency) to reimburse costs incurred in such currency. Additionally, the Group has entered into a series of hedging transactions to mitigate this risk. The currency giving rise to foreign currency exchange rate risk is primarily the euro as a result of ČD Cargo's operations, as well as from euro denominated financial indebtedness incurred by the Group, including the EUROFIMA loan facilities and Eurobonds. In order to mitigate the foreign

currency exchange rate risk arising from its operations, the Group enters into currency forwards and cross-currency interest rate swaps to cover the received payments denominated in foreign currencies. (see *“Risk Factors – Risk Factors Related to the Group’s Business and Industry – Business Risks – The Group is exposed to currency fluctuation risk which could adversely affect the Group’s business, results of operations or financial position”* for more information).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. To measure credit risk, the Group calculates the net (uncollateralised) exposure to individual counterparties. Credit risk management in the Group is based on the following system of limits and restrictions: limits relating to the customers, suppliers, financial institutions, and to the concentration of risk exposure to the individual financial institutions. The maximum net unhedged exposure to a counterparty in the normal course of business outside of the Group is set at CZK 50.0 million. To reduce the net exposure, ČD uses bank guarantees from authorised financial institutions and seeks to deal only with creditworthy counterparties whom the Group reviews on an ongoing basis using publicly available information.

The concentration of ČD’s credit risk is low as a significant portion of its revenues (passenger transport fare) are collected in cash. The Group appoints external legal counsel to claim bad debts. In extraordinary cases, some of those bad debts are sold to third parties (see *“Risk Factors – Risk Factors Related to the Group’s Business and Industry – Business Risks – The Group is exposed to credit risk which could adversely affect the Group’s business, results of operations or financial position”* for more information).

Commodity risk

As the use of commodities, specifically fuel (diesel) and electricity, represents a significant cost to the Group, the Group is exposed to the risk of changes in their prices. The Group manages this risk using a combination of the following instruments so as not to exceed the open risk position limit set by the Risk Management Committee and approved by ČD’s Board of Directors: (i) entering into mid-term derivatives for the purchase of fuel and traction energy; (ii) in the event the price of fuel and electricity increases by more than 10 per cent., the Group may request the Czech Regions and the State to increase the compensation for provision of passenger transport services pursuant to long-term contracts; and (iii) annually negotiating a fixed price of electricity from the relevant supplier for the following calendar year.

As of the date of this Prospectus, ČD has hedging contracts covering 58 per cent. of the total price of diesel which is expected to be purchased in 2016 whilst ČD Cargo has hedging contracts covering 57 per cent. of the total price of diesel which is expected to be purchased in 2016. ČD has agreed on a fixed price for which it purchases electricity for 2016. ČD Cargo purchases electricity from ČD (see *“Risk Factors – Risk Factors Related to the Group’s Business and Industry – Business Risks – The Group is exposed to commodity risks which could adversely affect the Group’s business, results of operations or financial position”* above and *“—Material Contracts”* below for more details).

International Cooperation

ČD is a member of various international organizations and plays an active role in the development of international cooperation, predominantly with respect to international organisations within the rail transport sector and international projects, mainly in order to enhance the Group’s position in the market. The Group’s key partnerships are those with the Community of European Railway and Infrastructure Companies (**“CER”**), the International Union of Railways (**“UIC”**), The Organisation for Cooperation of Railways (**“OSJD”**) and SHIFT²RAIL. SHIFT²RAIL is a European rail technology initiative supporting research and innovation of new technologies. ČD acts on behalf of the whole Group during strategic international meetings; the relevant stances for individual areas are discussed regularly with all Group entities.

CER

CER’s role is to represent the interests of its members in the EU policy-making scene, in particular to support an improved business and regulatory environment for European railway operators and railway infrastructure companies. CER’s main focus is to promote a strong rail sector and industry, which is essential to the creation of a sustainable, efficient, effective and environmentally sound transport system.

Mr. Pavel Krtek has been appointed as a member to the Management Committee, which makes recommendations to the General Assembly. It consists of the CER Chairman, four Vice-Chairmen and further members elected by the General Assembly.

UIC

The UIC mission is to promote rail transport globally and meet the challenges of mobility and sustainable development. ČD representatives are actively participating in all key bodies and thus contributing to maintaining the high level of the technical and operational norms and recommendations – primarily the UIC regulations.

OSJD

The Organisation for Cooperation of Railways promotes international rail transport between Europe and Asia with the goal of unifying transport policies, technical standards and international law governing transport, helping to increase rail transport competitiveness and developing business relationships, especially with Eastern European and Asian countries.

MANAGEMENT

ČD is governed by the Steering Committee, the Board of Directors and the Supervisory Board. The Steering Committee is a special body through which the Government exercises its rights as sole shareholder of ČD. The Board of Directors represents ČD in all matters and is charged with its day-to-day business management (together with the General Directorate), while the Supervisory Board is an independent body responsible for the supervision of ČD's activities and of the Board of Directors in its management of the ČD and which resolves on matters defined in the Articles of Association. Under the Czech Corporations Act, the Supervisory Board may not make management decisions. However, certain matters, defined below, are subject to the approval of the Supervisory Board. ČD has established one Supervisory Board Committee, the Real Estate Committee and a special supervisory body, the Audit Committee.

ČD complies with the corporate governance requirements of the Act on Czech Railways and the Czech Business Corporations Act.

The Steering Committee

The Government exercises its rights as the sole shareholder of ČD through the Steering Committee. It meets at least twice a year and resolves on essential corporate governance and business management issues of ČD. The business address of the Steering Committee is at the registered office of ČD.

Pursuant to the Act on Czech Railways, the Steering Committee has seven members which are Government representatives: three representatives of the Ministry of Transport and one representative of each of the following four ministries: the Ministry of Finance, the Ministry of Defence, the Ministry of Industry and Trade and the Ministry for Regional Development. Members of the Steering Committee are appointed for an indefinite period until the Government revokes their position.

Set out below are members of the Steering Committee of ČD as of the date of this Prospectus and their positions with the relevant Ministries:

<u>Name</u>	<u>Position</u>	<u>Position Within the Relevant Ministry</u>
Ing. Tomáš Čoček, Ph.D.	Chairman	Deputy Minister of Transport
Mgr. Kamil Rudolecký	Vice-Chairman	Deputy Minister of Transport
Ing. Jindřich Kušnír	Member	Director of the Department of Railways, Railway and Combined Transport of the Ministry of Transport
Ing. Jiří Havlíček, MBA	Member	Deputy Minister of Industry and Trade
Ing. David Koppitz	Member	Director of the Regional Politics Department in the Ministry for Regional Development
PhDr. Mgr. Jakub Landovský, Ph.D.	Member	Deputy Minister of Defence
Ing. Pavel Kouřil	Member	Director of Financing of State Budget Chapters Department II

The Board of Directors

The Board of Directors is ČD's statutory body. It represents ČD in all matters and is charged with its day-to-day business management and all matters other than those that are within the responsibility of the Supervisory Board, the Audit Committee or the Steering Committee pursuant to the Articles of Association or the applicable laws. The Board of Directors is fully independent with respect to the business management of ČD, unless the Act on Czech Railways, the Czech Corporations Act or other laws or regulations provide otherwise.

Pursuant to the Articles of Association, the Board of Directors has five members: the Chief Executive Officer of ČD, who is the Chairman of the Board of Directors and also head of the General Directorate, a vice-chairman and three members. All members are appointed by the Supervisory Board for a term of five years. Re-election is permitted and the members might be revoked by the Supervisory Board before the end of their term.

The Board of Directors generally meets once a week, and no less than once every three months. The business address of all executives listed below is at the registered office of ČD.

The positions of the Chairman of the Board of Directors and the Chief Executive Officer are combined. Members of the Board of Directors are obliged to serve with necessary loyalty as well as necessary knowledge and care and to bear full responsibility for such tasks, as required by the Czech Corporations Act.

Set out below are members of the Board of Directors of ČD as of the date of this Prospectus:

Name	Background
<p>Pavel Krtek, M.Sc. <i>Chairman and Chief Executive Officer</i></p>	<p>Mr. Krtek has been the Chairman of the Board of Directors since 10 November 2014 and a member of the Board of Directors since 21 February 2014. He is responsible for the department of economy, finance and management of ČD.</p> <p>Prior to joining ČD, Mr. Krtek worked for the multinational cement producer Lafarge Cement, after which he held various positions in the petrochemical group Unipetrol for nine years, including six years as a member of the Board of Directors.</p> <p>In the years 2008 to 2013, Mr. Krtek also worked for the Czech communication and video services provider Pixel (formerly Kit digital), for the Czech freight cargo company World Transport a.s. (formerly OKD Doprava a.s), and for Nexis Fibers AG, a Swiss producer of fibres for tyres and airbags.</p> <p>Mr. Krtek holds a M.Sc. degree in Industrial Companies' Finance and Economics from the French state technical university Ecole Central Paris.</p>
<p>Ing. Ludvík Urban <i>Vice-chairman</i></p>	<p>Mr. Urban has been a member of the Board of Directors since 10 November 2014. He is responsible for the department of investment and cooperation with regions.</p> <p>Mr. Urban has been in various positions with ČD since 1991; he worked as stationmaster in Zlín, director of the Regional Centre of Passenger Transport for the Zlín region and as deputy managing director for regional integration.</p> <p>Mr. Urban holds a Master's degree in Rail Transport Operations and Economy from the University of Transport and Communications in Žilina.</p>

Name	Background
Ing. Michal Štěpán <i>Member</i>	<p>Mr. Štěpán has been a member of the Board of Directors since 21 February 2014. He is responsible for the department of passenger transport.</p> <p>Prior to becoming a member of the Board of Directors, Mr. Štěpán worked as the Deputy Chief Executive Officer for passenger transport and managed the department of marketing and products and the department of strategy and sales at the General Directorate. Mr. Štěpán has been in various positions with ČD since 1991; he worked at the Regional Directorate in Hradec Králové, at the Passenger Transport and Traffic division of the General Directorate of ČD, as stationmaster and chief stationmaster at the Chrudim junction train station and as director of the Pardubice Regional Centre of Passenger Transport.</p> <p>Mr. Štěpán holds a Master's degree in Transport and Communications Operations and Economy from the University of Transport and Communications in Žilina.</p>
Mgr. František Bureš, MBA, LL.M. <i>Member</i>	<p>Mr. Bureš has been a member of the Board of Directors since 16 October 2014. He is responsible for the department of technology, repairs and assets.</p> <p>Prior to his appointment to the Board of Directors of ČD, Mr. Bureš held the position of Vice-chairman of the Board of Directors and Chief Executive Officer of DPOV.</p> <p>Prior to joining ČD, Mr. Bureš held the position of Czech Republic and Slovakia country manager of Alstom Power & Transport, an international French company. Further, he held the position of Supply Chain Officer at the Czech train manufacturer Škoda and simultaneously the position of Restructuring Director at Sibelektroprivod (acquired by Škoda) in Novosibirsk, Russia.</p> <p>Mr. Bureš holds a Master's degree in Law (LL.M) from the Masaryk University in Brno, a Master's degree in Philosophy (MA) from the University of West Bohemia and an MBA in Strategic Management from the French-Swiss International School of Economy (ESEM).</p>
doc. Dr. Ing. Roman Štěrba <i>Member</i>	<p>Mr. Štěrba has been a member of the Board of Directors since 10 November 2014. He is responsible for the department of strategy, corporate projects, information and communication technology, subsidiaries and foreign relations.</p> <p>Since 1998, Mr. Štěrba has been working in the section of ČD's Deputy Chief Executive Officer for economy (i.e., the chief financial officer). He actively represents ČD in CER Brussels, OSJD Warsaw and UIC Paris, and also in EUROFIMA Basel. He has been the project manager for the Internal Financial Management of ČD project since 2010.</p> <p>Mr. Štěrba holds a Master degree in economics and management from the Faculty of Transport of the Czech Technical University in Prague, a postgraduate degree in technology and management from the Faculty of Transport of the Czech Technical University in Prague (1998), a postgraduate degree European Diploma from the Technical University Dresden (1996) and the College of Europe in Bruges (2010). He has been an Associate-Professor in technology and management in transport and communication at the Czech Technical University in Praha since 2012. Further, he took part in EC's scientific and research scholarship TEMPUS at the Polytechnic University of Catalonia in Barcelona (1994) and at the Faculty of Transport Sciences of the Technical University Dresden (1998-2003)</p>

Mr. Krtek, Mr. Urban and Mr. Bureš are also members of the Supervisory Board of ČD Cargo, with Mr. Krtek acting as its chairman.

General Directorate

General Directorate is the top organisational unit of ČD, which executes the decisions of the governing bodies and ensures the integrity of all of ČD's organisational units. The General Directorate is directed by the Chief Executive Officer, who is the chairman of the Board of Directors of ČD.

The Supervisory Board

The Supervisory Board is an independent body of ČD and its powers include the power to: (i) elect the members of the Board of Directors, (ii) supervise the Board of Directors in its management of the company and ČD's business activities; (iii) inquire into ČD's financial matters and review ČD's financial statements; (iv) grant prior consent to certain key decisions of the Board of Directors, including disposals of certain assets; (v) review and the report on ČD's business activity and its assets and submit its opinion to the General Meeting (i.e., the State represented by the Steering Committee) regarding the same; and (vi) approve the annual business plan, including the business strategy, and budgets of railway transport operation of ČD.

Pursuant to the Articles of Association, the Supervisory Board has nine members. Six members are elected by the General Meeting (i.e., the Steering Committee) and three members by the employees of ČD, all for a term of five years with possible re-election.

The Supervisory Board generally meets once a month, however no less than once every three months.

The following table sets forth the members of the Supervisory Board as of the date of this Prospectus and their positions with the relevant institutions:

<u>Name and position with the relevant institutions</u>	<u>Position within the Supervisory Board and appointment date</u>	<u>Organisation and business address</u>
Mgr. Milan Feranec, First Deputy Minister of Transport	Chairman of the Supervisory Board since 19 June 2014	Ministry of Transport of the Czech Republic, nář. L. Svobody 1222/12, 110 15 Prague 1
Bc. Jaroslav Pejša, Chairman of the ČD Committee of the Confederation of Railroad Unions	Member since 5 May 2011	Confederation of Railroad Unions, Dům Bohemika, Na Břehu 579/3, 190 00 Prague 9
Vladislav Vokoun, First Vice-Chairman of the Confederation of Railroad Unions	Member since 1 January 2014	Confederation of Railroad Unions, Dům Bohemika, Na Břehu 579/3, 190 00 Prague 9
Antonín Leitgeb, Secretary of the ČD Committee of the Confederation of Railroad Unions	Member since 1 January 2014	Confederation of Railroad Unions, Dům Bohemika, Na Břehu 579/3, 190 00 Prague 9
Ing. Vojtěch Kocourek, Ph.D., Member of the Board of Director of DPOV	Member since 20 March 2014	DPOV, a.s., Husova 635/1b, Přerov 751 52
Ing. Antonín Tesařík, counsel member of the South Moravian region	Member since 20 March 2014	Jihomoravský kraj, Žerotínovo náměstí 3/5, Brno, 601 82
Mgr. Jan Hart, LL.M., attorney at law	Member since 2 October 2014	Hart Legal, advokátní kancelář, Kaničův palác, Panská 7, 110 00 Praha 1

Name and position with the relevant institutions	Position within the Supervisory Board and appointment date	Organisation and business address
Ing. Milan Kucharčík, Director of Finance and Administration, Board Member and Deputy CEO of VETROPACK MORAVIA GLASS	Member since 14 December 2015	VETROPACK MORAVIA GLASS, akciová společnost, Havlíčkova 180/18, Kyjov
Ing. Tomáš Révész	Member since 14 December 2015	Self-employed economic, financial and commercial advisor and consultant

The Audit Committee

The Audit Committee is a special supervisory body. The Audit Committee's decision-making procedure is stipulated by the ČD's Articles of Association. Its most significant activities include:

- monitoring of the procedure of preparing the financial statements and the consolidated financial statements;
- monitoring of the efficiency of internal controls and of ČD's risk management system and internal audit system ensuring its functional independence;
- monitoring of the process of the compulsory audit of the financial statements and the consolidated financial statements;
- assessment of the auditors' and audit company's independence; and
- recommending external auditors to the Supervisory Board.

The members of the Audit Committee are appointed and recalled by the Steering Committee for a five year term. The Audit Committee consists of three members. The Audit Committee meetings are held as and when needed, however at least four times a year. The business address of the Audit Committee is at the registered office of ČD.

The following table sets forth the members of the Audit Committee as of the date of this Prospectus:

PhDr. Tomáš Vyhnánek	Chairman
Bc. Iva Šolcová	Vice-Chairman
Ing. Ivana Kubaštová	Member

Principal Activities Outside of the Group

The following table provides an overview of principal activities significant to the Group, performed by members of ČD's bodies outside of the Group (beyond the positions outlined above):

Members of the Board of Directors:

Pavel Krtek, M.Sc	---
Ing. Ludvík Urban	Member of the Holešov city council and the Zlín region council
Ing. Michal Štěpán	Member of transport committee of the city of Chrudim
Mgr. František Bureš, MBA, LL.M.	---
doc. Dr. Ing. Roman Štěřba	Vice-chairman of the supervisory board of "okridlene kolo" foundation

Supervisory Board Members:

Mgr. Milan Feranec	---
Bc. Jaroslav Pejša	Member of administrative board of SŽDC
Vladislav Vokoun	---
Antonín Leitgeb	---
Ing. Vojtěch Kocourek, Ph.D.	---
	External member of the board of the Transport Research Centre
Ing. Antonín Tesařík	Member of the administrative board of Česká průmyslová zdravotní pojišťovna, member of the supervisory board of Jihomoravská rozvojová společnost, s.r.o.

Mgr. Jan Hart, LL.M.	---
Ing. Milan Kucharčík	---
Ing. Tomáš Révész	---

Steering Committee Members:

Ing. Tomáš Čoček, Ph.D.	Member of the administrative board of SŽDC, external member of the board of the Transport Research Center

Mgr. Kamil Rudolecký	Vice-chairman of the State Fund of Transport Infrastructure (SFDI), vice-chairman of the supervisory board of the Transport Research Center

Ing. Jindřich Kušnír	---
Ing. Jiří Havlíček, MBA	Member of the supervisory board of Česká pošta, s.p.

Ing. David Koppitz	---
PhDr. Mgr. Jakub Landovský, Ph.D.	Lecturer at Faculty of Social Sciences of the Charles University.

Ing. Pavel Kouřil	---

Audit Committee Members:

PhDr. Tomáš Vyhnánek	Deputy Minister of Finance
Bc. Iva Šolcová	Director of audit department of the Ministry of Transport

Ing. Ivana Kubaštová	Director of internal audit department of the State Land Office

Conflicts of Interest

According to representations made by each member of the Steering Committee, the Supervisory Board, the Board of Directors and the Audit Committee, there are no conflicts of interest or potential conflicts of interest between any duties owed to the Group and their private interests or other duties.

Employees

The Group is one of the ten largest employers in the Czech Republic. In 2015, the average number of pro-rated to full-time employees at ČD was 15,183; at ČD Cargo it was 7,249 and at the entire Group it was 23,947. Historically the Group has enjoyed good labour relations and it is committed to maintaining these relationships. The Group believes it also incurs lower costs associated with labour than many of its European peers.

The Group is in the process of centralising its human resource management and methodology processes in order to increase the quality of human resources and payroll services. The Group has benefited from streamlining its operations without triggering any major industrial actions. There has been no strike of the Group's employees since 2011 when the trade unions protested against the austerity measures implemented by the Czech Government. In 2014 and 2015, ČD continued its transformation process to a modern and effectively operating business. Accordingly, human resources work focused on optimising the structure as well as a socially-considerate reduction in the number of employees while maintaining the employment rate necessary for the effective operation of the Group and the increase in the quality of

services provided. The management of the Group expects this optimisation of the number of employees to continue in 2016.

Other than management and professional personnel, the majority of the Group's employees is represented by local trade unions and is covered by one collective agreement, which is usually entered into for one calendar year.

The table below shows the annual average pro-rated full-time equivalent number of employees for the years 2015 to 2012:

Annual average number of employees (pro-rated to full-time employees)	2015	2014	2013	2012
The Group.....	23,947	24,163	25,043	26,443
ČD.....	15,183	15,246	15,636	15,972
ČD Cargo.....	7,249	7,396	7,998	8,910

Passenger Transport Business

Pursuant to the collective agreement for 2016, ČD employees whose employment relationships have been terminated due to (i) the employee's redundancy as a result of ČD's decision to change the goals of ČD or to reduce the number of employees in order to increase work efficiency; (ii) full or partial closure or relocation of ČD; or (iii) being certified as incapable of performing his/her work for a prolonged period as a consequence of a medical condition, are under certain circumstances (taking into account factors such as the length of employment at ČD) entitled to severance pay amounting to up to seven months' average salary (with certain limitations in the calculation of the average salary) in addition to the severance pay set out in the Labour Code (262/2006 Coll.), as amended (the "**Labour Code**").

The average annual headcount of employees at ČD decreased by 63, or -4 per cent., to 15,183 for the year ended 31 December 2015 as compared to 15,246 employees for the year ended 31 December 2014, primarily due to the human resources optimization process within the Group.

Other personnel costs (i.e., costs other than wages and wage related expenses), in accordance with IFRS, for the year ended 31 December 2015 amounted to CZK 760.8 million and included severance payments to employees, benefits resulting from the collective agreement in force and other employee benefits. As of 31 December 2015, severance payments made by the Group pursuant to the collective agreement for 2015, which go beyond the requirements of the Labour Code, totalled CZK 90.0 million and were made primarily to 161 employees of ČD and 242 employees of ČD Cargo.

The average monthly salary of ČD employees increased by CZK 932, or 3.2 per cent., to CZK 29,925 in 2015 as compared to CZK 28,993 in 2014. When taking into account the average consumer price index of 0.3 per cent. in 2015, the average salary at ČD increased by 3.2 per cent. in nominal terms and increased by 2.9 per cent. in real terms in 2015 as compared to 2014.

Freight Transport Business

The average headcount pro-rated to full-time employees at ČD Cargo decreased by 147 or 2.0 per cent., to 7,249 for the year ended 31 December 2015 as compared to 7,396 employees for the year ended 31 December 2014. The reduction of staff is a result of streamlining initiatives aimed at enhancing ČD Cargo's competitiveness.

According to ČD Cargo's IFRS financial statements, employee benefit costs for the year ended 31 December 2015 were approximately CZK 3.9 billion as compared to CZK 3.7 billion for the same period in 2014.

The average monthly salary of ČD Cargo employees increased by CZK 1,454, or 5.0 per cent., to CZK 30,735 in 2015 as compared to CZK 29,281 in 2014.

Pension Plans and other benefits

ČD and ČD Cargo are not required to, and do not provide any pension plan for their employees. However, they contribute towards the pension insurance of their employees. Except for liabilities towards employees arising from the timing difference between expensing and paying for wages and salaries, the Group is not exposed to any other material liabilities towards its current employees or former employees.

According to the Collective Agreement for 2016, ČD provides its employees with several other employee benefits (such as meal allowances, life and pension insurance, reduced fares) in the expected amount of approximately CZK 282 million.

INDUSTRY OVERVIEW

The industry can be divided between two sectors: passenger transport services, which serve the purpose of transporting individuals across the country, around a particular region or over agglomerations, and commercial freight services which enable transport of cargo over distance at relatively low cost compared to other modes of transport. The passenger transport sector is partially liberalized (see “*Description of the Issuer – Pricing, Compensation and Tariff Regulation – Passenger Transport Business – Regional – Liberalisation of the regulated regional passenger transport in the Czech Republic*” and “*Description of the Issuer – Pricing, Compensation and Tariff Regulation – Passenger Transport Business - Long-Distance (domestic and international) – Liberalisation of the regulated long-distance passenger transport in the Czech Republic*” above for more details). Any enterprise (meeting the statutory requirements) can enter the railway freight competition. The Group’s main competitors on the passenger market are Czech Republic based companies RegioJet a.s. and LEO Express a.s. and Advanced World Transport and Unipetrol Doprava on the freight market. For the level of competition represented by the distribution of market shares see “—*Domestic Passenger Market*” and “—*Domestic Freight Market*”.

Depending on the sector, the industry faces competition from other modes of transport, such as road vehicles and air transport.

Infrastructure

The infrastructure (except for the railway station buildings and their equipment, which are currently owned by the Group and which the management of the Group intends to sell to SŽDC or a third party during 2016 as part of the de-integration of the railway industry), i.e. the tracks and overhead lines and related equipment, is owned by the Czech Republic through the state organization SŽDC. SŽDC charges fees for to the railway operators (e.g. the Group and its competitors) for the use of the infrastructure and ensures its maintenance and development with the help of the State Fund of Transport Infrastructure (*Státní fond dopravní infrastruktury (SFDI)*).

Investments in railway infrastructure increased by 44 per cent. year-on-year (2014 compared to 2013) after a five-year stagnation, according to the Transport Yearbook 2014 published by the Ministry of Transport (the “**Transport Yearbook 2014**”). The Czech Republic and the European Union are currently enacting policies that focus on shifting the majority of long and mid-distance freight and mid-distance passenger transport from the road to the railway, which will require further investments by the state in the railway infrastructure on the one hand and further investments into rolling stock by the operators on the other. The Czech Republic would therefore require the creation of separate infrastructures for freight and passenger trains by 2050 (passenger and freight trains currently share one common infrastructure which creates bottlenecks and hurdles, resulting in network capacity issues), according to the Transport Yearbook 2014.

The Czech Republic's railway infrastructure is extensive relative to the size of the country. The density of the railway network in the Czech Republic is high, exceeding that of both Germany and France. This high density of the rail network allows railway carriers to operate competitively against other modes of transport.

The below table provides a comparison of the total length and the density of the railway network of the Czech Republic and the railway network of selected EU countries. The information regarding the railway length figures is as of 31 December 2012, except for information for Germany and Poland, which is as of 31 December, 2013, and France which is as of 31 December 2010. Density is calculated by dividing the total track length in a country in kilometres by the country’s area in square kilometres.

Country	Railway length	Railway density
	(km)	(km per 1,000km ²)
Czech Republic	9,570	121.3
Germany	41,328	115.8
France	29,273	53.8
Poland	19,328	61.8
Hungary	8,141	87.5
Bulgaria	4,070	36.7
Slovakia	3,631	74

Source: Eurostat

The below table provides an overview of the nine largest railroad businesses in the EU according to train kilometres serviced in the year ended 31 December 2015:

Country	Carrier	Train-kilometres (thousands)
Germany.....	DB AG	1,054,299
France.....	SNCF	-
Italy	FS SpA	-
Poland	PKP	211,580
Spain	ADIF, FGC	206,389
Czech Republic.....	ČD	158,400
Netherlands.....	NS	-
Belgium.....	INFRABEL	91,000
Austria.....	ÖBB	-

Source: UIC 2015

The below table provides an overview of the number of carriers in the Czech Republic in the years ended 31 December 2009 to 2015:

Year	2015	2014	2013	2012	2011	2010	2009
No. of carriers	94	89	84	79	75	68	62

Source: SŽDC Annual Report 2014, data published on SŽDC website as of 27 April 2016

The number of carriers utilizing the railway infrastructure in the Czech Republic has increased from 62 in 2009 to 94 in 2015. This increase was mainly driven by an increase in the number of carriers operating in the freight transport business. Some companies (e.g. in the building and mining industry) hold their railroad licence only to satisfy their own transport needs and do not provide any railroad transport services to persons outside of their group.

Passenger Transport

Modes of Passenger Transport

The below table provides an overview of the performance of the different modes of passenger transport in the Czech Republic in terms of number of passengers in the years ended 31 December 2015, 2014, 2013 and 2005 in the Czech Republic:

	Year			
	2015 ⁽³⁾	2014	2013	2005
	<i>(in millions of passengers)</i>			
Rail transport.....	176.6	176.1	174.5	180.3
Bus transport	345.6	349.5	338.0	388.3
Air transport	5.6	5.6	6.2	6.3
Inland waterway transport	-	1.3	1.1	1.1
Urban public transport ⁽¹⁾	2,162.0	2,142.9	2,173.2	2,268.9
Passenger car transport ⁽²⁾	-	2,060.0	2,010.0	2,130.0

Source: Transport Yearbook 2014 published by Ministry of Transport, Quarterly Overview of Basic Indicators 2015 by Ministry of Transport

Notes:

(1) Urban public transport refers to public transport in intra-city transport

(2) Expert estimate

(3) Preliminary data

The number of passengers transported on railways in the Czech Republic decreased by 2.1 per cent. from 180.3 million in the year ended 31 December 2005 to 176.6 million in the year ended 31 December 2015, reflecting a general trend in the railway industry observed in many European countries. The number of passengers transported by bus transport in the Czech Republic decreased by 11.0 per cent. from 388.3 million to 345.6 million over the same period. Air travel in the Czech Republic also decreased by 11.1 per cent. from 6.3 million to 5.6 million over the same period, despite decreasing air travel fares and of market penetration by low cost carriers. Volume of passenger car transport also decreased from the year ended 31 December 2005 to the year ended 31 December 2014, but since the numbers are statistical estimates only, it is difficult to extrapolate any trend from the numerical difference. The overall trends of the different kinds of transport are very similar and they do not show any material shift in customer preference between these kinds of transport.

The below table provides an overview of the performance of different modes of passenger transport in the Czech Republic in terms of millions of passenger kilometres in 2015, 2014, 2013 and 2005:

	Year			
	2015 ⁽⁴⁾	2014	2013	2005
	<i>(in millions of passenger-kilometres)⁽¹⁾</i>			
Rail transport.....	8,303.0	7,795.5	7,600.6	6,667.0
Bus transport	9,816.0	10,010.3	9,025.6	8,607.3
Air transport	9,701.0	9,756.6	9,603.9	9,735.7
Inland waterway transport	-	20.7	16.2	18.1
Urban public transport ⁽²⁾	16,103.0	16,270.2	16,276.2	14,934.8
Passenger car transport ⁽³⁾	-	66,260.0	64,650.0	68,640.0

Source: Transport Yearbook 2014 published by Ministry of Transport, Quarterly Overview of Basic Indicators 2015 by Ministry of Transport

Notes:

(1) A passenger-kilometre refers to the transport of one rail passenger by rail over a distance of one kilometre.

(2) Urban public transport refers to public transport in intra-city transport.

(3) Expert estimate

(4) Preliminary data

Passenger Rail Transport Usage

The below table provides an overview of the volume of passenger rail transport in a number of European countries in terms of distance run per inhabitant and number of railway journeys in the year ended 31 December 2015:

Carrier	Country	Passenger-kilometres per Inhabitant	Number of Passengers Carried per Inhabitant
ČD	Czech Republic.....	787.9	16.8
SNCF	France	1,319.7	17.3
DB	Germany	1,104.2	32.6
MAV	Hungary	771.9	14.7
ZSSK	Slovakia	635.6	11.2
PKP	Poland	441.3	6.8
BDZ	Bulgaria	215.1	3.12

Source: UIC 2015, Eurostat

Domestic Passenger Market

The below table provides an overview of the market share of individual providers of passenger rail transport in terms of gross-ton kilometres and train kilometres travelled in the years ended 31 December 2014 and 2013:

Carrier	Gross ton-kilometres ⁽¹⁾		Train kilometres ⁽²⁾ travelled	
	2014	2013	2014	2013
	<i>(per cent.)</i>			
ČD	93.3	94.9	95.3	95.6
RegioJet a.s.	5.0	3.4	2.1	1.9
LEO Express a.s.	1.5	1.5	1.7	1.7
GW Train Regio a.s.	0.1	0.1	0.4	0.3
Vogtlandbahn-GmbH, organizační složka	0.1	0.1	0.3	0.3
Other carriers.....	0.1	0.1	0.2	0.1

Source: SŽDC Annual Report 2014

Notes:

(1) Gross ton kilometre is a product of gross weight of railway vehicles integrated in the train and distance travelled in kilometres.

(2) Train kilometres represent the distance travelled by trains in kilometres.

According to SŽDC, ČD provided 95.34 per cent. of all passenger rail transport in the Czech Republic in terms of train kilometres, or 93.27 per cent. of all passenger rail transport in the Czech Republic in terms of gross ton kilometres in the year ended 31 December 2014. Despite liberalization of the passenger transport sector, ČD remains the dominant provider of the passenger rail transport service.

Freight Transport

Due to its geographical position, the Czech Republic serves as one of the key transport corridors in CEE for freight transport between Eastern and Western Europe. This fact translates into a unique position of ČD Cargo which, according to the UIC, ranked the fourth largest freight carrier in Europe in terms of tons carried in 2015. According to 2014 SŽDC statistics, ČD Cargo is the dominant domestic transporter with a market share of 67.97 per cent. of the freight market in the Czech Republic.

Modes of Freight Transport

To a certain extent, road and rail transport compete with each other. Road transport is preferred over rail transport for the transport of higher value-added goods (e.g. manufactured products) because of the flexibility offered by road infrastructure, which enables door-to-door delivery of goods. High volume and heavy weight commodities (such as coal, metals and mining materials) are more suited for being transported by railway. Waterways do not represent a viable alternative to railroad transport in the Czech Republic, while air is typically used for more important or urgent goods deliveries due to its higher cost.

The two tables below provide an overview of the performance of the different modes of freight transport in terms of tons of goods transported and millions of tons-kilometres in the Czech Republic, respectively, in the years ended 31 December 2015, 2014, 2013 and 2005:

	2015 ⁽¹⁾	2014	2013	2005
	<i>(in thousands of tons of goods)</i>			
Total	536,379	491,625	447,367	560,037
Rail transport.....	97,401	91,564	83,957	85,613
Road transport.....	437,118	386,243	351,517	461,144
Air transport.....	6	9	9	20
Inland waterway transport.....	1,854	1,780	1,618	1,956
Oil pipelines.....	-	12,029	10,266	11,305

Source: Transport Yearbook 2014 published by Ministry of Transport, Quarterly Overview of Basic Indicators 2015 by Ministry of Transport

(1) Preliminary data

	2015 ⁽¹⁾	2014	2013	2005
	<i>(in millions of tons-kilometres)</i>			
Total	73,070	71,421	71,509	61,397
Rail transport.....	15,254	14,574	13,965	14,866
Road transport.....	57,200	54,092	54,893	43,447
Air transport.....	31	35	24	45
Inland waterway transport.....	585	656	693	781
Oil pipelines.....	-	2,063	1,933	2,259

Source: Transport Yearbook 2014 published by Ministry of Transport, Quarterly Overview of Basic Indicators 2015 by Ministry of Transport

(1) Preliminary data

The below table provides an overview of the usage of the different modes of transport in terms of the average distance of goods transported in the years ended 31 December 2015, 2014, 2013 and 2012.

	Average distance of goods transported			
	2015 ⁽¹⁾	2014	2013	2012
	<i>(kilometres)</i>			
Aggregate Average Distance	136.2	145.3	159.8	109.6
Rail transport.....	156.6	159.2	166.3	173.6
Road transport.....	130.9	140.1	156.2	94.2
Inland waterway transport.....	5,334.8	3,888.9	2,666.7	2,250.0
Air transport.....	315.5	3,685.4	428.3	399.3
Oil pipeline transport.....	-	171.5	188.3	199.8

Source: Ministry of Transport 2015, ČD Cargo

(1) Preliminary data

Rail Freight Transport Segmentation

ČD Cargo transports freight relating to a range of industrial sectors. The below table provides an overview of the proportion of freight in each industry sector in terms of volume transported by ČD Cargo in the year ended 31 December 2015:

	Transport by freight type of ČD Cargo
	<i>(per cent.)</i>
Iron and iron products.....	21
Brown coal.....	15
Combined transport.....	11
Bituminous coal and coke.....	9
Building materials.....	8
Chemicals.....	8
Timber and paper products.....	6
Automotive.....	3
Food and agricultural products.....	1
Other.....	18
Total	100

Source: ČD Cargo Data 2015

Domestic Freight Market

The Czech freight market can be divided into local, transit, export and import traffic. The combined cross-border freight volumes of ČD Cargo (aggregating transit traffic, export and import traffic) represented approximately 59.0 per cent. of ČD Cargo's freight volumes in the year ended 31 December 2015. The below table provides an overview of the allocation of the freight traffic by destination in the year ended 31 December 2015.

	Freight traffic
	<i>(per cent.)</i>
Local	41.0
Import	30.3
Transit	9.4
Export	19.3
Total	100

Source: ČD Cargo Data 2015

The below table provides an overview of the market share of individual providers of freight rail transport in terms of gross-ton kilometres and train kilometres in the years ended 31 December 2014 and 2013.

Carrier	Transport of Freight by Rail			
	2014 Gross ton-km⁽¹⁾	2013 Gross ton- km⁽¹⁾	2014 Train km⁽²⁾	2013 Train km⁽²⁾
	<i>(per cent.)</i>			
ČD Cargo	69.9	76.3	68.0	73.5
Advanced World Transport	12.4	7.8	9.5	6.0
Unipetrol Doprava	4.2	3.9	3.8	3.6
IDS CARGO a.s.	3.0	2.1	1.6	1.9
SD – Kolejová doprava a.s.	1.9	1.9	1.9	1.4
Rail Cargo Austria Aktiengesellschaft	2.3	1.8	1.4	1.2
LTE Logistik a Transport Czechia s.r.o.	1.2	1.2	0.9	0.9
METRANS Rail s.r.o.	1.5	1.0	1.2	0.8
BF Logistics s.r.o.	0.9	0.9	0.8	0.7
PKP CARGO SPÓŁKA AKCYJNA	1.0	0.9	0.7	0.7
Other carriers.....	1.7	2.3	10.3	9.4

Source: SŽDC Annual Report 2014

Notes:

(1) Gross ton-kilometre is a product of gross weight of railway vehicles (rolling stock) integrated in the train and distance travelled in kilometres.

(2) Train kilometre represents the distance travelled by train in kilometres.

The Czech rail freight market, which represented approximately 20 per cent. of total freight volumes in the year ended 31 December 2015, is fully liberalized and deregulated. ČD Cargo dominates the domestic market with a 69.9 per cent. market share in terms of gross ton kilometres in the year ended 31 December 2014. As of 31 December 2014, the other key players in the freight market were Advanced World Transport with a 12.4 per cent. market share in terms of gross ton-kilometres, Unipetrol Doprava with 4.2 per cent. market share in terms of gross ton-kilometres and IDS Cargo with a 3.0 per cent. market share in terms of gross ton-kilometres. Domestic competitors tend to specialize in one commodity or they provide freight transport services only to their group, and therefore do not compete with ČD Cargo for the transport of freight across all commodities.

Overall, ČD Cargo enjoys a dominant position in the rail freight transport market in the Czech Republic, vis-à-vis the other domestic carriers.

International Freight Market by Carrier

The below table provides an overview of tons of freight carried by the selected European railway freight companies in the years ended 31 December 2015 and 2014:

Country	Carrier	Wagonload Freight Traffic Overall		
		2015	2014	
		(thousand tonnes carried)		(percentage change)
Germany	DB Schenker Rail AG (Deutsche Bahn).....	300,196	329,111	(8.8)
Poland	PKP Cargo SA.....	116,373	120,363	(3.3)
Czech Republic	ČD Cargo.....	66,376	68,612	(3.3)
Lithuania	LG.....	48,053	49,000	(1.9)
Switzerland	SBB CFF FFS.....	44,946	45,740	(1.7)
Latvia	LDZ.....	55,645	51,404	8.3
Slovakia	ZSSK Cargo.....	34,727	36,017	(3.6)
Finland	VR.....	33,392	37,008	(9.8)
Turkey	TCDD.....	24,800	27,918	(11.2)
Spain	RENFE.....	20,856	21,282	(2.0)

Source: UIC 2015

According to the UIC, ČD Cargo ranked the fourth largest freight carrier in Europe in terms of tons carried in 2015 and 2014. Only Deutsche Bahn and Polske Koleje Państwowe S.A (PKP) and Belurisan railways transported a greater volume of freight by rail in each of these years.

EU Accession and the Impact on the Czech Railway Industry

The Czech Republic acceded to the EU effective 1 May 2004 and became bound by the European legislation providing for the framework of what later became known as the single European railway area.

The railway network of the Czech Republic must comply with requirements for interoperability set out in Regulation No. 352/2004 Coll. on Operational and Technical interconnection of the European Railway System, the Government Regulation on technical requirements for operational and technical interconnection of the European Railway System No. 133/2005 Coll. and related Technical Specifications of Interoperability.

The basic principles of modernization include:

- Increase of maximum track speed on longer track sections;
- Construction of the railway network complying with the rolling stock load standards D4 UIC for the track speed of up to 120 km/h.;
- Construction of the railway network in compliance with the spatial structural standards for rolling stock transit, in particular the ČSN 73 6320 standard;
- Building up the railway network allowing for efficient railway network operation;
- Installation of the technological device to provide full operation safety at the track speed of up to 160 km/h;
- Equipping railway stations with platforms in compliance with Regulations No. 177/1995 Coll. and 369/2001 Coll. (i.e. ensuring that the length, width, high and other technical parameters will be in compliance with the standards set by Regulations No. 177/1995 Coll. and 369/2001 Coll. and will allow for safe manoeuvring of persons, including disabled persons);
- Achieving sufficient effective length of rails at railway stations (i.e. building up station tracks in the length corresponding to the length of the rolling stock assigned for the particular railway track); and
- Improving the condition of level crossings with communications over land.

European Funding Programmes

Accession of the Czech Republic to the EU enabled the Czech Republic to apply for funding from the EU. For the current programming period between 2014 and 2020, CZK 33.9 billion has been allocated to the Czech Republic under the Operational Program for Transport to spend on projects aimed primarily at

development and renewal of high-quality, complex and interoperable railway systems within the trans-European Transport Network.

The railway infrastructure is funded further through the Connecting Europe Facility – Transport programme. Its aim is to back investments into building a new transport infrastructure and/or reconstruction and modernization of the current one. The CEF Transport is used to develop the Core and Comprehensive Networks in order to eliminate bottlenecks and gaps on the European railways. One of other CEF Transport’s aims is to subsidize innovations which would contribute to optimization (both in capacity and energy efficacy) of the railway network and decrease of the negative impacts of the rail transport on environment.

SŽDC is currently implementing three projects under the CEF Transport program, all due during 2019.

ČD received funding from the Operational Programme Transport for two projects to install the GSM-R system to 600 and 355 ČD locomotives, respectively. The total budget of the project is EUR 17 million.

Overview of the Czech Republic

The Czech Republic is situated in the centre of Europe, bordering Germany to the west, Poland to the north, Slovakia to the east and Austria to the south. Its borders are mostly formed by forested mountain ranges and hills, except in the south-east where it shares lowlands with Austria and Slovakia. A developed road and rail network connects its two main regions, Bohemia and Moravia. The Czech Republic covers an area of approximately 78,885 square kilometres and its population is estimated to be approximately 10.5 million inhabitants.

The Czech Republic became a member of the North Atlantic Treaty Organisation (“NATO”) on 12 March 1999 and a member of the EU on 1 May 2004.

As of the date of this Prospectus, the rating of the Czech Republic is A1 with stable outlook (Moody’s), AA- with stable outlook (S&P) and A+ with stable outlook (Fitch).

Brief Overview of the Czech Republic’s Economy

The below table provides an overview of the key indicators for the Czech economy in the years ended 31 December 2015 to 2010:

Indicator	2015	2014	2013	2012	2011	2010
	<i>(per cent.)</i>					
GDP ⁽¹⁾	4.2	2.0	(0.5)	(0.9)	2.0	2.3
Final consumption expenditure ⁽¹⁾	2.8	1.6	1.2	(1.5)	(0.7)	0.8
Gross capital formation expenditure ⁽¹⁾	9.9	4.4	(5.0)	(4.1)	1.8	4.4
Gross fixed capital formation expenditure ⁽¹⁾	7.3	2.0	(2.7)	(3.2)	1.1	1.3
Exports of goods and services ⁽¹⁾	7.1	8.8	0.1	4.2	9.3	15.0
Imports of goods and services ⁽¹⁾	7.9	9.8	0.2	2.6	6.7	15.0
Industrial output ⁽²⁾	2.5	8.9	1.5	1.7	7.6	9.5
Construction output ⁽¹⁾	7.1	4.3	(6.7)	(7.6)	(3.6)	(7.4)
Services - sales ⁽¹⁾	2.6	1.0	(0.2)	(0.4)	(1.9)	(1.4)
Agriculture - sales ⁽¹⁾	7.6	11.0	(2.1)	3.1	8.2	6.4
CPI ⁽³⁾	0.3	0.4	1.4	3.3	1.9	1.5
General rate of unemployment.....	5.0	6.1	7.0	7.0	6.7	7.3
State budget balance/GDP.....	(1.4)	(1.8)	(2.0)	(2.5)	(3.5)	(4.0)
General government debt/GDP.....	41.4	42.7	45.2	44.7	39.9	38.2
State debt/GDP.....	37.4	39.0	41.3	41.3	37.3	34.0
CZK/EUR exchange rate ⁽⁴⁾	27,283	27,533	25,974	25,143	24,586	25,290

Source: Czech Statistical Office

Notes:

(1) Year-on-year, real terms.

(2) Year-on-year, current prices.

(3) Year-on-year, average.

(4) Year average.

While the Group operates internationally, the vast majority of its revenues are generated within the Czech Republic. The Czech Republic has an open and export-driven economy with significant contribution to GDP from manufacturing. The Czech Republic enjoyed growth from its accession to the EU in 2004 until a drop in economic activity in 2009 of 4.7 per cent. amid the global financial crisis. In 2015, the Czech

Economy recorded the steepest growth since 2007. GDP increased by 4.3 per cent. year-on-year, never dropping below 4 per cent. in any of the four quarters. Gross value added rose by 3.8 per cent. The growth was driven by domestic demand (mostly by domestic investments and household consumption) and by the processing industry and commercial and public services. In the year ended 31 December 2015, the economic growth was recorded in the nine preceding calendar quarters. The dynamic growth in 2015 was also driven by extraordinary events such as a decline in oil prices and drawdowns from the EU funds.

The economic growth enhanced the labour market. Employment rose by 1.1 per cent. in 2015 compared to 2014 and was highest since 1993 (except for 2008). The general unemployment rate decreased during 2015 and achieved the 4.6 per cent. floor in December. The average wages also increased by 3.9 per cent. year-on-year in the year ended 31 December 2015 compared to 2014.

The Czech Republic had a budget deficit of 1.4 and 1.8 per cent. of GDP in 2015 and 2014, respectively. The general government debt equalled 41.4 and 42.7 per cent. of GDP in 2015 and 2014, respectively.

International Comparison

GDP per Capita in Purchasing Power Standard

The below table shows GDP per capita in purchasing power standard for the selected CEE countries in the years ended 31 December 2014 to 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
		<i>(per cent.)</i>	
Czech Republic	63.2	67.2	70.2
Poland	57.4	57.3	57.2
Hungary	56.6	57.6	58.0
Slovakia	66.0	67.3	67.7
Slovenia	79.8	81.0	81.1
EA15	102.8	103.7	103.2

Source: Eurostat

Note: Indexed to EU27 (100 per cent.).

The Czech Republic has a GDP per capita which is among the highest of the non-Eurozone EU members in Central and Eastern Europe and higher than some Eurozone countries (in terms of GDP per capita expressed in Purchasing Power Standard).

Fiscal Balance and General Government Debt

The below table provides an overview of the budget deficit as a percentage of GDP for the selected CEE countries in the years ended 31 December 2015 and 2014:

	<u>2015</u>	<u>2014</u>
		<i>(per cent.)</i>
Czech Republic	(0.4)	(1.9)
Poland	(2.6)	(3.3)
Hungary	(2.0)	(2.3)
Slovakia	(3.0)	(2.7)
Slovenia	(2.9)	(5.0)
Euro area	(2.1)	(2.6)

Source: Eurostat

The below table provides an overview of the general government debt as a percentage of GDP for the selected CEE countries in the years ended 31 December 2015 and 2014:

	<u>2015</u>	<u>2014</u>
		<i>(per cent.)</i>
Czech Republic	41.1	42.7
Poland	51.3	50.5
Hungary	75.3	76.2
Slovakia	52.9	53.9
Slovenia	83.2	81.0
Euro area	90.7	92.0

Source: Eurostat

The Czech Republic maintains a low budget deficit relative to certain other CEE countries and the Eurozone average for 2015 and 2014. In 2015, the general government debt of the Czech Republic was lower than in most Eurozone countries (at EUR 67,948 million which is approximately 41.1 per cent. of GDP according to Eurostat). The Czech Republic therefore has low government indebtedness compared to certain other CEE countries and the Eurozone average for 2015 and 2014.

THE REGULATORY FRAMEWORK

Railway transport laws in the EU

The main legal framework of the EU railway market is established by the First Railway Package of 2001 which was recast by Directive 2012/34/EU of the European Parliament and the Council of 21 November 2012 establishing a single railway area. It provides the framework for open access to operations on railways in the EU, the licensing of railway undertakings and the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and safety certification.

The industry is further regulated by a series of directives and regulations which are referred to as “railway packages”. The Second Railway Package, adopted in 2004, has accelerated the liberalization of rail freight services by fully opening the rail freight market to competition as from 1 January 2007. In addition, the package created the European Railway Agency situated in Valenciennes (France), introduced common procedures for accident investigation and established Safety Authorities in each Member State.

The Second Railway Package of 2004, in particular Directive 2004/51/EC of 29 April 2004 amending Council Directive 91/440/EEC on the development of the Community's railways, is thus of the most significance for providers of freight transport services as it imposed upon the Member States an obligation to grant, on equitable conditions, access to the entire rail network and the infrastructure for the purpose of operating rail freight services. In addition, Directive 2004/49/EC of the European Parliament and of the Council of 29 April 2004 on safety on the Community's railways and amending Council Directive 95/18/EC on the licensing of railway undertakings and Directive 2001/14/EC on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and safety certification, aim to ensure the development and improvement of safety on the Community's railways and improved access to the market for rail transport services.

The Third Railway Package of 2007 is of the most significance for providers of passenger transport services and deals with the liberalisation of international passenger transport services, rail passenger rights and obligations, and certification of train drivers. In particular, Regulation (EC) No. 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) Nos. 1191/69 and 1107/70 provides for the conditions under which a public authority from a Member State, in imposing or contracting public service obligations in the field of public passenger transport, compensates public service operators for the costs incurred and/or grants exclusive rights in return for the performance of public service obligations. Public service obligations are defined as requirements determined by a competent authority in order to ensure the provision of public passenger transport services which are in the general interest but which an operator, if considering its own interests, would not provide, or would not provide to the same extent or under the same conditions without reward. Public service obligations are to be performed within the framework of public service contracts. Public service obligations aimed at establishing maximum tariffs for all passengers or for certain categories of passengers may be subject to the general rules, i.e. measures applicable without discrimination to all public passenger transport services of the same type in a given geographical area for which a relevant competent authority is responsible.

Regulation 1370/2007 provides for the mandatory content of public service contracts, which includes a clear definition of the public service obligations, the geographical areas concerned, the basis for the calculation of the compensation payment, the nature and extent of any exclusive rights granted, and the cost allocation. The manner in which an operator is compensated or is granted any exclusive rights must ensure such operator does not receive greater benefit than that which is appropriate under applicable law. The revenue allocation should be determined both in the public service contract and the general rules for the operation of public transport contained in Regulation 1370/2007. Article 4 provides that the term of public service contracts with regard to the railway industry may not exceed 15 years. This period may be extended by a maximum of 50 per cent. if the public service operator provides assets which are significant in relation to the overall assets needed to carry out the passenger transport services covered by the public service contract and are linked predominantly to such services, or if it is justified by the costs deriving from a given geographical situation. Regulation 1370/2007 allows for longer terms of contracts awarded in a fair competitive tender procedure if it is justified by the amortisation of capital in relation to nonstandard infrastructure, rolling stock or vehicle investments.

Public service contracts within the rail industry are to be awarded in accordance with the rules laid down in Regulation 1370/2007, on the basis of a competitive tender procedure except in specified cases, including, among others, a direct award by a Member State authority of a rail transport public service contract. The term of public service contracts concerning rail transport which were awarded directly is generally limited to ten years and the major provisions of such contracts should be made public by the authority which awarded them. The above rules of awarding public service contracts are to be complied with from 3 December 2019. Until that date transition measures are to be taken by the Member States. Regulation 1370/2007 describes the circumstances that may impact the term of contracts executed prior to 3 December 2009, the date on which Regulation 1370/2007 entered into force. While contracts entered into before 26 July 2000 on the basis of a fair competitive tender procedure may continue until they expire, contracts entered into before 26 July 2000 on the basis of a procedure other than a fair competitive tender procedure and contracts entered into between 26 July 2000 and 3 December 2009 on the basis of a fair competitive tender procedure may continue until they expire, however no longer than 30 years. Contracts entered into between 26 July 2000 and 3 December 2009 on the basis of a procedure other than a fair competitive tender procedure may continue until they expire provided that their term is comparable to the term specified in Article 4 of Regulation 1370/2007.

An annex to Regulation 1370/2007 provides for the manner of calculation of the compensation connected with the general rule or public service contracts awarded directly. The amount of such compensation cannot exceed the net financial result which is calculated pursuant to the following formula: costs incurred in relation to a public service obligation imposed by the competent authority set out in a public service contract and/or in the general rule, minus any positive financial results generated under such public service obligation, minus revenues from tariffs or any other revenues generated in the performance of the public service obligation, plus reasonable profit, equals the net financial result. Reasonable profit is the rate of return on capital that is standard for the sector in a given Member State and that reflects the risk incurred, or its absence, due to the intervention of public authorities. To increase transparency, a public service operator that pursues other activities in addition to performing public transport service obligations for which it is compensated must establish a separate account for such activities.

Railway transport laws in the Czech Republic

The main legal regulation relating to rail transport in the Czech Republic is the Railway Act. This Act regulates the terms for the construction of railway tracks and structures thereon, the conditions for operating railway tracks, for operating rail transport on railway tracks, as well as the related rights and obligations of individuals and legal entities, the performance of public administration and State supervision in connection with rail transport.

The legal position of ČD is regulated by Act (77/2002 Coll.) on the Joint Stock Company Czech Railways, the State Organisation Railway Infrastructure Administration and the Changes to the Railways Act (266/1994 Coll.), as amended, and the State Enterprise Act (77/1997 Coll.) as amended, which regulates the management and activities of ČD, including voting rights of the State as the shareholder of ČD and business activities carried out by ČD, and the establishment and activities of SŽDC, as the legal successors of the State organization České dráhy.

Regulation No. 1370/2007 is reflected in Act (194/2010 Coll.) on Public Passenger Transport Services and on the amendment of other laws, as amended, which regulates the procedure of the State, regions and municipalities in relation to arranging for rail and road public passenger transport services.

In addition, there are several Government decrees and regulations of the Czech Ministry of Transport, which, among others, provide for transport rules for public railroad freight transport, rules for the health and professional qualifications of persons operating railways and rail transport, transport rules for public passenger transport by rail and by road, safety of operation of tracks and rail transport.

Anti-Trust Regulations

The activities of ČD and its Group which impair or could impair competition in the Czech Republic or may affect trade between the Member States of the EU are subject to the general principles of Czech and EU competition laws, respectively. The Anti-Monopoly Office oversees competition issues in the Czech Republic.

In this regard, companies and other market participants occupying a dominant position in the relevant market, such as ČD and its Group, may not abuse their position as stipulated by the Act (143/2001 Coll.) on the Protection of Competition, as amended (the "**Czech Competition Act**") and by the Treaty on the Functioning of the EU. Such abuse may, in particular, consist of imposing unfair prices or other trading conditions, limiting production or technical development, discriminating between customers or suppliers (thereby placing them at a competitive disadvantage) or making the conclusion of contracts subject to the acceptance by the other parties of supplementary unrelated obligations.

In addition, market participants (such as ČD and the companies within its Group) may not enter into agreements or engage in concerted practices which have as their object or effect the prevention, restriction or distortion of competition within the Czech market or internal market of the EU as stipulated by the Czech Competition Act and the Treaty on the Functioning of the EU. In this regard, the laws particularly prohibit market participants from fixing prices or other trading conditions, limiting or controlling production, markets, technical development, or investments, the share market or source of supply, or discriminating against other parties.

ČD and the companies within its Group are also subject to the EU state aid rules which prohibit them from receiving any state or public aid which would distort or threaten to distort competition by favouring them or the production of certain goods unless the aid falls within one of the exemptions set out in the Treaty on the Functioning of the EU. There is also sector specific EU legislation which regulates certain aspects of this general principle for the railways sector. For example, the EU legislation stipulates the conditions under which the Czech Republic may compensate ČD for burdens which are, in other sectors, normally borne by the State (Regulation (EEC) No 1192/69 of the Council of 26 June 1969 on common rules for the normalisation of the accounts of railway undertakings). Similarly, the EU legislation also specifies a list of cases in which ČD, as an "undertaking entrusted with the operation of services of general economic interest", can receive state aid in the form of compensation for fulfilling these obligations (Regulation 1370/2007).

Public Procurement Laws

Where ČD (or a subsidiary such as ČD Cargo) awards contracts above a certain value, it is subject to the Public Procurement Act. Generally, pursuant to the Public Procurement Act, ČD may enter into agreements providing for the delivery of goods or services only after the completion of one of the public procurement procedures specified in the Public Procurement Act. Any agreement concluded contrary to the Public Procurement Act before 1 January 2010 is unconditionally invalid as a matter of law. On 1 January 2010, an amendment to the Public Procurement Act implemented a conditional invalidity where invalidity is caused by non-compliance with the procedures set out by the Public Procurement Act. In this case, the contract is only invalid where the Czech Competition Office as the authority with the power to review the process for awarding public contracts prohibits the performance of the contract in question. A new Public Procurement Act was approved by the Czech Parliament in April 2016 and it is to enter into effect on 1 October 2016. The new act implements the new EU Public Procurement Directives (Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC, Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC, and Directive 2014/23/EU of the European Parliament and of the Council of 26 February 2014 on the award of concession contracts) and should lower the administrative burden imposed on contracting authorities and simplify the process of awarding public contracts in the Czech Republic. .

Importantly, public procurement rules may also apply to the awarding of contracts to ČD or companies within its Group. For example, where a competent authority decides to grant ČD or another railway operator an exclusive right and/or compensation in return for the discharge of public service obligations, it must do so within the framework of a public service contract while following specific public procurement rules stipulated in Regulation 1370/2007.

Labour Regulation/Union Laws

The principal source of law regulating employment relationships is the Labour Code, which covers all areas of individual employment relationships between an employer and an employee, including for example equal treatment and the prohibition of discrimination, access to information, agency employment, working conditions, health and safety at work, liability for damages and dismissal. The

Labour Code only contains a general prohibition of discrimination. The Act (198/2009 Coll.) on Anti-discrimination, as amended, contains more specific provisions on equal treatment and the prohibition of discrimination. In general, the Labour Code allows for contractual freedom of parties within the limits set by the regulatory framework; it is therefore not possible to contract out of statutory employee protection.

The institutional framework for and the functioning of the labour market in the Czech Republic are regulated by the Act (435/2004 Coll.) on Employment, as amended, which covers, for example, the qualification criteria for unemployment benefits, employment of foreigners and special provisions of employment relating to disabled persons.

Although the Labour Code contains basic provisions regarding trade unions, collective labour law rules, in particular the collective bargaining procedure, are contained in the Act (2/1991 Coll.) on collective bargaining, as amended. Basically, collective agreements can be negotiated on two levels, either as house collective agreements (binding on a single employer and the trade union operating with that employer), or as sectorial collective agreements (binding on all employers and trade unions operating with employers in a whole economic sector). Individual employee entitlements arising from collective agreements are legally enforceable in the same manner as other rights arising from individual employment contracts.

TAXATION

Czech Taxation

The following is a general description of certain Czech-law tax considerations relating to the Notes. Information contained in this section does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in the Czech Republic or elsewhere. Prospective investors in the Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are a resident for tax purposes and as to the tax laws of the Czech Republic regarding the acquisition, holding, or disposal of the Notes and receiving payments of interest, principal and/or any other amount under the Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Investors should also note that the appointment of a custodian, collection agent or similar person in relation to the Notes in any jurisdiction by an investor in the Notes, or any person through which an investor holds the Notes, may have tax implications. Investors should consult their own tax advisers regarding the tax consequences of any such appointment.

Interest

Provided that the Notes qualify as bonds issued outside of the Czech Republic, interest income from the Notes realised by an individual who is not treated for tax purposes as a resident of the Czech Republic or by a person other than an individual who is not for tax purposes treated as a resident of the Czech Republic (together, “**Non-Czech Holders**”) will be exempt from taxation in the Czech Republic and no withholding or deduction for or on account of Czech tax will be required to be made by the Issuer on any payment of interest to Non-Czech Holders.

Interest income from the Notes realised by an individual who is treated for tax purposes as a resident of the Czech Republic or by a person other than an individual who is treated for tax purposes as a resident of the Czech Republic or by an organisational unit of the State (together, “**Czech Holders**”) is not subject to any Czech withholding tax and is payable by the Issuer to Czech Holders free from any deduction or withholding for or on account of Czech tax.

However, no tax exemption applies (unlike in the case of Non-Czech Holders), and Czech Holders are generally obliged to declare such income in their annual tax returns on a self-assessment basis (whereas, in the case of Czech Holders who are individuals, this reporting obligation will depend on the specific circumstances of the given case, and so will the matter of whether the interest income is to be declared on a cash basis or accrual basis). The ordinary Czech corporate or personal income tax rate will apply: 15 per cent. for individuals and 19 per cent. for other taxpayers.

Czech tax law is unclear in respect of a situation in which the Issuer distributes the difference between the nominal value of a Note and its issue price. There is a certain risk that such difference may not benefit from the above exemption (unlike interest), and thus be subject to Czech withholding tax of 15 per cent. This risk affects individual Holders more than e.g. corporate Holders. Here, a 35 per cent. withholding tax rate would apply instead of the 15 per cent. rate in case of a Non-Czech Holder who is not regarded as a tax resident of an EU Member State or a state belonging to the European Economic Area (the “**EEA**”), a country with which the Czech Republic has an effective double tax treaty, a country with which the Czech Republic has an effective international treaty or tax information exchange agreement with respect to taxes on income, or a country which is a contractual party to a multilateral agreement governing the exchange of tax information with respect to taxes on income which is also applicable to the Czech Republic.

If the Issuer repurchases the Notes before maturity and distributes the redemption price to an individual, the difference between such price and the issue price is generally subject to Czech withholding tax of 15 per cent. For other than individual Holders, such income is generally taxable as a capital gain and as such generally subject to tax security at a rate of 1 per cent. (please see below). These taxes may be modified by a double taxation treaty between the country of residence of the Non-Czech Holder and the Czech Republic.

Where the above income is subject to withholding tax and flows to residents of states of the EU or the EEA, the income may be included in their Czech income tax returns and the tax withheld can then be credited against the overall Czech tax liability.

Capital Gains

Income realised by a Non-Czech Holder who does not hold the Notes through a permanent establishment in the Czech Republic from the sale of such Notes to another Non-Czech Holder who does not acquire the Notes through a permanent establishment in the Czech Republic, will not be subject to Czech income tax.

Income realised by a Non-Czech Holder who does not hold the Notes through a permanent establishment in the Czech Republic from the sale of the Notes to (a) a Czech Holder; or (b) a Non-Czech Holder who acquires the Notes through a permanent establishment in the Czech Republic, will be subject to taxation in the Czech Republic unless:

- (i) the Non-Czech Holder who realises the income is resident in a country within the meaning of a double taxation treaty between that country and the Czech Republic, pursuant to the terms of which the right to tax that income is conferred exclusively to the former country; or
- (ii) in the case of Non-Czech Holders who are individuals, such income is exempt from tax under Czech law (see below for the criteria for an exemption from tax which is available to holders of the Notes who are individuals).

Income realised by a Non-Czech Holder who holds the Notes through a permanent establishment in the Czech Republic from the sale of such Notes will generally be subject to taxation in the Czech Republic.

If income realised by a Non-Czech Holder from the sale of the Notes is subject to taxation in the Czech Republic (as discussed in the foregoing paragraphs), the Czech Holder or the Non-Czech Holder acquiring the Notes through a permanent establishment in the Czech Republic paying the income will be obliged to withhold an amount of 1 per cent. on a gross basis representing tax security, unless the Non-Czech Holder realising the income is for tax purposes a resident of an EU Member State or a country of the EEA, or unless such obligation to withhold security has been waived pursuant to a decision of Czech tax authorities. Such tax security may subsequently be credited against the final Czech tax liability of the Non-Czech Holder as per the self-assessment in their annual Czech tax return.

Income realised by Czech Holders from the sale of the Notes is generally subject to Czech corporate or personal income tax at the rates specified above. In the case of individuals who hold the Notes as part of their business property, that part of all business income (i.e., also including other income than from the sale of the Notes) which, after deduction of costs, exceeds 48 times the average monthly salary in the Czech Republic (i.e., CZK 1,296,288 for 2016) is additionally subject to a solidarity surcharge tax of 7 per cent.

Income realised by individuals from the sale of the Notes is exempt from Czech personal income tax if the holding period of the Notes exceeded three years and the Notes have not been held as part of the business property of such individual (or if they have been held as part of business property, then they will not be sold earlier than upon the expiry of a three year period following the termination of that individual's business activities).

Furthermore, income from the sale of the Notes realized by individuals is exempt from taxation if the annual (worldwide) income (including tax-exempt income) of that individual from the sale of all securities (including the Notes and any other securities) does not exceed the amount of CZK 100,000.

Losses incurred upon the sale of the Notes by Czech Holders who keep accounting books and hold the Notes as part of their business property (i.e., generally, all legal entities and certain individuals), will generally be tax deductible. By contrast, losses incurred upon the sale of the Notes by Czech Holders who are individuals (other than those mentioned in the previous sentence) are in most cases non-deductible.

Czech Holders who are subject to Czech GAAP for entrepreneurs or to Czech GAAP for financial institutions may be required to revalue the Notes to fair value for accounting purposes, whereby the unrealised gains and losses would be accounted for as revenue or expense, respectively. Such revenue is generally taxable and the corresponding expense is generally tax deductible for Czech tax purposes.

Other Taxes

No Czech stamp duty, registration, transfer or similar taxes will be payable in connection with the acquisition, ownership, sale or disposal of the Notes by Czech Holders or Non-Czech Holders.

Luxembourg Taxation

The following is a general description of certain Luxembourg tax considerations relating to the Notes. It specifically contains information on taxes on the income from the Notes withheld at source and provides an indication as to whether the Issuer assumes responsibility for the withholding of taxes at the source. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in Luxembourg or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of Luxembourg. This summary is based upon the law as in effect on the date of this Prospectus. The information contained within this section is limited to withholding taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

All payments of arm's length interest and principal by the Luxembourg Paying Agent under the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to the application of the Luxembourg law of 23 December 2005, which has introduced a 10 per cent. final withholding tax on savings income as regards interest paid by a Luxembourg paying agent to or for the immediate benefit of Luxembourg resident individuals. On 29 February 2016, the Luxembourg government presented the main items of the envisaged 2017 tax reform. Amongst others, the government has announced its intention to increase the aforementioned withholding tax rate of the Law to 20 per cent. as from fiscal year 2017.

Responsibility for the withholding of tax in application of the above-mentioned Luxembourg law of 23 December 2005 is assumed by the Luxembourg paying agent within the meaning of these laws and not by the Issuer.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited and Société Générale (the “**Joint Lead Managers**”) have, in a subscription agreement dated 23 May 2016 (the “**Subscription Agreement**”) and made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 99.024 per cent. of their principal amount less a combined management and underwriting commission. The Issuer has also agreed to reimburse the Joint Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United Kingdom

Each Joint Lead Manager has severally represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Joint Lead Manager has severally agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons substantially in the following effect:

“The securities covered hereby have not been registered under the United States Securities Act of 1933 (the “**Securities Act**”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S.”

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Czech Republic

This Prospectus has not been and will not be approved by, or notified to, the Czech National Bank (the “**CNB**”) and it does not constitute an offering of the Notes to the public in the Czech Republic. No notification (other than notifications to the CNB under Section 8a of Czech Act No. 15/1998 Coll., on Capital Markets Supervision, as amended, and Section 5 of Czech Act No. 219/1995 Coll., Foreign Exchange Act, as amended) has been made to, and no permit has been sought or obtained from, the CNB

in connection with (i) the issue of the Notes, (ii) the admission of the Notes for trading on a regulated market in the Czech Republic, or (iii) a public offering of the Notes in the Czech Republic.

Accordingly, the Notes may be offered, and this Prospectus may be distributed, in the Czech Republic only under one or more exemptions from the obligation to publish a prospectus available under the Czech Act No. 256/2004 Coll., on Doing Business in Capital Markets, as amended (the “**Capital Markets Act**”), including but not limited to, offering and/or distribution: (i) addressed exclusively to qualified investors as defined in the Czech Capital Market Act, (ii) addressed to fewer than 150 natural or legal persons (other than qualified investors), (iii) in circumstances where the denomination or minimum investment is at least equal to EUR 100,000 (or its equivalent in another currency), or (iv) pursuant to any other applicable exemption under Czech law.

General

Each Joint Lead Manager has severally represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the Notes. Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

1. The issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 12 January 2016, a resolution of the Supervisory Board of the Issuer dated 20 January 2016 and a resolution of the Steering Committee of the Issuer dated 4 February 2016.

Listing and admission to trading

2. Application has been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market.

The total expenses related to the admission to trading of the Notes are expected to be approximately EUR 5,345.

Legal and Arbitration Proceedings

3. Except as disclosed in this Prospectus, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer and its Subsidiaries.

Significant/Material Change

4. Since 31 December 2015 there has been no material adverse change in the prospects of the Issuer or the Issuer and its Subsidiaries and no significant change in the financial or trading position of the Issuer or the Issuer and its Subsidiaries.

Auditors

5. The consolidated financial statements of the Group prepared in accordance with IFRS have been audited without qualification for the years ended 31 December 2014 and 2015 by Deloitte Audit s.r.o., Nile House, Karolinská 654/2, 18600 Prague 8 - Karlín, Czech Republic, an audit company registered with the Czech Chamber of Auditors.

Interests of Persons Involved in the Issue

6. Certain of the Joint Lead Managers and/or their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

Documents on Display

7. Copies of the following documents (together with English translations thereof) may be inspected during normal business hours at the registered address of the Issuer for 12 months from the date of this Prospectus:
 - (a) the Deed of Incorporation and Articles of Association of the Issuer;
 - (b) the consolidated financial statements of the Group as of and for the years ended 31 December 2015 and 2014 prepared in accordance with IFRS;
 - (c) the Prospectus;
 - (d) the Subscription Agreement;
 - (e) the Fiscal Agency Agreement; and
 - (f) the Deed of Covenant.

A copy of the Prospectus is available on the Luxembourg Stock Exchange's website at www.bourse.lu.

Yield

8. On the basis of the issue price of the Notes of 99.024 per cent. of their principal amount, the gross real yield of the Notes is 2.026 per cent. on an annual basis.

ISIN and Common Code

9. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS1415366720 and the common code is 141536672.

FINANCIAL STATEMENTS

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České dráhy, a.s.

**CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH IFRS
AS ADOPTED BY THE EU
AND INDEPENDENT AUDITOR'S REPORT**

AS OF 31 DECEMBER 2015

INDEPENDENT AUDITOR'S REPORT To the Shareholders of České dráhy, a.s.

Having its registered office at: Nábřeží L. Svobody 1222, 110 15 Praha 1
Identification number: 709 94 226

Based upon our audit, we issued the auditor's report dated 5 April 2016 containing our opinion on the accompanying consolidated financial statements which are reproduced in this Prospectus. In this report, we stated the following:

"We have audited the accompanying consolidated financial statements of České dráhy, a.s. and its subsidiaries prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the statement of financial position as of 31 December 2015, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of České dráhy, a.s. and its subsidiaries as of 31 December 2015, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matters

As discussed in Note 35 to the financial statements, the Company is involved in a series of legal disputes and is addressing the results of inspections focused on the drawing of subsidies allocated in the past. The potential outcome of the stated legal disputes and inspections cannot be presently anticipated. Our opinion is not modified in respect of this matter. “

The consolidated financial statements do not reflect the effects of events that occurred subsequent to 5 April 2015 being the date of our report on those financial statements. We have not performed any audit procedures subsequent to 5 April 2015 with respect to those financial statements.

The consolidated financial statements and the related auditor’s report were published as part of the Annual Report as required by the relevant legislation.

In Prague 4 May 2016

Audit firm:

Deloitte Audit s.r.o.
registration no. 079



Statutory auditor:

Václav Jioušek
registration no. 2037



Consolidated Financial Statements for the Year Ended 31 December 2015

prepared under IFRS as adopted by the EU

Name of the Company: České dráhy, a.s.
Registered Office: Nábřeží L. Svobody 1222, 11015 Praha 1
Legal Status: Joint Stock Company
Corporate ID: 70994226

Components of the Consolidated Financial Statements:

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

STATEMENT OF PROFIT OR LOSS



STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF CHANGES IN EQUITY

CASH FLOW STATEMENT

NOTES TO THE FINANCIAL STATEMENTS

These consolidated financial statements were prepared on 5 April 2016.

Statutory body of the reporting entity:	Signature
Pavel Krtek, M.Sc. Chairman of the Board of Directors	
Doc. Dr. Ing. Roman Štěřba Member of the Board of Directors	

České dráhy, a.s.

Consolidated Financial Statements for the Year Ended 31 December 2015

prepared under IFRS as adopted by the EU

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2015

		31 Dec 2015 CZK thousand	31 Dec 2014 CZK thousand	1 Jan 2014 CZK thousand
Property, plant and equipment	16	74 332 726	74 999 328	74 197 376
Investment property	17	1 957 502	2 140 185	2 162 067
Intangible assets	18	569 143	594 896	571 745
Investments in joint ventures and associates	20	188 077	187 875	200 864
Deferred tax asset	13	27 596	5 858	12 022
Other financial assets	23	735 677	1 812 882	1 619 722
Other assets	24	26 546	106 998	58 530
Total non-current assets		77 837 267	79 848 022	78 822 326
Inventories	21	1 248 767	1 199 967	1 128 138
Trade receivables	22	3 452 721	3 127 474	3 409 896
Tax receivables		24 745	60	1 191
Other financial assets	23	760 875	125 807	181 942
Other assets	24	1 461 431	1 151 710	1 092 974
Cash and cash equivalents	32	3 972 429	4 042 971	1 755 935
Assets held for sale	15	33 550	49 454	59 161
Total current assets		10 954 518	9 697 443	7 629 237
TOTAL ASSETS		88 791 785	89 545 465	86 451 563
Share capital	25	20 000 000	20 000 000	20 000 000
Reserve and other funds	25	15 760 054	16 046 019	16 315 150
Retained earnings (accumulated losses)		-161 526	1 276 631	1 196 207
Equity attributable to equity holders of the parent company		35 598 528	37 322 650	37 511 357
Non-controlling interests		623 234	775 505	741 544
Total equity		36 221 762	38 098 155	38 252 901
Loans and borrowings	26	25 693 410	33 135 989	29 896 632
Deferred tax liability	13	887 530	751 416	538 538
Provisions	27	856 505	826 019	213 071
Other financial liabilities	29	1 510 850	1 183 234	420 663
Other liabilities	30	603 840	581 252	520 291
Total non-current payables		29 552 135	36 477 910	31 589 195
Trade payables	28	6 200 868	6 694 581	6 582 557
Loans and borrowings	26	11 498 193	3 646 394	4 688 281
Tax payables		12 140	88 951	56 628
Provisions	27	1 790 376	1 288 592	2 016 357
Other financial payables	29	684 109	654 401	408 951
Other payables	30	2 832 202	2 596 481	2 856 693
Total current payables		23 017 888	14 969 400	16 609 467
TOTAL LIABILITIES		88 791 785	89 545 465	86 451 563

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2015

		Year ended 31 Dec 2015 CZK thousand	Year ended 31 Dec 2014 CZK thousand
CONTINUING OPERATIONS			
Revenue from principal operations	5	33 083 317	33 036 221
Other operating income	6	4 679 238	3 700 728
Purchased consumables and services	7	-16 935 870	-16 271 198
Employee benefit costs	8	-12 524 798	-12 106 999
Depreciation and amortisation	9	-6 221 891	-5 884 708
Other operating losses, net	10	-1 892 832	-610 835
Profit before interest and tax		187 164	1 863 209
Financial expenses	11	-1 427 523	-1 219 510
Other gains (losses), net	12	60 751	-114 650
Share of income of joint ventures and associates		11 415	13 931
Profit (loss) before tax		-1 168 193	542 980
Income tax expense	13	-206 804	-386 774
Profit (loss) for the period from continuing operations		-1 374 997	156 206
DISCONTINUED OPERATIONS			
Profit from discontinued operations	15	0	0
Profit (loss) for the year		-1 374 997	156 206
Attributable to equity holders of the parent company		-1 401 708	116 397
Attributable to non-controlling interests		26 711	39 809

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

		Year ended 31 Dec 2015 CZK thousand	Year ended 31 Dec 2014 CZK thousand
Profit (loss) for the year		-1 374 997	156 206
Foreign exchange rate gains or losses from the transfer of foreign branches		-4 981	-14 188
Cash flow hedging		-364 751	-280 325
Relating income tax		-9 213	-10 597
Other comprehensive income (loss) for the year (items that may be reclassified in profit or loss), net of tax		- 378 945	-305110
Total comprehensive income (loss) for the year		-1 753 942	-148 904
Attributable to equity holders of the parent company		-1 780 653	-188 713
Attributable to non-controlling interests		26 711	39 809

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital	Reserve and other funds	Retained earnings (accumulated losses)	Equity attributable to equity holders of the parent company	Non-controlling interests	Total equity
	CZK thousand	CZK thousand	CZK thousand	CZK thousand	CZK thousand	CZK thousand
Balance at 1 Jan 2014	20 000 000	16 315 150	1 196 207	37 511 357	741 544	38 252 901
Profit for the year	0	0	116 397	116 397	39 809	156 206
Other comprehensive income for the year, net of tax	0	-305 110	0	-305 110	0	-305 110
Allocation to the reserve fund	0	35 973	-35 973	0	0	0
Paid dividends	0	0	0	0	-28	-28
Other	0	6	0	6	-5 820	-5 814
Balance at 31 Dec 2014	20 000 000	16 046 019	1 276 631	37 322 650	775 505	38 098 155
Profit (loss) for the year	0	0	-1 401 708	-1 401 708	26 711	-1 374 997
Other comprehensive income for the year, net of tax	0	-378 945	0	-378 945	0	-378 945
Allocation to the reserve fund	0	51 057	-51 057	0	0	0
Paid dividends	0	0	0	0	-1 492	-1 492
Impact of change in the consolidation group *)	0	41 842	14 608	56 450	-177 490	-121 040
Other	0	81	0	81	0	81
Balance at 31 Dec 2015	20 000 000	15 760 054	-161 526	35 598 528	623 234	36 221 762

*) The line item "Impact on change in the consolidation group" includes the effect of the increase in the parent company's equity investment in ČD - Telematika a.s.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

		Year ended 31 Dec 2015 CZK thousand	Year ended 31 Dec 2014 CZK thousand
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) for the year before tax		-1 168 193	542 980
Dividend income	12	-114	-1 130
Financial expenses	11	1 427 523	1 219 510
Profit from the sale and disposal of non-current assets	6	-260 374	-208 467
Depreciation and amortisation of non-current assets	9	6 221 891	5 884 708
Impairment of non-current assets	10	500 693	-6 024
Impairment of trade receivables		49 229	67 330
Foreign exchange rate gains (losses)		-186 715	46 460
Other		200 034	38 481
Cash flow from operating activities before changes in working capital		6 783 974	7 583 848
Decrease (increase) in trade receivables		-305 188	241 211
Decrease (increase) in inventories		-152 272	-41 398
Decrease (increase) in other assets		-287 294	-54 083
Increase (decrease) in trade payables		109	-494 254
Increase (decrease) in provisions		530 260	-115 784
Increase (decrease) in other payables		301 085	328 387
Total changes in working capital		86 700	-135 921
Cash flows from operating activities		6 870 674	7 447 927
Interest paid		-1 329 435	-1 107 367
Income tax paid		-190 552	-159 062
Net cash flows from operating activities		5 350 687	6181 498
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment		-6 320 914	-5 703 164
Proceeds from disposal of property, plant and equipment		390 035	207 547
Payments for investment property		-21 620	-29 789
Costs of acquisition of intangible assets		-157 848	-211 834
Received interest		19914	16 607
Received dividends		114	1 130
Net cash flows used in investment activities		-6 090 319	-5 719 503
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		4 216 996	5 690 966
Repayments of loans and borrowings		-3 425 414	-3 865 897
Impacts of changes in equity *)		-121 000	0
Dividends paid		-1 492	-28
Net cash flows from financing activities		669 090	1 825 041
Net increase (decrease) in cash and cash equivalents		-70 542	2 287 036
Cash and cash equivalents at the beginning of the reporting period		4 042 971	1 755 935
Cash and cash equivalents at the end of the reporting period	32	3 972 429	4 042 971

*) The line item "Impacts of changes in equity" includes the effect of the increase in the parent company's equity investment in ČD - Telematika a.s.

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1. GENERAL INFORMATION

1.1. General Information

On the basis of Act 77/2002 Coll, on the Joint Stock Company Czech Railways, the State Organisation Railway Route Administration and the Changes to the Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll, as amended, České dráhy, a. s. (the 'Parent Company' or 'ČD') was formed on 31 March 2002 and the state organisation Czech Railways discontinued its activities and operations on 1 January 2003 and the Company and the state organisation Railway Route Administration ('SŽDC') were formed as its legal successors. As of that date, the Parent Company was recorded in the Register of Companies.

The sole shareholder of the Parent Company is the Czech Republic. The Company's share capital is CZK 20,000,000 thousand. The Company's registered office is located at nábf. L. Svobody 1222, Prague 1.

The company is the Parent Company of the České dráhy Group (the 'Group'). The consolidated financial statements have been prepared as of and for the year ended 31 December 2015. The reporting period is the calendar year, i.e. from 1 January 2015 to 31 December 2015.

1.2. Principal Operations

The Group has been principally engaged in operating railway passenger transportation. Other activities of the Group predominantly include the administration of immovable assets (railway station buildings and other). In addition, the Group is engaged in other activities relating to its principal business activities.

The assets comprising the railway routes are in the ownership of the State, not the Group. The right of management of these assets rests with SŽDC. SŽDC secures the operability and servicing of the railway route.

1.3. Organisational Structure of the Parent Company

The Parent Company is organised into sections overseen directly by the Chairman of the Board of Directors, Vice-Chairman and members of the Board of Directors:

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

departments managed by the Board of Directors.

1.4. Bodies of the Parent Company

The Parent Company's bodies include the General Meeting, Supervisory Board, Board of Directors, and Audit Committee. The General Meeting is the supreme body of the Company. The sole shareholder of the Company is the State which exercises the rights of the General Meeting through the Steering Committee. The composition of the Parent Company's Bodies as of 31 December 2015:

Steering Committee

Chairman	Tomáš Čoček
Vice Chairman	Kamil Rudolecký
Member	Jiří Havíček
Member	David Koppitz
Member	Jakub Landovsky
Member	Jindřich Kušnír
Member	Pavel Kouřil

Pursuant to Resolution No. 187 of the Czech Government of 16 March 2015, the authorisations for the activities in the Steering Committee of České dráhy for Vladislav Koval and Jakub Kulhánek were cancelled and Karel Dobeš was recalled as Chairman of the Steering Committee. Pursuant to this resolution, Lukasz Kryński and Jakub Landovsky were authorised to perform the activities in the Steering Committee starting from 17 March 2015. Tomáš Čoček was appointed Chairman of the Steering Committee.

Pursuant to Resolution No. 509 of the Czech Government of 24 June 2015, the authorisation for the activities in the Steering Committee of České dráhy for Lukasz Kryński was cancelled. Pursuant to this resolution, David Koppitz was authorised to perform the activities in the Steering Committee of České dráhy starting from 25 June 2015.

Pursuant to Resolution No. 633 of the Czech Government of 29 July 2015, the authorisation for the activities in the Steering Committee of České dráhy for Lukáš Wagenknecht was cancelled. Pursuant to this resolution, Pavel Kouřil was authorised to perform the activities in the Steering Committee of České dráhy starting from 30 July 2015.

Supervisory Board

Chairman	Milan Feranec
Member	Vojtěch Kocourek
Member	Antonín Tesařík
Member	Jan Hart
Member	Tomáš Révész
Member	Antonín Leitgeb
Member	Jaroslav Pejša
Member	Milan Kucharčík
Member	Vladislav Vokoun

At the meeting of the Steering Committee held on 14 December 2015, Milan Křístek and Josef Smýkal were recalled from the positions of members of the Supervisory Board with immediate effect. Tomáš Révész and Milan Kucharčík were appointed members of the Supervisory Board with immediate effect.

A sub-committee of the Supervisory Board is the Remuneration Committee. As of 31 December 2015, positions of committee members were vacant.

Board of Directors

Chairman	Pavel Krtek
Member	Ludvík Urban
Member	Michal Štěpán
Member	František Bureš
Member	Roman Štěrbá

Audit Committee

Chairman	Tomáš Vyhnánek
Vice Chairman	Lukáš Pečeňa
Member	Ivana Kubaštová

On 3 December 2014, the membership of Miroslav Zámečník and Zdeněk Prošek in the Audit Committee expired. At its meeting held on 10 December 2014, the Steering Committee appointed Lukáš Pečeňa a member of the Audit Committee with immediate effect. At the meeting of the Steering Committee held on 21 January 2015, Lukáš Wagenknecht was appointed a member of the Audit Committee with immediate effect. At the meeting of the Audit Committee held on 18 February 2015, Lukáš Wagenknecht was appointed Chairman and Lukáš Pečeňa was appointed Vice-Chairman of the Audit Committee. At its meeting held on 12 November 2015, the Steering Committee recalled Lukáš Wagenknecht from his position with immediate effect and appointed Tomáš Vyhnánek as a member of the Audit Committee with effect from 12 November 2015. At the meeting of the Audit Committee held on 12 November 2015, Tomáš Vyhnánek was appointed Chairman of the Audit Committee.

At its meeting held on 4 February 2016, the Steering Committee recalled Lukáš Pečeňa as a member of the Audit Committee with immediate effect and appointed Iva Šolcová as a member of the Audit Committee with immediate effect.

The permanent advisory body of the Board of Directors which has its role in the risk management is the Risk Management Committee. The Committee has 5 members. The members of the Committee are:

- Member of the Board of Directors responsible for the division of passenger transportation or a deputy appointed by him/her;
- Member of the Board of Directors responsible for the division of technology, maintenance and assets or a deputy appointed by him/her;
- Member of the Board of Directors responsible for the division of projects and international relations or a deputy appointed by him/her;
- Director of the economy department or a deputy appointed by him/her; and
- Director of the legal department or a deputy appointed by him/her.

The meetings of the Committee are attended by the Director of the division of internal audit and control who has an advisory vote.

1.5. Definition of the Consolidation Group

1.5.1. Entities Included in the Consolidation

Name of the entity	Registered office	Corporate ID	Ownership percentage*)	Degree of influence
České dráhy, a. s.	Prague 1, Nábřeží L. Svobody 12/1222	70994226		
ČD - Telematika a. s.	Prague 3, Pernerova 2819/2a	61459445	89.18	Control
Výzkumný Ústav Železniční, a. s.	Prague 4, Novodvorská 1698	27257258	100	Control
DPOV, a. s.	Přerov, Husova 635/1 b	27786331	100	Control
ČD Cargo, a. s.	Prague 7, Jankovcova 1569/2c	28196678	100	Control
ČD - Informační Systémy, a.s.	Prague 3, Pernerova 2819/2a	24829871	100	Control
Dopravní vzdělávací institut, a.s.	Prague 3, Husitská 42/22	27378225	100	Control
ČD travel, s.r.o.	Prague 1,28. října 372/5	27364976	51.72	Control
CD Generalvertretung GmbH	Germany -Frankfurt n. Moh., Kaiserstrasse 60	DE 14191687	100	Control
CD - Generalvertretung Wien GmbH	Austria - Vienna, Rotenturmstraße 22/24	FN 291407s	100	Control
Koleje Czeskie Sp. z o.o.	Poland - Warsaw Ul. Grzybowska nr. 4, lok. 3	140769114	100	Control
Generálne zastúpenie ČD Cargo, S.R.O.	Slovakia - Bratislava Prievozska 4/B	44349793	100	Control
Auto Terminal Nymburk, s.r.o.	Prague 7, Jankovcova 1569/2c	24234656	100	Control
ČD Logistics, a.s.	Prague 1, Opletalova 1284/37	27906931	78	Control
Terminal Brno, a.s.	Brno, K terminálu 614/11	28295374	66.93	Control
ČD-DUSS Terminál, a.s.	Lovosice, Lukavecká 1189	27316106	51	Control
Smíchov Station Development, a. s.	Prague 8, U Sluncové 666/12a	27244164	51 **)	Joint control
Žižkov Station Development, a. s.	Prague 8, U Sluncové 666/12a	28209915	51 **)	Joint control
RAILREKLAM spol. s r.o.	Prague 4, štětková 1638/18	17047234	51 **)	Joint control
Masaryk Station Development, a. s.	Prague 1, Na Florenci 2116/15	27185842	34.00	Significant
JLV, a. s.	Prague 4, Chodovská 228/3,	45272298	38.79	Significant
RAILLEX, a.s.	Prague 5, Trnkovo náměstí 3/1112	27560589	50	Significant
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6	45270589	30	Significant
Ostravská dopravní společnost, a.s.	Ostrava, Přivoz, U Tiskárny 616/9	60793171	20	Significant

*) Ownership percentage is the same as the voting rights percentage

***) In accordance with the Articles of Association of these entities, it is necessary to have unanimous consent of the parties that share the control.

Name of the entity	Principal activities
ČD - Telematika a. s.	Provision of telecommunication services, software and advisory services
Výzkumný Ústav Železniční, a. s.	Research, development and testing of rail vehicles and infrastructure facilities
DPOV, a. s.	inspections, repairs, modernisation and renovation of railway vehicles
ČD Cargo, a. s.	Freight railway transportation
ČD - Informační Systémy, a.s.	Provision of telecommunication services, software and advisory
Dopravní vzdělávací institut, a.s.	Organisation of professional courses, training and other educational events, language courses.
ČD travel, s.r.o.	Travel agency and provision of travel services.
CD Generalvertretung GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s.
CD - Generalvertretung Wien GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping.
Koleje Czeskie Sp. z o.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s.
Generálne zastúpenie ČD Cargo, s.r.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. and shipping.
ČD Logistics, a.s.	Shipping
Terminal Brno, a.s.	Operations of the combined transport terminal in Brno.
ČD-DUSS Terminál, a.s.	Operations of the container terminal in Lovosice.
Auto Terminal Nymburk, s.r.o.	Shipping and technical services in transportation.
Smíchov Station Development, a. s.	Design, renovations, modernisation and development in the Smíchovské train station locality
Žižkov Station Development, a. s.	Design, renovations, modernisation and development in the Žižkov train station locality
RAILREKLAM spol.sr.o.	Advertising and mediation of services.
Masaryk Station Development, a. s.	Development of the Masaryk railway station locality
JLV, a. s.	Provision of accommodation and catering services
RAILLEX, a.s.	Handling of cargo and technical services in transportation
BOHEMIAKOMBI, spol. s r.o.	Mediation of services in transportation except for the transportation by own vehicles
Ostravská dopravní společnost, a.s.	Operations of railway transportation and lease of locomotives

The consolidation group is hereinafter referred to as the "Group".

1.5.2. Changes in the Composition of the Group

On 23 June 2015, České dráhy, a.s. and AŽD Praha s.r.o. entered into a contract for the transfer of securities of ČD - Telematika a.s. The purchase of shares from AŽD Praha s.r.o. resulted in an increase in the equity interest held by České dráhy, a.s. in ČD - Telematika a.s. from 59.31% to 66.70%. The acquisition cost of the equity interest was CZK 91,000 thousand.

On 14 July 2015, České dráhy, a.s. and Odborové sdružení železničářů ("Railway Labour Union" in English) entered into a contract for the transfer of securities of ČD - Telematika a.s. The purchase of shares from Odborové sdružení železničářů (a share of 2.48% in ČDT) resulted in an increase in the equity interest held by České dráhy, a.s. in ČD - Telematika a.s. from 66.70% to 69.18%. The acquisition cost of the equity interest was CZK 30,000 thousand.

As a result of the increase in the parent company's equity interest in ČD - Telematika a. s. of 9.87%, the non-controlling interests decreased by CZK (177,490) thousand. The impact of the transaction is reflected in the Statement of Changes in Equity.

During 2015, the parent company sold its 51% equity interest in Centrum Holešovice a.s. The proceeds of the sale of CZK 51 thousand were collected in cash.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2.2. Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments.

2.3. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
 - Potential voting rights held by the Company, other vote holders or other parties;
 - Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2.4. Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods and other assets is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership.

Sales of services are recognised when services are rendered to counterparties. Revenues related to transportation services are recognised in the period in which the services are provided by reference to the stage of completion of the service contract (eg period of validity of long-term travel documents).

Dividend revenue from investments is recognised when the Group's right to receive payment has been established.

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

2.5. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.5.1. The Group as a Lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2.5.2. The Group as a Lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

2.6. Foreign Currencies

Each entity in the Group determines its functional currency according to the environment in which it operates. Given the economic substance of transactions and the environment in which the Group operates, the presentation currency used in the consolidated financial statements is the Czech crown (CZK). The Czech crown is also the functional currency of the Parent Company.

Transactions denominated in foreign currencies are recorded at the ruling fixed exchange rate announced by the Czech National Bank. If the ruling exchange rate does not significantly change over time, the Company uses the foreign exchange rate promulgated as of the first day of the period for a longer period of time - usually one month. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the exchange rate of the Czech National Bank ruling as of that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss except for exchange differences on transactions entered into in order to hedge certain foreign currency risks. Such foreign exchange rate differences are recognised directly in equity and reclassified to profit or loss when the hedged underlying item is settled.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into CZK using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

2.7. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.8. Government Grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a reduced cost of non-current assets in the statement of financial position.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group without future related costs are recognised in profit or loss in the period in which they become receivable.

2.9. Employee Benefit Costs

Employee benefit costs predominantly include payroll costs, payments of the employer portion of statutory health insurance, social security, pension insurance and costs of other employee benefits resulting from the collective agreement.

The employee benefit obligations and provisions reported in the statement of financial position represent their present value as adjusted for unrecognised actuarial gains and losses. Additions to these obligations and provisions are reported as part of expenses after the employees render services for which they will have the right for such benefits.

2.10. Taxation

The income tax includes current tax payable and deferred tax.

2.10.1. Current Tax Payable

The tax currently payable is based on taxable profit for the year. The taxable profit differs from the profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax payable is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2.10.2. Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2.10.3. Current Tax Payable and Deferred Tax for the Period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside of profit or loss (whether in comprehensive income or directly in equity), in which case the tax is also recognised outside of profit or loss.

2.11. Property, Plant and Equipment

Property, plant and equipment are carried at cost reduced by accumulated losses from impairment, and by accumulated depreciation in respect of property and equipment. Freehold land is not depreciated.

Properties in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. Railway vehicles are depreciated using the components depreciation. Wagons and traction vehicles without components are depreciated to the estimated residual value. Components of these railway vehicles are depreciated based on the actual mileage. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. If there is no sufficient certainty that the lessee will acquire the ownership of an asset at the end of the lease, this asset is depreciated over the lease period if it is shorter than the anticipated useful life.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The Group capitalises major (periodical) repairs of rail vehicles. The costs of repairs are recorded as a separate asset item (component) and are depreciated over the useful life of repairs. The depreciation period of the components is determined for the series of rail vehicles and type of the components (periodical repairs - major, significant and overhaul). The average period of depreciation is six years.

2.12. Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, the Group measures its investment property using the cost valuation model in accordance with the requirements of IAS 16 Property, plant and equipment.

2.13. Intangible Assets

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2.14. Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.15. Investments in Joint Ventures and Associates

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of joint ventures and associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture or an associate is initially recognised in the consolidated statement of financial position at cost and subsequently adjusted to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part of the interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture, in addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with a joint venture or associate of the Group, profits and losses arising from the transactions with the joint venture or associate are reported in the Group's consolidated financial statements to the extent of the interest in the relevant associate that is not owned by the Group.

2.16. Investments in Subsidiaries and Associates Excluded from the Consolidation

Investments in subsidiaries and associates excluded from the consolidation are considered immaterial for the Group. They are reported as other financial assets available for sale in the financial statements. As their fair value cannot be reliably determined, they are measured at cost.

2.17. Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.18. Inventories

Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined using the weighted arithmetic average method. The net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.19. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received by the Group and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

2.20. Financial Instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets are classified into the following four categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

2.20.1. Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income and expenses are recognised on an effective interest basis for debt instruments other than those financial assets and liabilities classified as at FVTPL.

2.20.2. Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

In this category the Group reports derivatives that do not have the function of an effective hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

2.20.3. Held-to-maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

2.20.4. Financial Assets Available for Sale

Financial assets available for sale are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The Group holds equity investments that are not traded on an active market, classified as financial assets available for sale and carried at cost less any impairment losses as their fair value cannot be reliably determined.

Dividends on the AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established.

2.20.5. Loans and Receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables for which the recognition of interest would be immaterial.

2.20.6. Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The Group records impairment losses (allowances) based on an individual assessment of trade receivables as equal to 50% of the outstanding carrying amount of the receivables that are past due by greater than 18 months and full allowances against receivables registered for recovery under insolvency proceedings. In addition, full allowances are recognised in respect of receivables that are past due by greater than 12 months and whose carrying amount does not exceed CZK 30 thousand. The Group recognises no allowances against receivables from SŽDC.

With the exception of the AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of the AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

2.20.7. Derecognition of Financial Assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Upon derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

2.20.8. Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

2.20.9. Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

In this category, the Group reports derivatives that do not have the function of an effective hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

2.20.10. Other Financial Liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

2.20.11. Derecognition of Financial Liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

2.20.12. Derivative Financial Instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, currency and commodity risks.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured at their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives that do not meet criteria for being recognised as hedging are treated by the Company as at fair value through profit or loss.

2.20.13. Hedge Accounting

The Group designates certain hedging instruments as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

2.20.14. Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of profit or loss as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

2.20.15. Fair Value Hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of profit or loss relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

2.20.16. Financial Derivatives Held for Trading

All derivative transactions that the Group concludes are agreed on economic terms for hedging purposes, but some of them are not classified as hedging instruments for formal reasons. Derivatives that do not meet the conditions for hedging derivatives are classified by the Group as derivatives held for trading.

The change in the fair value of derivatives held for trading is recognised as an expense or income from derivative transactions.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1. Standards and Interpretations Effective for Annual Periods Ended 31 December 2015

During the year ended 31 December 2015, the following standards, revised standards and interpretations took effect:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
Improvements to IFRSs - cycle 2011 - 2013 (published in December 2013) *)	1 July 2014
IFRIC21 Levies**)	1 January 2014

*) effective for periods starting on 1 January 2015 in the EU

***) effective for periods starting on 17 June 2014 in the EU

The improvements and interpretation referred to above have no impact on recognition and presentation.

3.2. Standards and Interpretations Used before their Effective Dates

The Group used no standards or interpretations before their effective dates.

3.3. Standards and Interpretations in Issue not yet Adopted

At the consolidated balance sheet date, the following standards and interpretations were issued but not yet effective and the Group did not adopt them in advance of their effective dates.

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 9 - Financial Instruments (2014)	1 January 2018
IFRS 10, IAS 28 - Amendments to IFRS 10 and IAS 28- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date will be determined
IFRS 10, IFRS 12 and IAS 28 - Amendment to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception	1 January 2016
IFRS 11 - Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IFRS 14 - Regulatory Deferral Accounts	1 January 2016
IFRS 15 - Revenue from Contracts with Customers	1 January 2018
IFRS 16 - Leases	1 January 2019
IAS 1 - Amendment to IAS 1 Disclosure Initiative	1 January 2016
IAS 7 - Amendments to IAS 7 Disclosure Initiative	1 January 2017
IAS 12 - Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IAS 16, IAS 38 - Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 16, IAS 41 - Amendments to IAS 16 and IAS 41 - Bearer Plants	1 January 2016
IAS 19 - Amendments to IAS 19 Defined Benefit Plans: Employee Contributions *)	1 July 2014
IAS 27 - Amendment to IAS 27 - Equity Method in Separate Financial Statements	1 January 2016
Improvements to IFRSs - cycle 2010 - 2012 (published in December 2013) *)	1 July 2014
Improvements to IFRSs - cycle 2012 - 2014 (published in September 2014)	1 January 2016

*) effective for periods starting on 1 February 2015 in the EU

Management of the Group anticipates that the adoption of most of these standards, revised standards and interpretations will have no material impact on the Group in the following periods, except for IFRS 9 and IFRS 15 where the Group anticipates increased disclosure requirements. With respect to IFRS 16, the Group anticipates the need to disclose a significant number of concluded lease agreements in the balance sheet. Given that this standard was approved on 13 January 2016, the Group has not yet undertaken any analysis making it possible to quantify this impact.

3.4. Standards and Interpretations that are Issued by the International Accounting Standard Board (IASB) but not yet Adopted by the European Union

At the consolidated balance sheet date, some of the standards and interpretations disclosed in the prior note have not been adopted by the European Union:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 9 — Financial Instruments (2014)	1 January 2018
IFRS 10, IAS 28 - Amendment to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date will be determined
IFRS 10, IFRS 12 and IAS 28 - Amendment to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception	1 January 2016
IFRS 14- Regulatory Deferral Accounts	1 January 2016
IFRS 15 - Revenue from Contracts with Customers	1 January 2018
IFRS 16-Leases	1 January 2019
IAS 7 - Amendments to IAS 7 Disclosure Initiative	1 January 2017
IAS 12 - Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.1. Useful Lives of Property, Plant and Equipment

The Group reviews the estimated useful lives of depreciated property, plant and equipment at the end of each annual reporting period. Although the Group identified no changes in the useful lives of property, plant and equipment, the situation may change in the following periods.

4.2. Impairment of Assets

The Group assesses the recoverable value of all asset components when there are indicators of their impairment (with the exception of intangible assets under construction, the recoverable value of which is assessed annually). This assessment is based on anticipated assumptions and may change in the future as the situation evolves and information is available.

4.3. Revenue and Expenses from International Transportation

Given the long intervals of settlement of mutual payments between transporters in the international transportation, the Parent Company has to estimate the amount of these expenses and revenues. The actual value confirmed by an international settlement institution may be different.

4.4. Measurement of Financial Derivatives

The Group uses financial derivatives for cash flow and fair value hedging. The measurement of derivatives in the financial statements performed by the Group using its own measurement model is based on appropriate measurement techniques using identifiable market assumptions. If these assumptions changed, the measurement of financial derivatives would be different.

4.5. Income Taxation

The Group records significant deferred tax assets. The determination of the recoverable value of these assets depends on the estimate of their future realisation.

4.6. Provision for Employee Benefits

The Group recognises a provision for employee benefits. In calculating the provision, the Group uses an actuarial model which is based on the up-to-date employee information and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents. A change in the anticipated parameters would impact the amount of the provision.

4.7. Provisions for Legal Disputes and Business Risks

The Group is involved in a number of court and out-of-court commercial disputes. Where the criteria for the recognition of provisions are met, the Group creates provisions for these disputes on the basis of the best available information and estimates. However, the actual outcome of the disputes may differ from these estimates.

4.8. Sale of Train Stations to the State-Owned Organisation SŽDC

In the long-term the Ministry of Transportation has been stating its intent to sell the train station buildings owned by ČD to the state-owned organisation SŽDC. The specific form of the transfer is being debated and the outcome cannot be estimated.

4.9. Values of the Assets and Liabilities of ČD Cargo and ČD Telematika

In 2015, ČD Cargo, a.s. continued to implement measures designed to strengthen its liquidity and to achieve the medium-term objective involving balanced economic results in the segment of individual vehicle shipments in 2017 and to attain a stable level of profit in the principal business activities. In order to achieve this objective, the above measures will continue to be taken in 2016. The result of those measures may have an impact on the values of ČD Cargo's assets and liabilities.

At present, the telecommunication sector is subject to significant ownership changes. This may have an impact on the market values of the assets and liabilities of ČD Telematika, principally the items of its assets, backbone optical network.

5. REVENUE FROM PRINCIPAL OPERATIONS

All of the below additional information on the statement of profit or loss relates to continuing operations. Profits and losses from discontinued operations are disclosed in a separate note (Note 15).

	(CZK '000)	
	2015	2014
Revenue from passenger transportation - fare	7 546 719	7 463 438
- <i>Intrastate passenger transportation</i>	5 062 427	5 149 864
- <i>International passenger transportation</i>	2 484 292	2 313 574
Revenue from passenger transportation - payments from public service orderers	13 513 740	13 227 453
- <i>Payment from the state budget</i>	4 408 597	4 249 926
- <i>Payment from the regional budget</i>	9 105 143	8 977 527
Revenue from freight transportation	11 274 765	11 699 082
- <i>Intrastate freight transportation</i>	4 402 050	4 292 864
- <i>International freight transportation</i>	6 872 715	7 406 218
Other revenue from principal operations	748 093	646 248
Total revenue from principal operations - continuing operations	33 083 317	33 036 221

Payments from public service orderers relate to regional and long-distance intrastate passenger transportation. Other revenue from principal operations predominantly includes the revenue from railway transportation by other transporters and owners of railways, and other revenue from freight transportation.

6. OTHER OPERATING INCOME

	(CZK '000)	
	2015	2014
Gain from disposal of property, plant and equipment and investment property	260 374	208 467
Gain from the sale of inventory	17 697	20 890
Sales of other services	2 497 728	2 156 404
Rental income	1 024 503	913 058
Compensations for deficits and damage	136 708	154 483
Gain on material	63 380	56 625
Other subsidies	250	19 584
Other *)	678 598	171 217
Total other operating income - continuing operations	4 679 238	3 700 728

*) In terms of the Declaration about nationwide and regional railways, ČD received payment in 2015 from the railway operator for alternative bus transport needed due to planned restrictions in railway operations.

7. PURCHASED CONSUMABLES AND SERVICES

	(CZK '000)	
	2015	2014
Traction costs	-3 728 071	-4 207 615
- Traction fuel (diesel)	-1 611 447	-1 804 616
- Traction electricity	-2 116 624	-2 402 999
Payment for the use of railway route	-3 305 631	-3 385 789
Other purchased consumables and services	-9 902 168	-8 677 794
- Consumed material	-1 525 048	-1 340 847
Consumed other energy	-535 125	-572 320
Consumed fuel	-79 062	-93 098
Repairs and maintenance	-632 978	-541 157
- Travel costs	-154 809	-154 099
- Telecommunication, data and postal services	-275 777	-259 356
- Other rental	-289 130	-262 067
- Rental for rail vehicles	-1 131 896	-1 258 477
Transportation charges	-2 038 044	-1 415 119
Services of dining and sleeping carriages	-119 609	-115 419
Services associated with the use of buildings	-323 772	-309 201
Operational cleaning of rail vehicles	-330 145	-340 886
- Border area services	-558 882	-456 268
- Advertising and promotion costs	-193 042	-140 437
- Other services	-1 714 849	-1 419 043
Total purchased consumables and services - continuing operations	-16 935 870	-16 271 198

Transportation charges include particularly alternative bus transport for the parent company, in the amount of CZK 692,114 thousand (2014: CZK 285,707 thousand).

The costs for traction electricity for the year ended 31 December 2015 also included expenses of CZK 209,039 thousand based on the out-of-court agreement between ČD Cargo, a.s., and SŽDC regarding the dispute about the price of consumed traction electricity during 2009.

Other services predominantly include expenses related to the environment, commissions to ticket vendors, education, representation costs, IT services, fire protection, health care, consultancy and other services.

8. EMPLOYEE BENEFIT COSTS

	(CZK '000)	
	2015	2014
Payroll costs	-8 832 361	-8 524 133
Severance pay	-90 011	-96 895
Statutory social security and health insurance	-2 931 642	-2 831 062
Benefits resulting from the collective agreement	-137 398	-128 507
Other social costs	-460 421	-465 874
Other employee benefit costs	-72 965	-60 528
Total employee benefit costs - continuing operations	-12 524 798	-12 106 999

9. DEPRECIATION AND AMORTISATION

	(CZK '000)	
	2015	2014
Depreciation of property, plant and equipment	-5 958 275	-5 617 974
Depreciation of investment property	-77 787	-76 444
Amortisation of intangible assets	-185 829	-190 290
Total depreciation and amortisation - continuing operations	-6 221 891	-5 884 708

10. OTHER OPERATING LOSSES

	(CZK '000)	
	2015	2014
Change in provisions	-540 874	160 116
Reversal of losses (losses) from impaired receivables	-12 075	41 448
Reversal of losses (losses) from impaired property, plant and equipment, investment property and assets held for sale	-500 693	6 024
Reversal of write-down (write-down) of inventories to their net realisable value	-39 772	39 618
Costs of contractual fines and default interest	-133 278	-122 748
Taxes and fees	-33 282	-27 875
Other operating expenses	-632 858	-707 418
Total other operating losses - continuing operations	-1 892 832	-610 835

Costs of contractual fines and other operating expenses in 2015 primarily include the payment to Škoda Transportation, a.s., which ČD made based on an arbitration award.

Costs of contractual fines and default interest in 2014 primarily included interest based on the concluded out-of-court settlement agreement between ČD Cargo, a.s. and SŽCD regarding the legal dispute about the price of consumed traction electricity during 2009 and compensation for damage due to traffic closures caused by SŽDC. This interest totalled CZK 29,841 thousand. It also included interest arising from the legal ruling dated 15 January 2014 in the legal dispute for damage compensation due to traffic closures caused by SŽDC. This interest amounted to CZK 36,968 thousand.

Other operating expenses primarily include costs of written-off receivables, damages and insurance.

Other operating expenses in 2014 primarily included costs of ČD Cargo, a.s. for the settlement of payables arising from the legal ruling dated 15 January 2014 in the legal dispute for damage due to traffic closures caused by SŽDC. These expenses amounted to CZK 127,184 thousand. In 2014, other operating expenses additionally included costs of ČD Cargo, a.s. from written-off receivables and costs from the concluded agreement on out-of-court settlement with SŽDC regarding the dispute for the price of consumed traction energy during 2009 and settlement of damage due to traffic closures caused by SŽDC. The expenses arising from the out-of-court settlement with SŽDC amounted to CZK 59,835 thousand.

11. FINANCIAL EXPENSES

	(CZK '000)	
	2015	2014
Interest on bank overdraft accounts and loans	-2 910	-6 508
Interest on the loan from ČSOB and loans from Eurofima	-799	-10 086
Interest on issued bonds	-1 095 534	-926 519
Interest on finance lease payables	-232 115	-263 930
Other interest	-106 374	-58 569
Less: amounts capitalised as part of the costs of an eligible asset	12 218	47 069
Unwinding of the discount of provisions	-2 009	-967
Total financial expenses - continuing operations	-1 427 523	-1 219 510

The capitalisation rate in the year ended 31 December 2015 is 0.3% p. a. (2014: 1% p. a.).

12. OTHER GAINS (LOSSES)

	(CZK '000)	
	2015	2014
Net foreign exchange gains (losses)	103 456	-43 836
Received dividends	114	1 130
Received interest	19 914	16 607
Gains from current financial assets	319	925
Banking fees	-12 261	-14 914
Actuarial gains (losses)	370	-41 315
Gains (losses) from derivative transactions	486	-11 834
Other	-51 647	-21 413
Total other gains (losses) - continuing operations	60 751	-114 650

13. INCOME TAXATION

13.1. Income Tax Reported in Profit or Loss

	2015	(CZK '000) 2014
Current income tax for the period reported in the statement of profit or loss	-99 052	-178 329
Deferred tax recognised in the statement of profit or loss	-104 456	-208 445
Other*)	-3 296	0
Total tax charge relating to continuing operations	-206 804	-386 774

*) Adjustments accounted for in the period in relation to the income tax of prior periods.

Reconciliation of the total tax charge for the period to the accounting profit:

	2015	(CZK '000) 2014
Gain (loss) from continuing operations before tax	-1 168 193	542 980
Income tax calculated using the statutory rate of 19%	221 957	-103 166
Effect of the unrecognised deferred tax asset	-309 545	-197 226
Other*)	-119 216	-86 382
Income tax reported in profit or loss	-206 804	-386 774

*) The effect of permanently non-tax expenses and income, tax calculated from the individual tax base

The tax rate used in the reconciliation is the corporate income tax rate which has to be paid by Czech legal entities from their taxable profits according to Czech tax laws.

13.2. Income Tax Recognised in Other Comprehensive Income

	2015	(CZK '000) 2014
Remeasurement of financial instruments recognised as cash flow hedging	-9 213	-10 597
Total income tax recognised in other comprehensive income	-9 213	-10 597

13.3. Deferred Tax

	(CZK'000)							
	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Derivatives	Other	Total
Balance at 1 Jan 2014 - calculated	775 110	-898 715	333 387	-360 880	59 065	94 719	50 632	53 318
Balance at 1 Jan 2014 - recognised	0	-613 950	272 718	-287 440	25 989	29 911	46 256	-526 516
Deferred tax recognised in profit or loss:	106	-167 493	-17 503	-53 336	6 418	0	23 363	-208 445
- of which current changes	-260 482	317 683	2 129	-93 968	-6 060	0	29 479	-11 219
- of which decrease *)	260 588	-485 176	-19 632	40 632	12 478	0	-6 116	-197 226
Deferred tax recognised in other comprehensive income	0	0	0	0	0	-10 597	0	-10 597
- of which current changes	0	0	0	0	0	57 371	0	57 371
- of which decrease *)	0	0	0	0	0	-67 968	0	-67 968
Balance at 31 Dec 2014 - calculated	514 628	-581 032	335 516	-454 848	53 005	152 090	80 111	99 470
Balance at 31 Dec 2014 - recognised	106	-781 443	255 215	-340 776	32 407	19 314	69 619	-745 558
- of which liability	106	-781 335	254 923	-340 812	31 987	19 314	64 401	-751 416
- of which asset	0	-108	292	36	420	0	5 218	5 858
Deferred tax recognised in the statement of profit or loss:	98 258	-142 783	-61 766	-27 301	3 629	0	25 507	-104 456
- of which current changes	-81 685	193 940	160 028	-72 061	3 549	0	1 318	205 089
- of which decrease *)	179 943	-336 723	-221 794	44 760	80	0	24 189	-309 545
Deferred tax recognised in other comprehensive income	0	0	0	0	0	-9 213	0	-9 213
- of which current changes	0	0	0	0	0	71 891	0	71 891
- of which decrease *)	0	0	0	0	0	-81 104	0	-81 104
Revaluation	0	0	0	0	0	0	-707	-707
Balance at 31 Dec 2015 - calculated	432 943	-387 092	495 544	-526 909	56 554	223 981	80 722	375 743
Balance at 31 Dec 2015 - recognised	98 364	-924 226	193 449	-368 077	36 036	10 101	94 419	-859 934
of which liability	98 364	-931 649	188 920	-383 648	33 102	10 101	97 280	-887 530
of which asset	0	7 423	4 529	15571	2 934	0	-2 861	27 596

*) The decrease in the deferred tax asset recognised in the balance sheet (directly or indirectly as items decreasing deferred tax liabilities) to its recoverable value

According to the preliminary due corporate income tax return for the 2015 taxation period, the Parent Company records a utilisable tax loss for the 2013 taxation period in the amount of CZK 1,760,942 thousand. The tax loss is utilisable always in five taxation periods subsequent to the period in which the relevant loss was assessed, ie between 2014 and 2018.

Given the low anticipated taxable profits of the Parent Company, the realisation of deferred tax assets is uncertain. For this reason, the Parent Company attributes a zero recoverable value to this deferred tax asset when the resulting net position as of the balance sheet date is a deferred tax asset.

14. SEGMENT INFORMATION

14.1. Products and Services from which Reportable Segments Derive their Revenues

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The Group's reportable segments under IFRS 8 are therefore as follows:

- Passenger transportation - other information on passenger railway transportation is disclosed in Note 14.3.

- Freight transportation - other information on freight railway transportation is disclosed in Note 14.3.
- Administration of assets - the segment provides the administration and operations of real estate owned by the Group, including internal and external leases. Real estate predominantly includes station buildings and land surrounding the railroad.
- Other - predominantly activities of less significant subsidiaries and overhead activities that are not allocated to other segments.

14.2. Segment Revenues and Expenses

The following is an analysis of the Group's results from continuing operations by reportable segment in the format in which the financial statement is presented to the Parent Company's management.

	(CZK million)					
2015	Passenger transportation	Administration of assets	Freight transportation	Other	Elimination *)	Total
Revenue from principal operations						
Revenue from passenger transportation	7 561	0	0	0	-14	7 547
Revenue from orderers	13 514	0	0	0	0	13 514
Other	0	0	13 132	0	-1 110	12 022
	21 075	0	13 132	0	-1 124	33 083
Purchased consumables and services						
Traction costs	-2 401	0	-1 362	0	35	-3 728
Payment for the use of the railway route	-1 808	0	-1 497	0	0	-3 305
Other purchased consumables and services	-4 800	-478	-4 683	-2 949	3 007	-9 903
	-9 009	-478	-7 542	-2 949	3 042	-16 936
Staff costs						
Payroll costs	-5 054	-186	-2 853	-1 023	121	-8 995
Social security and health insurance	-1 670	-60	-907	-329	34	-2 932
Other social costs	-251	-7	-167	-43	7	-461
Benefits arising from the collective agreement	-81	-5	-51	-2	2	-137
	-7 056	-258	-3 978	-1 397	164	-12 525
Other operating income and expenses	74	287	560	4 162	-2 297	2 786
Intracompany income and expenses	-91	98	0	-7	0	0
Overhead costs - operating	-757	-49	0	806	0	0
Depreciation and amortisation	-4 580	-230	-1 210	-332	130	-6 222
Interest income	4	12	7	4	-7	20
Interest expenses	-1 165	0	-268	-2	7	-1 428
Tax expense	0	0	-203	-65	61	-207
Other income and expenses	121	0	-18	41	-90	54
Overhead costs - financial and other	-14	-1	0	15	0	0
Profit (loss) for the period from continuing operations	-1 398	-619	480	276	-114	-1 375
Profit (loss) for the period from discontinued operations	0	0	0	0	0	0
Profit (loss) for the period	-1 398	-619	480	276	-114	-1 375
Profit attributable to non-controlling interests	0	0	0	0	27	27
Profit (loss) attributable to owners of the parent company	-1 398	-619	480	276	-141	-1 402

*) The 'Elimination' column includes eliminations of intracompany relations.

2014						(CZK million)	
	Passenger transportation	Administration of assets	Freight transportation	Other	Elimination *)	Total	
Revenue from principal operations							
Revenue from passenger transportation	7 477	0	0	0	-14	7 463	
Payments from orderers	13 227	0	0	0	0	13 227	
Other	19	0	13 629	0	-1 302	12 346	
	20 723	0	13 629	0	-1 316	33 036	
Purchased consumables and services							
Traction costs	-2 597	0	-1 649	0	38	-4 208	
Payment for the use of the railway route	-1869	0	-1 517	0	0	-3 386	
Other purchased consumables and services	-4 153	-502	-4 569	-2 533	3 080	-8 677	
	-8 619	-502	-7 735	-2 533	3 118	-16 271	
Staff costs							
Payroll costs	-4 920	-185	-2 710	-1 000	133	-8 682	
Social security and health insurance	-1 615	-60	-878	-320	42	-2 831	
Other social costs	-254	-17	-167	-35	7	-466	
Benefits arising from the collective agreement	-88	2	-53	2	9	-128	
	-6 877	-260	-3 808	-1 353	191	-12 107	
Other operating income and expenses	168	838	468	3 650	-2 034	3 090	
Intracompany income and expenses	-99	109	0	-10	0	0	
Overhead costs - operating	-777	-50	0	827	0	0	
Depreciation anti amortisation	-4 397	-240	-1 075	-332	159	-5 885	
Interest income	2	12	9	1	-7	17	
Interest expenses	-937	0	-286	-2	5	-1 220	
Tax expense	0	0	-332	-61	6	-387	
Other income and expenses	-116	-3	7	136	-141	-117	
Overhead costs - financial and other	64	4	0	-68	0	0	
Profit (loss) for the period from continuing operations	-865	-92	877	255	-19	156	
Profit (loss) for the period from discontinued operations	0	0	0	0	0	0	
Profit (loss) for the period	-865	-92	877	255	-19	156	
Profit attributable to non-controlling interests	0	0	0	0	40	40	
Profit (loss) attributable to owners of the parent company	-865	-92	877	255	-59	116	

*) The 'Elimination' column includes eliminations of intracompany relations.

14.3. Information on Principal Customers

The Parent Company provides transportation services in the public railway passenger transportation segment for a fixed (cost adjusted) price and procures transportation services in designated categories of passenger trains in the Czech Republic's rail network. The scope of these services and the level of compensation (income for the Company) are defined in agreements entered into with the State and territorial self-governing units. The level of the compensation from the orderer (the State) is linked to the volume of funds set out in the State budget to finance provable losses incurred in respect of passenger transportation. On 2 December 2009, the Company concluded the Contract for Public Service Commitments for the period from 2010 to 2019 with the State.

By adopting Act No. 194/2010 Coll., on Public Services in Passenger Transportation and Changes in Other Acts, the Czech Republic has harmonised its public transport legislation with EU laws. The Parent Company has concluded contracts for the public service commitment for the period of 10 years and more which are governed by the legal regulations before the adoption of the Act referred to above. All contracts or their amendments were concluded before Regulation (EC) No. 1370/2007 entered into effect for the period of 10 years or more, ie before 3 December 2009. Similarly as the contract with the State, they are governed by legal regulations that were in effect before the Regulation became effective.

Governmental Resolution No. 1132/2009 dated 31 August 2009 secures the additional funding of the regional railway transportation through a special-purpose grant to regions, including the rules for the increase or decrease in the scope of ordered railway transportation and increase in the special-purpose grant in individual following years.

As of the 2015 consolidated financial statements date, intensive negotiations are pending with regard to amendments to long-term contracts for 2016. Two amendments have been concluded in regional transport for 2016, another two have been approved by regional authorities. Other amendments are currently being discussed by the regional authorities. Management of the Parent Company believes that the conclusion of all the amendments is very likely in terms of the search for savings. In the context of the provision of public services in the transportation of passengers, this fact does not constitute any limitations - given the concluded long-term contracts, there is no threat regarding the interruption of their provision or their funding. Prepayments for the settlement of the provable loss are made - in respect of the not-yet-signed amendments for 2016 - in the amount of the prepayments from 2015.

ČD Cargo, a.s. provides its services to several thousands of business partners. The most important local customers in terms of the sales volume include MORAVIA STEEL a.s., ČEZ, a.s., CARBOSPED, spol. s r.o., NH TRANS SE, EP Cargo a.s. a Rail Cargo Logistics - Czech Republic, s.r.o. Principal foreign customers are Maersk Line A/S, ŠTVA S.A, METTRANS, BLG Auto Rail GmbH, and principal foreign railway customers are DB Schenker Rail Deutschland AG, Železničná spoločnosť Cargo Slovakia, a.s., Rail Cargo Austria AG, and PKP Cargo S.A.

15. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

15.1. Assets Held for Sale

	31 Dec 2015	31 Dec 2014	(CZK '000) 1 Jan 2014
Land	16 906	25 368	53 922
Buildings	16 644	24 086	5 239
Total	33 550	49 454	59 161

16. PROPERTY, PLANT AND EQUIPMENT

Cost	(CZK '000)								
	Balance at 1 Jan 2014	Additions	Disposals	Reclassification	Balance at 31 Dec 2014	Additions	Disposals	Reclassification	Balance at 31 Dec 2015
Land	6 070 397	11 282	797	9 680	6 090 562	3 926	1 711	-15 457	6 077 320
Structures	18 268 354	164 111	34 645	-164 792	18 233 028	272 145	101 859	-169 777	18 233 537
Individual movable assets	117 695 746	7 352 406	2 271 472	-21 777	122 754 903	5 109 000	2 890 563	-15 478	124 957 862
– Machinery, equipment, and furniture and Mures	4 217 507	142 935	141 417	7 887	4 226 912	195 520	80 743	-191 578	4 150 111
– Vehicles	101 580 992	6 984 264	2 058 185	256 110	106 763 181	4 839 679	2 712 787	107 581	108 997 654
– Vehicles acquired under finance lease s	11 789 706	205 691	63 885	-285 522	11 645 990	68 886	90 380	68 522	11 693 018
– Other	107 541	19 516	7 985	-252	118 820	4 915	6 653	-3	117 079
Other assets	52 562	6 767	4 727	0	54 602	26 245	2 747	19	78 119
Assets under construction	1 574 391	6 095 403	25 619	-6 122 341	1 521 834	4 706 639	0	-4 072 970	2 155 503
Prepayments	992 579	31 368	899 150	0	124 797	100 050	139 087	0	85 760
Total	144 654 029	13 661 337	3 236 410	-6 299 230	148 779 726	10 218 005	3 135 967	-4 273 663	151 588 101

Accumulated depreciation	(CZK '000)								
	Balance at 1 Jan 2014	Additions	Disposals	Reclassification	Balance at 31 Dec 2014	Additions	Disposals	Reclassification	Balance at 31 Dec 2015
Structures	8 535 881	427 872	27 346	-72 838	8 863 569	451 559	82 147	-83 317	9 149 664
Individual movable assets	60 727 574	5 024 999	2 052 918	6 401	63 706 056	5 332 310	2 646 595	-3 642	66 388 129
– Machinery, equipment, and furniture and fixtures	3 083 028	192 474	128 327	1 163	3 148 338	190 455	78 193	-161 805	3 098 795
– Vehicles	54 023 013	4 322 776	1 857 599	46 483	56 534 673	4 628 528	2 478 343	155 920	58 840 778
– Vehicles acquired under finance leases	3 525 488	497 276	59 046	-41 004	3 922 714	506 869	83 421	2 243	4 348 405
– Other	96 045	12 473	7 946	-241	100 331	6 458	6 638	0	100 151
Other assets	22 794	8 889	4 540	0	27 143	19 427	2 712	21	43 879
Total	69 286 249	5 461 760	2 084 804	-66 437	72 596 768	5 803 296	2 731 454	-86 938	75 581 672

Impairment									(CZK '000)
	Balance at 1 Jan 2014	Additions	Disposals	Reclassification	Balance at 31 Dec 2014	Additions	Disposals	Reclassification	Balance at 31 Dec 2015
Land	56 126	3 149	0	0	59 275	43 762	0	0	103 037
Structures	43 885	393	4 465	0	39 813	384 670	393	0	424 090
Individual movable assets	1 001 537	365 912	419 334	0	948 115	365 973	173 774	0	1 140 314
<i>Machinery, equipment, and furniture and fixtures</i>	661	512	0	0	1 173	0	766	0	407
<i>Vehicles</i>	1 000 876	351 078	419 334	0	932 620	354 893	158 686	0	1 128 827
<i>Vehicles acquired under finance leases</i>	0	14 322	0	0	14 322	11 080	14 322	0	11 080
Other assets	42	1 186	34	0	1 194	801	0	0	1 995
Assets under construction	68 814	66 419	0	0	135 233	4 263	135 229	0	4 267
Total	1 170 404	437 059	423 833	0	1 183 630	799 469	309 396	0	1 673 703

Reclassifications predominantly include transfers of asset items between individual groups (IAS 16, IAS 40, IFRS 5), in assets under construction, these include assets put into use.

Net book value	(CZK '000)		
	Balance at 1 Jan 2014	Balance at 31 Dec 2014	Balance at 31 Dec 2015
Land	6 014 271	6 031 287	5 974 283
Buildings	9 688 588	9 329 646	8 659 783
Individual movable assets	55 966 635	58 100 732	57 429 419
- <i>Machinery, equipment, and furniture and fixtures</i>	<i>1 133 818</i>	<i>1 077 401</i>	<i>1 050 909</i>
- <i>Vehicles</i>	<i>46 557 103</i>	<i>49 295 888</i>	<i>49 028 049</i>
- <i>Vehicles acquired under finance leases</i>	<i>8 264 218</i>	<i>7 708 954</i>	<i>7 333 533</i>
- <i>Other</i>	<i>11 496</i>	<i>18 489</i>	<i>16 928</i>
Other assets	29 726	26 265	32 245
Assets under construction	1 505 577	1 386 601	2 151 236
Prepayments	992 579	124 797	85 760
Total	74 197 376	74 999 328	74 332 726

Principal additions from 1 January 2014 to 31 December 2015 include the acquisition of railway vehicles as part of the renewal of the Parent Company's rolling stock. Given the long-term nature of the acquisition of this type of assets, significant balances are reported on the accounts of assets under construction. In the year ended 31 December 2015, the Parent Company provided no significant prepayments.

Principal additions to individual movable assets in the year ended 31 December 2015 included the modernisation of freight wagons of CZK 170,959 thousand, inspection repairs (components) of freight wagons of CZK 246,718 thousand, major and general repairs (components) of traction vehicles of CZK 238,732 thousand, purchase of traction vehicles of the 163 series of CZK 233,000 thousand and acquisition of wheelsets for freight wagons of CZK 89,603 thousand.

In 2015, the Group acquired fixed assets in the 'Property, plant and equipment' class financed through government grants in the amount of CZK 83,695 thousand (2014: CZK 622,233 thousand). The cost of the assets was reduced by the amount of the grant.

16.1. Impairment Losses Recognised in the Reporting Period

Vehicles predominantly include railway vehicles (locomotives, wagons, other railway vehicles) used for operating railway transportation. Pursuant to the inventory count and analyses, items of assets were identified for which there is a significant doubt about their future usability. The Group recognised an impairment loss for these items in the amount of the difference between the net book value and the estimated recoverable value. The recoverable value is usually determined as net proceeds from the sale less cost to sell.

The principal impairment loss as of 31 December 2015, 2014 and 1 January 2014 is the loss on the 680 series tilting trains (Pendolino) amounting to CZK 764,467 thousand, CZK 581,541 thousand and CZK 609,233 thousand, respectively. In 2013, the impairment was determined on the basis of an independent expert's assessment reflecting the market value net of the costs of sale. In 2014, the independent expert's assessment does not indicate any decline in the value. In 2015, the level of the allowance was significantly affected by the inoperability of train no. 3 due to an accident. The costs and income associated with the Pendolino trains are reported in the Passenger Transportation segment.

The Parent Company records a set of assets with the net book value of CZK 3,768 million that primarily include railway station buildings and land and real estate relating to their operations. This real estate is used not only by the Parent Company, but also by other participants in the railway transport operations in the Czech Republic. The Parent Company is planning to transfer this real estate to another state organisation and focus on its core business activities. In order to determine a potential impairment of these assets, the Parent Company assessed the recoverable value in line with accounting policies and concluded that the assets show indications of impairment. An allowance of CZK 496,600 thousand was therefore reported as of 31 December 2015.

Impairment losses are included in other operating losses in the statement of profit or loss.

The following useful lives were used in the calculation of depreciation:

		Number of years
Buildings	20-50	
Structures	20 - 50	
Locomotives	20	- 30
Passenger coaches		20 - 30
Wagons (without components)		30
Machinery and equipment		8-20
Components	2-24	
Optical fibres	35	

16.2. Assets Pledged as Collateral

The Parent Company holds assets at the net book value of CZK 1,453,149 thousand that were pledged as collateral, of which train sets of the 471 series amounted to CZK 1,351,274 thousand, the Ampz passenger coaches amounted to CZK 101,875 thousand. The pledge was established in favour of EUROFIMA.

16.3. Redundant Immovable Assets

In the property, plant and equipment class, the Group reports assets of CZK 219,884 thousand which are currently not used. These are primarily vacant buildings. The Group anticipates selling the assets in the future but it did not report these assets as assets held for sale, as they have not yet complied with the criteria set out in IFRS 5.

17. INVESTMENT PROPERTY

Set out below is an analysis of investment property:

	(CZK '000)	
	2015	2014
Balance at the beginning of the year	2140 185	2 162 067
Additions from subsequent capitalised expenses	22 781	7 330
Disposals	-125 677	50
Disposals, annual depreciation	-77 787	-76 444
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	129 003	226 467
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	-48 417	-137 808
Transfers to assets held for sale (from IAS 40 to IFRS 5)	-10 326	-8 031
Change in the value	-71 207	-56 043
Transfers of assets held for sale (from IFRS 5 to IAS 40)	-1 053	22 597
Balance at the end of the year	1 957 502	2 140 185

	(CZK '000)		
	Balance at 31 Dec 2015	Balance at 31 Dec 2014	Balance at 1 Jan 2014
Cost	3 697 624	3 732 862	3 509 998
Accumulated depreciation	-1 806 603	-1 648 703	- 1 347 658
Impairment	66 481	56 026	-273
Net book value	1 957 502	2 140 185	2 162 067

The Group includes in investment property real estate where at least 50% of its useful area is leased to an external lessee.

The property is located around the railway route, in train stations and depots of rail vehicles. The fair value based on market comparison cannot be determined with a reasonable certainty given the different nature and location of the property. The Group used a valuation model in determining the fair value of investment property. In respect of land, the calculation includes the product of the market price for m2 for the specific locality and the area of the land. In respect of buildings, the calculation is based on the yield method from market rental. The estimate of the fair value as of 31 December 2015, 2014 and 1 January 2014 is CZK 7,851,286 thousand, CZK 6,033,000 thousand and CZK 4,085,062 thousand, respectively. The investment property is classified to level 3 in terms of determining the fair value.

The Group determines the depreciation method and useful lives of investment property on the same basis as for property included in property, plant and equipment.

18. INTANGIBLE ASSETS

Cost	(CZK '000)								
	Balance at 1 Jan 2014	Additions	Disposals	Reclassification	Balance at 31 Dec 2014	Additions	Disposals	Reclassification	Balance at 31 Dec 2015
Development costs	95 907	0		93 892 0	2 015	0	0	0	2 015
Software	1 702 325	146 549		154 736 -91	1 694 047	259 526	121 492	-121	1 831 960
Valuable rights	682 279	20 084		17 298 0	685 065	18 086	0	0	703 151
Other assets	2 479	-1		760 0	1 718	0	0	0	1 718
Assets under construction	128 538	248 125		0 -172 381	204 282	206 992	0	-320 638	90 636
Prepayments	9	147		156 0	0	0	0	0	0
Total	2 611 537	414 904		266 842 -172 472	2 587 127	484 604	121 492	-320 759	2 629 480

Accumulated amortisation	(CZK '000)								
	Balance at 1 Jan 2014	Additions	Disposals	Reclassification	Balance at 31 Dec 2014	Additions	Disposals	Reclassification	Balance at 31 Dec 2015
Development costs	95 907	0	93 892	0	2 015	0	0		0 2015
Software	1 406 191	140 701	145 062	-119	1 401 711	142 476	120 777	6 032	1 429 442
Valuable rights	536 264	55 205	3 878	0	587 591	46 164	0	-6 032	627 723
Other assets	1 430	244	760	0	914	243	0		0 1 157
Total	2 039 792	196 150	243 592	-119	1 992 231	188 883	120 777		0 2 060 337

Net book value	(CZK '000)		
	Balance at 1 Jan 2014	Balance at 31 Dec 2014	Balance at 31 Dec 2015
Development costs	0	0	0
Software	296 134	292 336	402 518
Valuable rights	146 015	97 474	75 428
Other assets	1 049	804	561
Assets under construction	128 538	204 282	90 636
Prepayments	9	0	0
Total	571 745	594 896	569 143

The costs of amortisation were reported in the line 'Depreciation and amortisation' in the statement of profit or loss. The Group used useful lives of 1.5 - 6 years in calculating amortisation.

Intangible fixed assets include software used in business activities entitled ARES, In-card, UNIPOK, IS OPT, GSM-R, IS-ADPV, POP, KASO and items related to the SAP R/3 accounting software and its modules.

Intangible fixed assets of ČD Cargo, a.s. predominantly include the SAP system and the operational business information system - PROBIS. Intangible fixed assets additionally include the information system supporting the activities of the freight carrier, development of the SAP information system, Microsoft Enterprise Agreement licences, OPT information system, office support systems and other systems used by ČD Cargo, a.s. In the year ended 31 December 2015, ČD Cargo, a.s. obtained grants for intangible fixed assets from the Operational Programme Transport in the amount of CZK 56,987 thousand.

Intangible assets under construction include primarily the purchased software for handheld cash registers in valued at CZK 10 million.

19. SUBSIDIARIES

19.1. Details on Co-owned Subsidiaries that Have Significant Non-Controlling Interests

Subsidiary	Equity investment held by non-controlling interests*)		Profit attributable to non-controlling interests		Accumulated non-controlling interests	
	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
ČD - Telematika a. s. 30.82 %		40.69 %	24 067	36 040	578 163	731 544

*) The equity investments is identical to the share in voting rights held by non-controlling interests.

ČD - Telematika a. s.	31 Dec 2015	31 Dec 2014	1 Jan 2014
Fixed assets	1 728 010	1 797 671	1 784 057
Current assets	1 562 980	1 139 739	865 374
Long-term payables	144 798	150 487	191 539
Short-term payables	1 270 258	989 077	748 618
Equity attributable to owners of the company	1 297 772	1 066 302	1 013 770
Non-controlling interests	578 163	731 544	695 504

	Year ended 31 Dec 2015	Year ended 31 Dec 2014
Income	1 624 059	1 465 311
Expenses	-1 545 970	-1 376 740
Profit for the period	78 089	88 571
Profit attributable to owners of the company	54 022	52 531
Profit attributable to non-controlling interests	24 067	36 040
Total profit	78 089	88 571
Other comprehensive income attributable to owners of the company	0	0
Other comprehensive income attributable to non-controlling interests	0	0
Total other comprehensive income	0	0
Total comprehensive income attributable to owners of the company	54 022	52 531
Total comprehensive income attributable to non-controlling interests	24 067	36 040
Total comprehensive income	78 089	88 571
Dividends paid to non-controlling interests		0
Net cash flows from operating activities	520 579	395 697
Net cash flows from investments activities	-147 343	-124 211
Net cash flows from financing	-13 169	-25 857
Total cash flow	360 067	245 629

20. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

Entity		Value of investment at 31 Dec 2015	Ownership percentage at 31 Dec 2015	(CZK '000)	
				Value of investment at 31 Dec 2014	Ownership percentage at 31 Dec 2014
RAILLEX, a.s.	Associate	12214	50%	16214	50%
BOHEMIAKOMBI, spol. s r.o.	Associate	3 270	30%	3 286	30%
Ostravská dopravní společnost, a.s.	Associate	24 498	20%	20 984	20%
JLV, a. s.	Associate	125 171	38.79%	125 429	38.79%
Masaryk Station Development, a. s.	Associate	0	34%	0	34%
Total - associates		165 153	-	165 913	-
Smíchov Station Development, a. s.	Joint venture	0	51%	0	51%
Žižkov Station Development, a. s.	Joint venture	527	51%	659	51%
Centrum Holešovice, a. s.	Joint venture	0	0%	116	51%
RAILREKLAM, spol. S r.o.	Joint venture	22 397	51%	21 187	51%
Total - joint ventures		22 924	-	21 962	-
Total - investments in joint ventures and associates		188 077		187 875	-

Summary of financial information on associates:

	31 Dec 2015	31 Dec 2014	(CZK '000) 1 Jan 2014
Total assets	1 074 853	991 526	1 077 714
Total liabilities	628 036	549 019	544 323
Net assets	446 817	442 507	533 391
Share of the Company in associates' net assets	153 698	156 003	170 584

	2015	2014
Total income	1 812 282	2 000 344
Profit for the period	28 729	37 095
Share of the Company in associates' profit for the period	8 917	12 275

Summary of financial information on joint ventures:

	31 Dec 2015	31 Dec 2014	(CZK '000) 1 Jan 2014
Total assets	128 347	147 610	146 597
Total liabilities	101 514	119 742	115 506
Net assets	26 833	27 868	31 091
The Company's share of net assets	13 685	14 213	15 856

	2015	2014
Total income	113 844	102 562
Profit (loss) for the period	4 899	3 248
The Company's share of profit (loss)	2 498	1 656

21. INVENTORIES

	31 Dec 2015	31 Dec 2014	(CZK '000) 1 Jan 2014
Spare parts for machinery and equipment	74 779	67 968	67 905
Spare parts and other components for rail vehicles and locomotives	912 888	840 706	784 754
Other machinery, tools and equipment and their spare parts	159 852	142 919	167 220
Fuels, lubricants and other oil products	29 423	30 683	28 789
Work clothes, work shoes, protective devices	66 128	101 239	99 768
Other	124 314	95 317	98 184
Total cost	1 367 384	1 278 832	1 246 620
Write-down of inventories to their net realisable value	-118 617	-78 865	-118 482
Total net book value	1 248 767	1 199 967	1 128 138

The Parent Company's inventories are gathered in the Supply Centre in Česká Třebová.

22. TRADE RECEIVABLES

	31 Dec 2015	31 Dec 2014	(CZK '000) 1 Jan 2014
Long-term	0	0	0
Short-term	3 452 721	3 127 474	3 409 896
Total	3 452 721	3 127 474	3 409 896

22.1. Aging of Trade Receivables

Category	Before due date	Past due date (days)				Total past 365 and due date more	Total
		1 -30 days	31 -90 days	91 - 180 days	181 -365 days		
(CZK '000)							
31 Dec Gross	2015 3 166 472	161 215	111 133	11 568	17 548	282 561 584 025	3 750 497
Allowances	-7 516	-1 414	-2 812	-2 765	-7 011	-276 258 -290 260	-297 776
Net	3 158 956	159 801	108 321	8 803	10 537	6 303 293 765	3 452 721
31 Dec Gross	2014 2 949 093	109 099	51 383	16 047	28 249	262 057 466 835	3 415 928
Allowances	-28 461	-178	-3 269	-1 463	-17 386	-237 697 -259 993	-288 454
Net	2 920 632	108 921	48 114	14 584	10 863	24 360 206 842	3 127 474
1 Jan 2014 Gross	3 024 313	133 712	227 888	118 234	64 221	232 750 776 805	3 801 118
Allowances	-104 929	-603	-745	-57 440	-39 393	-188 112 -286 293	-391 222
Net	2 919 384	133 109	227 143	60 794	24 828	44 638 490 512	3 409 896

22.2. Movements in Allowances for Doubtful Receivables

	2015	2014
(CZK '000)		
Balance at the beginning of the year	288 454	391 222
Recognition of allowances	123 793	153 303
Use of allowances	-114 471	-256 071
Balance at the end of the year	297 776	288 454

23. OTHER FINANCIAL ASSETS

	31 Dec 2015	31 Dec 2014	1 Jan 2014
(CZK '000)			
Financial assets available for sale	336 317	320 531	320 531
Receivables from finance leases	91 830	96 152	103 996
Hedging derivatives	296 682	1 386 875	1 177 625
Other financial derivatives	0	0	3 904
Other	10 848	9 324	13 666
Total non-current financial assets	735 677	1 812 882	1 619 722
Receivables from finance leases	-9 215	-7 641	-7 026
Hedging derivatives	680 342	48 818	91 638
Other financial derivatives	3 958	5	0
Other	85 790	84 625	97 330
Total current financial assets	760 875	125 807	181 942
Total	1 496 552	1 938 689	1 801 664

23.1. Receivables from Finance Leases

The Parent Company has leased the station buildings at Brno - hlavní nádraží.

	Minimum lease payments			Present value of minimum lease payments	
	31 Dec 2015	31 Dec 2014	1 Jan 2014	31 Dec 2015	31 Dec 2014
(CZK '000)					
Under 1 year	4 628	4 609	4 302	-9 215	-7 641
From 1 to 5 years	59 885	43 970	28 099	-3 335	-17 027
5 years and more	443 176	459 181	475 141	95 165	113 179
Total	507 689	507 760	507 542	82 615	88 511
Less: unrealised financial income	-425 074	-419 249	-410 572	0	0
Present value of receivables of minimum lease payments	82 615	88 511	96 970	82 615	88 511
In the statement of financial position as:					
Other current financial assets				-9 215	-7 641
Other non-current financial assets				91 830	96 152
Total				82 615	88 511

The fair value of receivables from finance leases approximates their carrying amount. Negative values in certain lines of the table indicate that lease payments in the period are lower than unrealised financial income hence the present value of the minimum lease payments increases in this period.

24. OTHER ASSETS

	31 Dec 2015	31 Dec 2014	1 Jan 2014
			(CZK '000)
Total non-current assets	26 546	106 998	58 530
Prepayments made	280 123	270 874	217 244
Tax receivables (except for the corporate income tax)	927 359	629 569	687 620
Prepaid expenses	137 889	133 236	143 905
Other	116 060	118 031	44 205
Total current assets	1 461 431	1 151 710	1 092 974
Total	1 487 977	1 258 708	1 151 504

25. EQUITY

25.1. Share Capital

The Parent Company's share capital is composed of the investment made by the Czech State as the sole shareholder, represented by the Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government.

25.2. Reserve and Other Funds

	31 Dec 2015	31 Dec 2014	1 Jan 2014
			(CZK '000)
Share premium	16 439 605	16 439 605	16 439 605
Statutory reserve fund	310 048	257 866	222 030
Cash flow hedging reserve	-1 029 842	-655 878	-364 956
Foreign currency translation fund	8 430	13 411	27 599
Other	38 381	-1 861	-1 871
Non-controlling interests	-6 568	-7 124	-7 257
Total	15 760 054	16 046 019	16 315 150

Allocations are made to the statutory reserve fund in accordance with the national legislation.

25.2.1. Cash Flow Hedging Reserve

	31 Dec 2015	31 Dec 2014
		(CZK '000)
Balance at the beginning of the year	-655 878	-364 956
Profit (loss) from revaluation	-542 720	-423 814
Settled deferred derivatives	0	-4 278
Reclassifications to profit or loss upon settlement	177 969	147 767
Total change in the cash flow hedging reserve	-364 751	-280 325
Relating income tax	-9 213	-10 597
Balance at the year-end	-1 029 842	-655 878

The cash flow hedging reserve includes accumulated gains and losses from the effective hedging of cash flows. The accumulated accrued profit or loss from hedging derivatives is reclassified to the profit or loss only if the hedging transaction impacts the profit or loss or is included as an adjustment to the base in the hedged non-financial item in accordance with relevant accounting principles.

Gains and losses reclassified during the year from equity are included in the statement of profit or loss lines 'Revenue from principal activities', 'Purchased consumables and services' and 'Financial expenses'.

25.2.2. Foreign Currency Translation Fund

	(CZK '000)	
	31 Dec 2015	31 Dec 2014
Balance at the beginning of the year	13411	27 599
Foreign exchange rate gains or losses arising from translation of foreign operations	-4 981	-14 188
Tax on the profit relating to profits arising from translation of net assets of foreign operations	0	0
Balance at the year-end	8 430	13 411

Foreign exchange rate gains or losses relating to the translation of the results and net assets of foreign operations of the Group from their functional currencies to the presentation currency of the Group (i.e. CZK) are reported directly in other comprehensive income and are accumulated in the foreign currency translation fund.

25.3. Equity-Non-Controlling Interests

The additional purchase of a 9.87% equity investment of the Parent company in ČD - Telematika, a.s. resulted in a decrease in non-controlling interests of CZK 177,490 thousand.

26. LOANS AND BORROWINGS

	(CZK '000)		
	31 Dec 2015	31 Dec 2014	1 Jan 2014
Short-term bank loans	0	0	281 283
Payables from finance leases	947 286	925 250	927 893
Payable to EUROFIMA	811 477	1 250 380	1 239 761
Overdraft accounts	0	53	844 691
Issued bonds	9 726 593	1 410 817	1 383 624
Other received short-term loans and borrowings	12 837	59 894	11 029
Total short-term	11 498 193	3 646 394	4 688 281
Payable to EUROFIMA	810 750	1 663 500	2 879 625
Issued bonds	20 998 477	26 691 323	21 874 864
Other - received loans and borrowings - long-term	27 794	42 128	51 411
Payables from finance leases	3 856 389	4 739 038	5 090 732
Total long-term	25 693 410	33 135 989	29 896 632
Total	37 191 603	36 782 383	34 584 913

Portions of long-term loans and borrowings that are repayable in a period shorter than one year from the financial statements date are recognised as short-term loans and borrowings.

The Parent Company received in several tranches a long-term loan from EUROFIMA to finance the purchase of railway vehicles. The interest rate is determined based on the Euribor reference rate. As of 31 December 2015, the principal of EUR 60,000 thousand needs to be repaid to EUROFIMA according to the relevant due dates between 7 April 2016 and 3 April 2017.

On 23 July 2012, the Parent Company issued Eurobonds with a seven-year maturity and fixed coupon of 4.125% p.a. The issue amounted to EUR 300 million and the issue rate was 99.821%. These are bonds listed on the Luxembourg stock exchange.

On 25 July 2013, the Parent Company issued domestic bonds with a total nominal value of CZK 4 billion with the issue rate of 99.502 % of the nominal value, with the maturity of five years and a float interest yield on a half-year basis which is composed of the 6M PRIBOR rate plus a margin of 1.70 % p.a. The bonds are listed on the Regulated Market of the Prague Stock Exchange (Regulovaný trh Burzy cenných papírů Praha, a.s.).

On 5 November 2014 the Parent Company issued a EUR 180 million dual tranche debt private placement, consisting of a EUR 30 million 2.875% standalone bond with maturity of 10 years and a EUR 150 million 3.50% registered note ("Namensschuldverschreibung") with maturity of 15 years.

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

The bonds of EUR 300 million issued by the Parent Company on 24 June 2011 will mature on 24 June 2016. As of 31 December 2015 these bonds are therefore reported as current liabilities (balance sheet line 'Loans and borrowings'), since they fall due within a period shorter than one year from the date of these consolidated financial statements.

On 25 November 2014, the Parent Company made the last loan repayment pursuant to the loan agreement with a consortium of banks led by Československá obchodní banka, a.s. The loan was provided to finance the renovation of the Company's rolling stock and is collateralised by a state guarantee issued by the Czech Finance Ministry. This guarantee serves to collateralise the principal balance and interest.

ČD Cargo, a.s. has an approved bond programme in the maximum amount of CZK 6 billion for 10 years under which it placed to the first issue of five-year bonds with a fixed coupon of 3.183% p.a. for the first three years and 5% p.a. for the remaining two years on 20 June 2011. The issue amounted to CZK 1 billion with the issue rate of 98.025%. ČD Cargo, a.s. recorded calls for a premature redemption of part of the first issue of the bonds placed through KB, a.s. with the summary total nominal value of CZK 341.7 million within the due period. This amount was redeemed as of 20 June 2014. The amount after the exercising of the option of CZK 658.3 million will be due on 20 June 2016, as of 31 December 2015 these bonds are therefore reported as current liabilities.

On 21 December 2011, ČD Cargo, a. s. issued five-year bonds in the aggregate amount of CZK 500 million with the issue rate of 99.941 % and the fixed interest yield of 3.8% p. a. through Raiffeisenbank, a.s. As of 31 December 2015 these bonds are reported as current liabilities as they will fall due on 21 December 2016.

The issue of bonds with Československá obchodní banka in the amount of CZK 1 billion was redeemed by ČD Cargo, a.s. as of the maturity date of 22 December 2015. The issues were the following: from 22 December 2011 in the amount of CZK 500 million, from 12 January 2012 in the amount of CZK 200 million and from 19 January 2012 in the amount of CZK 300 million.

On 26 November 2015, ČD Cargo, a.s. issued bonds in the total nominal amount of CZK 1,000 million through the administrator UniCredit Bank Czech Republic and Slovakia, a.s, with the issue rate of 99.617 % and the fixed interest yield of 1.40% p. a. Interest on these bonds is paid once a year.

The Group breached no loan covenants in the reporting period.

26.1. Finance Lease Payables

The finance lease applies to railway vehicles, vehicles and equipment for computers and servers. The value of finance leases is as follows:

	(CZK '000)					
	Minimum lease payments			Present value of minimum lease payments		
	31 Dec 2015	31 Dec 2014	1 Jan 2014	31 Dec 2015	31 Dec 2014	1 Jan 2014
Less than 1 year	1 129 980	1 140 305	1 151 279	947 286	925 250	927 893
From 1 to 5 years	3 536 497	4 051 818	3 918 320	3 147 768	3 530 299	3 341 935
5 years and more	753 380	1 300 961	1 867 362	708 621	1 208 739	1 748 797
Total	5 419 857	6 493 084	6 936 961	4 803 675	5 664 288	6 018 625
Less future finance expenses	-616 182	-828 796	-918 336			
Present value of minimum lease payments	4 803 675	5 664 288	6 018 625	4 803 675	5 664 288	6 018 625
In the statement of financial position as:						
short-term loans				947 286	925 250	927 893
long-term loans				3 856 389	4 739 038	5 090 732
Total				4 803 675	5 664 288	6 018 625

The fair value of finance lease payables approximates their carrying amount, except for the items described in the Note 'Financial Instruments'.

The acquisition of fixed assets under finance leases is reported as a non-cash transaction in the statement of cash flows. Finance leases are not presented as a loan provided to purchase tangible assets according to the substance of the transaction but only according to the actual cash flow from financing.

27. PROVISIONS

	Balance at 1 Jan 2014	Charge	Use	Balance at 31 Dec 2014	Charge	Use	Balance at 31 Dec 2015
Provision for discounts and refunds	20 821	16 176	20 820	16 177	5 100	6 900	14 377
Provision for rents	4 748	197	496	4 449	267	497	4 219
Provision for legal disputes	605 850	341 201	107 041	840 010	1 032 994	520 297	1 352 707
Provision for outstanding vacation days	75 213	80 173	75 674	79 712	36 461	21 539	94 634
Provision for removal of the environmental burden	3 833	0	3 833	0	0	0	0
Provisions for employees benefits	350 378	183 365	139 180	394 563	97 403	92 606	399 360
Provisions for business risks	902 947	37 275	916 518	23 704	0	0	23 704
Provisions for restructuring	249 973	0	69 852	180 321	18 746	59 380	139 687
Provisions for loss-making transactions	0	525 450	0	525 450	54 215	0	579 665
Other provisions	15 665	83 287	48 727	50 225	71 900	83 597	38 528
Total provisions	2 229 428	1 267 124	1 381 941	2 114 611	1 317 086	784 816	2 646 881
- long-term	213 071			826 019			856 505
- short-term	2 016 357			1 288 592			1 790 376

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate important birthdays, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. In calculating the provision, the Group used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees of 5%, anticipated increase in salaries of 2%, anticipated inflation level of 2%, likelihood of death or disablement according to the data of the Czech Statistical Office. A change in the amount of the provision due to the change in these parameters is reported as actuarial gains (losses) in the statement of profit or loss. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

The provision for the removal of the environmental burden is recognised for the clean-up of the locality in Brodek u Přerova. All costs have been invoiced, the provision was released in 2014. The Group does not recognise provisions for other environmental burdens as it is unable to estimate the scope of these burdens and the level, if any, of its share in their removal.

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

After having considered all existing legal analyses and results of negotiations in existing legal disputes and having assessed all potential risks, current developments in legal disputes and in accordance with the inherent level of prudence, management of ČD Cargo, a. s. decided as of 31 December 2015 to maintain the amount of the non-tax deductible provision to cover potential expenses relating to potential risks for business transactions at the same level as at the end of 2014 in the amount of CZK 23,704 thousand.

As of 31 December 2012, management of ČD Cargo, a. s. decided to make organisational changes pursuant to the prepared restructuring plan, the main features of which were communicated within the company. The future cash outflows associated with the restructuring were estimated at CZK 535,000 thousand in the plan. During the year ended 31 December 2014, this provision was used and specified and it amounted to CZK 180,321 thousand as of 31 December 2014. During the year ended 31 December 2015, the amount of the provision decreased by the use by CZK 59,380 thousand to the balance of CZK 139,687 thousand as of 31 December 2015. These funds will continue to be available to the company to cover the costs relating to the ongoing restructuring in the following reporting period.

During the year, ČD Cargo, a. s. recognised a provision for loss-making transactions. The amount of the provision is determined on the basis of a reasonable estimate as equal to the future liability arising from the loss. The amount includes the difference between the discounted net anticipated income and discounted anticipated expenses. The provision amounted to CZK 525,450 thousand as of 31 December 2014. As of 31 December 2015 and after its update it amounts to CZK 579,665 thousand.

The reasons for decreasing the provision of ČD Cargo, a. s. for business risks by CZK 916,518 thousand primarily related to:

- The conclusion of an agreement on out-of-court settlement with SŽDC regarding the legal dispute about the price of the consumed traction electricity during 2009 and compensation for damage due to traffic closures caused by SŽDC. The out-of-court settlement was concluded for the total amount of CZK 375,811 thousand, of which the amount of CZK 61,786 thousand relates to the compensation for damage caused by traffic closures and the amount of CZK 314,025 thousand relates to the price of traction electricity consumed in 2009. Payables arising from these out-of-court settlements have been recorded as 'Other payables', divided into long-term and short-term parts; and
- The court ruling dated 15 January 2014 in the legal dispute for damage due to traffic closures caused by SŽDC, based on which ČD Cargo, a.s. is required to settle the payable of CZK 164,152 thousand to SŽDC.

28. TRADE PAYABLES

Year	Category	Before due date	Past due date (days)				Total past 365 and due date more	Total
			1-30 days	31-90 days	91-180 days	181-365 days		
31 Dec 2015	Short-term	5 926 583	126 944	113 924	22 907	2 689	7 821 274 285	6 200 868
31 Dec 2014	Short-term	6 339 790	150 034	11 460	5212	175 935	12 150 354 791	6 694 581
1 Jan 2014	Short-term	6 430 037	64 052	75 091	5 428	2 316	5 633 152 520	6 582 557

29. OTHER FINANCIAL LIABILITIES

	31 Dec 2015	31 Dec 2014	1 Jan 2014
Hedging derivatives	899 141	494 172	155269
Other financial derivatives	2 896	5 573	10014
Other long-term liabilities	608 813	683 489	255 380
Total long-term	1 510 850	1 183 234	420 663
Hedging derivatives	269 091	254 787	189 382
Other financial derivatives	2 534	16 712	14 616
Other	412 484	382 902	204 953
Total short-term	684 109	654 401	408 951
Total	2 194 959	1 837 635	829 614

Long-term other financial liabilities for the year ended 31 December 2015 primarily consist of the long-term portion of a payable of ČD Cargo, a.s. to SŽDC in the amount of CZK 214,584 thousand arising from the concluded out-of-court agreement regarding the dispute about the price of traction energy during 2009, the long-term portion of a payable of ČD Cargo, a.s. to SŽDC in the amount of CZK 42,220 thousand for the settlement of the damage due to SŽDC's traffic closures, and the amount of CZK 22,799 thousand relating to the settlement of the damage due to SŽDC's traffic closures pursuant to a court ruling dated 15 January 2014.

In the year ended 31 December 2014, other financial liabilities in the amount of CZK 331,966 thousand consisted primarily of the long-term portion of a payable of ČD Cargo, a.s. to SŽDC arising from the concluded out-of-court agreement. Another long-term liability of ČD Cargo, a.s. to SŽDC of CZK 77,522 thousand related to the settlement of the damage due to SŽDC's traffic closures {see Note 27 Provisions}.

As of 31 December 2015, the short-term other financial liability of ČD Cargo, a.s. to SŽDC amounts to CZK 129,880 thousand. The increase is due to the reclassification of the long-term portion to the short-term portion as of the due date of the first payment, 30 June 2015.

As of 31 December 2014, short-term other financial liabilities primarily included a payable of ČD Cargo, a.s. to SŽDC of CZK 98,562 thousand. The amount of CZK 43,845 thousand consisted of the short-term portion of a payable arising from the concluded out-of-court agreement regarding the dispute about the price of traction energy during 2009 and the settlement of the damage due to SZDC's traffic closures. The amount of CZK 54,717 thousand related to the settlement of the damage due to SŽDC's traffic closures pursuant to a court ruling dated 15 January 2014 (see Note 27 Provisions).

“Other” additionally includes a payable arising from supplier loans divided to short-term and long-term portions.

30. OTHER LIABILITIES

	(CZK '000)		
	31 Dec 2015	31 Dec 2014	1 Jan 2014
Total long-term	603 840	581 252	520 291
Received prepayments	582 387	431 189	303 302
Payables to employees	990 489	948 164	1 043 061
Social security and health insurance payables	359 492	345 532	360 186
Subsidies	0	5 737	4 475
Other	899 834	865 859	1 145 669
Total short-term	2 832 202	2 596 481	2 856 693
Total	3 436 042	3 177 733	3 376 984

Other short-term liabilities predominantly include leases received in advance, tax withheld from employees and deferred income.

The Group carries no payables to taxation authorities, social security authorities or health insurers past their due dates.

31. RELATED PARTY TRANSACTIONS

31.1. Loans to Related Parties

The Group provided no loans to related parties as of 31 December 2015, 31 December 2014 and 1 January 2014.

31.2. Key Management Members Compensation

Directors and other members of key management received short-term employee benefits of CZK 155,533 thousand in 2015 (2014: CZK 166,561 thousand) and post-employment benefits of CZK 3,278 thousand (2014: CZK 14,968 thousand). The members of the Parent Company's statutory and supervisory bodies had the possibility of using reduced fares. Cash bonuses to the members of the Group's statutory and supervisory bodies in the years ended 31 December 2015 and 2014 amounted to CZK 72,965 thousand and CZK 60,528 thousand, respectively. Management of the Group is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.

31.3. Transactions with SŽDC and the ČEZ Group

The Parent Company is wholly owned by the state. In accordance with the exemption listed in paragraphs 25 - 27 of IAS 24, the Parent Company does not include other state-owned entities among related parties. The table below presents only transactions with SŽDC and the ČEZ group as a result of their significant position in the Group's activities. The most significant transactions with these entities include use of the railway route, purchase of electricity and freight transportation revenues.

The expenses and income resulting from the transactions conducted with SŽDC and the ČEZ group were as follows:

	(CZK '000)			
	2015		2014	
	SŽDC	ČEZ group	SŽDC	ČEZ group
Expenses	4 238 733	621 952	4 512 650	625 614
Income	1 641 805	426 290	1 054 211	512 925

Receivables and payables of the Group resulting from the transactions with SŽDC and the ČEZ group were as follows:

	(CZK '000)					
	31 Dec 2015		31 Dec 2014		1 Jan 2014	
	SŽDC	ČEZ group	SŽDC	ČEZ group	SŽDC	ČEZ group
Receivables ("Trade receivables" line)	340 967	78 454	253 296	74 392	263 074	76 463
Payables ("Trade payables" line)	1 437 759	190 748	1 512 920	177 803	1 104 871	229 195
Prepayments made ("Other assets" short-term line)	72 915	951	52 117	2 581	32 177	2 774
Received prepayments ("Other liabilities" short-term line)	423 060	5 084	257 380	2 404	197 445	249
Estimated payables (Trade payables" line)	54 853	26	37 734	129	51 442	1 568
Estimated receivables ("Trade receivables" line)	40 485	47	70 736	0	59 462	23

32. CASH AND CASH EQUIVALENTS

For cash flow reporting purposes, cash and cash equivalents include cash on hand, cash at bank and investments in the money market instruments after reflecting negative balances on overdraft accounts. Cash and cash equivalents at the end of the reporting period reported in the cash flows statement can be reconciled to the relevant items in the statement of financial position as follows:

	(CZK '000)		
	31 Dec 2015	31 Dec 2014	1 Jan 2014
Cash on hand and cash in transit	102 603	55 853	64 450
Cash at bank	3 131 667	3 737 118	1 551 485
Short-term securities	738 159	250 000	140 000
Total	3 972 429	4 042 971	1 755 935

33. CONTRACTS FOR OPERATING LEASES

33.1. The Group as a Lessee

Assets under operating leases which are reported off balance sheet as of 31 December 2015, 31 December 2014 and 1 January 2014 amount to CZK 54,736 thousand, CZK 57,101 thousand and CZK 53,582 thousand, respectively. Assets include a number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognised in expenses in the years ended 31 December 2015 and 2014 amounted to CZK 68,505 thousand and CZK 62,544 thousand, respectively.

The Group as a lessee has not concluded any contingent lease contracts.

33.2. The Group as a Lessor

Operating leases apply to investment property and movable assets held by the Group with various lease periods.

The revenue that the Group generated from investment property based on the operating leases amounts to CZK 522,546 thousand in 2015(2014: CZK 518,122 thousand).

Direct operating expenses relating to investment property for 2015 amounted to CZK 242,114 thousand (2014: CZK 212,889 thousand).

Income from operating leases of movable assets in 2015 amounts to CZK 503,059 thousand (2014: CZK 406,414 thousand).

The Group as a lessor concluded no irrevocable contracts for operating leases.

34. CONTRACTUAL OBLIGATIONS RELATING TO EXPENSES

As of the consolidated balance sheet date, the Group concluded contracts for the purchase of land, buildings and equipment and investment property in the amount of CZK 7,648,140 thousand, of which CZK 5,122,008 thousand relates to supplies contracted for 2016 and CZK 404,603 thousand relates to supplies contracted for the following years. The remaining balance of CZK 2,121,529 thousand was paid as of 31 December 2015. A significant portion of the obligations relating to expenses (CZK 5,521,649 thousand) include investments in railway vehicles.

35. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Parent Company holds a 1% equity investment in EUROFIMA. Shareholders of the entity are European national railway transporters and the purpose of this entity is to acquire funds for funding of railway vehicles purchases. According to Article 5 of the Articles of Association, shareholders pay to EUROFIMA only 20% of the equity investment value and the remaining 80% can be required by EUROFIMA as needed pursuant to the resolution of the Administrative Board. The nominal value of unpaid shares as of 31 December 2015 was CHF 20,800 thousand. The likelihood that the Parent Company will be asked to pay the nominal value of the unpaid portion of the equity investment is considered to be low by the Parent Company's management.

ČD Cargo reports a bank guarantee in favour of WestInvest Waterfront Towers s.r.o. for the compliance with all liabilities and obligations of a lessee resulting from the lease contract with WestInvest Waterfront Towers s.r.o. - Lighthouse in the amount of EUR 227 thousand with maturity on 30 September 2016.

ČD Cargo reports a bank guarantee in favour of HYPARKOS, s.r.o. which is held to cover the situation where ČD Cargo would not comply with the obligations stipulated in the Contract for the Lease of Buildings and Land in the Lovosice Logistics Centre. The guarantee amounts to CZK 16,517 thousand and is valid until 30 June 2016.

ČD Cargo, a.s. records a bank guarantee in favour of the Customs Authority for the South Bohemian region as a customs guarantee for other than transit transactions, to secure customs and tax debt which means the obligation to pay the customs duty, taxes and fee collected in import, including accrued interest, except for fines. The guarantee amounts to CZK 2 million and is due without limitations.

ČD Cargo, a.s. additionally reports the following sureties from orders:

Name of the order	Applicant-name	Required surety	Surety paid on
Deliveries of brake blocks	"Supplier association: Euro-Metall Kft, Eisenwerk Arnstadt GmbH"	CZK 7,000,000	18 Nov 2015
Scrapping of 8 NV for Municipal Authority Choťovice-Převýšov	PV RECYKLING s.r.o.	CZK 288,415.50	25 Sept 2015

The Parent Company's aggregate costs of clean-ups in 2015 and 2014 were CZK 28 million and CZK 29 million, respectively. The Parent Company is not aware of any environmental burdens that would exceed legislative limits and represent harm to human health or property of third parties. The provisions for clean-ups of other environmental burdens are not recognised as the Parent Company is unable to estimate the scope of these burdens and its potential involvement in their removal. The Parent Company has not prepared an overall strategy and plan of clean-ups according to which it could recognise the provisions.

35.1. Legal Disputes

35.1.1. Dispute with ŠKODA TRANSPORTATION a.s.

On 16 November 2015, an arbitration award was issued in which the arbitration court upheld the legal action brought by ŠKODA TRANSPORTATION, a.s. to the extent that it mandated České dráhy to make an additional purchase price payment of CZK 370 million and to settle default interest of CZK 98 million. The total payment of CZK 468 million was made on 19 November 2015. The arbitration award additionally replaced the will of České dráhy to enter into an amendment to make an inflationary increase in the purchase price of CZK 754 million. České dráhy has filed a legal action to revoke the arbitration award referred to above.

35.1.2. Railway Freight Transportation Market

In May 2009, the Chairman of the Anti-Monopoly Office reduced the fine imposed on ČD, a.s. for abusing its position on the market from CZK 270 million to CZK 254 million. According to the Anti-Monopoly Office, ČD, a.s. abused its dominant position on the market of the railway transportation of large quantities of natural resources and raw materials. On the basis of the remedies filed by ČD, the court revoked the ruling of the Chairman of the Anti-Monopoly Office and the matter is referred back to the Anti-Monopoly Office which now has to re-open it and/or supply additional evidence. The Anti-Monopoly Office has filed a remedy - cassation complaint against this decision.

35.1.3. Prague - Ostrava Line

In January 2012, the Anti-Monopoly Office initiated proceedings against ČD, a.s. regarding the alleged abuse of ČD, a.s.'s dominant position on the Prague - Ostrava line in the form of inadequately low (predatory) prices in response to an entry of a new competitor railway transporter. The proceedings with the Anti-Monopoly Office are still continuing, the Anti-Monopoly Office is currently collecting supporting documents for its ruling and it will subsequently either issue a statement of objections, which will formally open the proceedings against ČD, or it will not issue the statement of objections and will discontinue the proceedings.

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

On 10 July 2014, LEO Express filed a legal action for the compensation of damage amounting to CZK 418,869,000 which was allegedly caused to LEO Express by ČD, a.s. and its pricing policy. The first-instance court rejected LEO Express's legal action which appealed the ruling.

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

In April 2015, RegioJet filed a legal action for the return of approximately CZK 7 billion and default interest due to allegedly prohibited public support. The assets involving the 'assets required to maintain rails and their operability' ("mrtvá dopravní cesta" in Czech), which were transferred by ČD to SŽDC in 2008 for CZK 12 billion, were allegedly overstated by this amount. ČD provided its statement to the legal action indicating that it does not agree with the assertions made in the legal action and considers it to lack merit.

35.1.6. 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 CZK 716,977,278. The alleged detriment was caused by CD's illegal activities in operating the Prague - Ostrava track, involving the application of dumping prices. ČD refused to pay the detriment. RegioJet filed a legal action seeking the payment of compensation of approximately CZK 716 million with accrued interest and charges which result in legal proceedings being initiated in the matter.

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

Since early 2014, the Audit Body of the Czech Ministry of Finance (the "Audit Body") has been conducting a due audit of operation at ČD, a.s. 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. Subsequently in 2015, the audits continued and, at the end of 2015, the sample of the Czech Ministry of Finance included all realised projects, the only exceptions being the projects "Modern Railway Vehicles for the Pardubický Region" and "Leoš Janáček Airport Traffic Connection". At the end of 2015, ČD, a.s. received the final audit report on all the audited projects. Given the completion of the audit by the Czech Ministry of Finance, individual Regional Council Authorities are claiming the refund of the proportionate part of the subsidy from the relevant amount of calculated ineligible expenses according to the AO's methodology, referring to the AO's recommendations and conclusions. ČD, a.s. fully rejects to pay the determined amount of the subsidised discrepancy within the period stated by the Regional Council Authorities. ČD, a.s. disagrees with the audit conclusions and is pursuing the relevant procedural defence. At the end of 2015, ČD, a.s. records five calls to refund the proportionate part of the subsidy of CZK 349,538 thousand.

35.1.8. StDC's Legal Action against ČD Cargo, a.s. for the Payment of CZK 286,134,763.63

The ruling of the High Court in Prague, ref. no. 3 Cmo 422/2012-250, approved court settlement on the basis that the defendant ČD Cargo is obliged to pay to the plaintiff, ie SŽDC, a total of CZK 314,024,813.26 in full settlement of the litigated claims, in regular monthly payments of CZK 5,233,746.89.

35.1.9. SŽDCs Legal Action against ČD Cargo, a.s. for the Payment of CZK 127,184,298.55

SŽDC has concluded a settlement agreement with ČD Cargo under which ČD Cargo undertakes to pay CZK 164,152,088.28 to SŽDC, in regular monthly payments of CZK 4,559,780.23.

35.1.10. Dispute regarding the amount of payment for 'easements' relating to plots of land underneath the backbone optical network owned by ČD - Telematika a.s.

The year 2015 brought notable progress in resolving the long-term dispute regarding the amount of payment for 'easements' relating to plots of land underneath the backbone optical network owned by ČD - Telematika a.s. A trilateral agreement on an arbiter has been signed, in which the companies agreed on the framework in which it is possible to resolve the dispute relating to the payment for 2011. During 2015, the contractual parties filed a legal action with the arbiter appointed under the agreement. It can be anticipated that the outcome of the arbitration proceedings and hence the resolution of the dispute will be available during 2016. The Group believes that the accrual made for the payment for establishing the 'easements' represents the best possible estimate of the outcome of the dispute.

36. FINANCIAL INSTRUMENTS

36.1. Capital Risk Management

The Group manages its capital to ensure that it is able to continue as a going concern while optimising the debt and equity balance. The Board of Directors and the Supervisory Board of the Parent Company are regularly informed about the development of debt. Any additional debt is subject to approval by the Parent Company's statutory bodies, ie the Board of Directors, the Supervisory Board and the Steering Committee.

The Group uses issues of bonds as a principal source of long-term funding.

36.2. Significant Accounting Policies

Details of the significant accounting policies and methods adopted for each class of financial asset, financial liability and equity instrument are disclosed in Note 2.

36.3. Categories of Financial Instruments

	(CZK '000)		
Financial assets	31 Dec 2015	31 Dec 2014	1 Jan 2014
Cash and bank accounts	3 234 270	3 792 971	1 755 935
Derivative instruments in designated hedge accounting relationships	977 024	1 435 693	1 269 263
Other financial derivatives	3 958	5	3 904
Held-to-maturity investments (term deposits and promissory notes)	738 159	250 000	0
Loans and receivables	3 631 974	3 309 934	3 617 862
Available-for-sale financial assets	336 317	320 531	320 531
Total	8 921 702	9109 134	6 967 495

	(CZK '000)		
Financial liabilities	31 Dec 2015	31 Dec 2014	1 Jan 2014
Derivative instruments in designated hedge accounting relationships	1 168 231	748 959	344 651
Other financial derivative instruments	5 431	22 285	24 630
Measured at amortised cost	44 413 768	44 543 355	41 627 803
Total	45 587 430	45 314 599	41 997 084

Other financial derivative instruments are classified as Financial assets/liabilities at fair value through profit or loss.

Available-for-sale financial assets include investments in equity investments that do not have listed market values on an active market and are measured at cost as their fair value cannot be reliably determined.

Income from individual categories of financial assets is as follows:

Financial assets	2015	2014	(CZK '000)
			Reported in the statement of profit or loss line
Interest on cash in bank accounts	6 121	4 734	Other gains (losses)
interest on investments held to maturity (term deposits and promissory notes)	1 888	963	Other gains (losses)
Dividends from available-for-sale financial assets	114	1 129	Other gains (losses)
Total	8 123	6 826	

Impairment losses on financial assets are presented in the Note 'Trade receivables'. No significant impairment was noted in respect of any other class of financial assets.

36.4. Financial Risk Management Objectives

The Group's Treasury function provides services to the Parent Company, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Parent Company through internal risk reports which analyse risks by materiality. These risks include market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

36.5. Currency Risk Management

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. These transactions predominantly include income from international transportation and provision of services, received loans and issued bonds. In line with the approved Risk Management Strategy, the Parent Company hedges the anticipated payments in a foreign currency so as to prevent the amount of the open risk position from exceeding the limit set for the period by the Risk Management Committee and approved by the Board of Directors of the Parent Company.

The carrying amounts of the Group's foreign currency denominated financial assets and financial liabilities, net of currency hedging, at the end of the reporting period are as follows:

				(CZK '000)
31 Dec 2015	EUR	USD	Other	Total
Financial assets	2 914 544	104 359	11 929	3 030 832
Financial liabilities	-27 865 670	-124 526	-10 348	-28 000 544
Total	-24 951 126	-20 167	1 581	-24 969 712

				(CZK '000)
31 Dec 2014	EUR	USD	Other	Total
Financial assets	2 491 476	9 354	6 697	2 507 527
Financial liabilities	-26 816 680	-1 813	-7 769	-26 826 262
Total	-24 325 204	7 541	-1 072	-24 318 735

				(CZK '000)
1 Jan 2014	EUR	USD	Other	Total
Financial assets	2 181 298	5 697	214 902	2 401 897
Financial liabilities	-22 749 772	-5 845	-138 168	-22 893 785
Total	-20 568 474	-148	76 734	-20 491 888

36.5.1. Foreign Currency Sensitivity Analysis

The exposure to currency risks is measured by a sensitivity analysis. The Group is exposed to the currency risk due to:

- Changes in the value of cash items denominated in foreign currencies; and
- Changes in the fair value of concluded financial derivatives.

The following table shows the impact that the strengthening of the Czech currency by one crown in respect of the relevant foreign currencies would have on the profit and other comprehensive income. A positive number indicates an increase in the profit and other comprehensive income, a negative number indicates the decrease in the profit and other comprehensive income:

		(CZK '000)	
		2015	2014
Translation of items denominated in foreign currencies at the end of the period		922 300	874 657
Change in the fair value of derivatives at the end of the period		-750 475	-677 338
Total impact on the profit for the period		171 825	197 319
Change in the fair value of derivatives at the end of the period		-62 586	-55 704
Total impact on other comprehensive income		-62 586	-55 704

36.5.2. Currency Forwards and Options

In line with its principles, the Group enters into currency forwards and options to cover the received payments denominated in foreign currencies.

The table shows outstanding foreign currency forwards and options for the sale of the foreign currency as of:

				(CZK '000)	
Sale	Average currency exchange rate	Foreign currency	Nominal value	Fair value	
31 Dec 2015	26.95	EUR	24	548	
	26.50-27.15	EUR	12	-518	
31 Dec 2014	27.182	EUR	55 000	-31 271	
	26.45-27.25	EUR	24 000	-8 603	
1 Jan 2014	26.066	EUR	86 000	-117 642	

The table shows outstanding foreign currency forwards and options for the purchase of the foreign currency as of:

Purchase	Average currency exchange rate	Foreign currency	Nominal value	(CZK '000)	
				Fair value	Fair value
31 Dec 2015	24.33	USD	5 700	2 606	
	26.98	EUR	28 700	1 291	
31 Dec 2014	22.51	USD	15	5	
	26.94	EUR	44 000	21 648	
1 Jan 2014	20.16	USD	1 110	-310	

In 2013, the Parent Company concluded currency forwards in order to hedge repayments of EUR loans that were due in the first half of 2014. These derivatives were classified as fair value hedges.

The gain from fair value hedging instruments amounts to CZK 0 thousand and CZK 1,534 thousand for the year ended 31 December 2015 and 2014, respectively. The loss from the hedged item was identical and the hedging was fully effective.

36.5.3. Cross-currency Interest Rate Swaps

In accordance with the currency risk management requirements, the Group has entered into cross-currency interest rate swaps which reduce the risk of the change in the future cash flows resulting from the bond funding in EUR and the risk of the change in the fair value of those bonds.

The table shows the terms of contracts for cross-currency interest rate swaps that were opened at the end of the reporting period.

31 Dec 2015	Nominal value (EUR thousand)	Collected interest rate (annual)	Nominal value (CZK thousand)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	722 200	3.93%	-18 616 762	3.98%	652 644
1 to 5 years	482 200	3.57%	-12 789 047	3.78%	123 442
5 years and more	232 200	3.57%	-6 439 047	3.26%	-571 574
Total					204 512

31 Dec 2014	Nominal value (EUR thousand)	Collected interest rate (annual)	Nominal value (CZK thousand)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	667 000	4.07%	-17 100 970	4.13%	35 283
1 to 5 years	667 000	3.91%	-17 100 970	4.09%	1 325 154
5 years and more	177 000	3.40%	-4 923 255	3.55%	-176 941
Total					1 183 496

1 Jan 2014	Nominal value (EUR thousand)	Collected interest rate (annual)	Nominal value (CZK thousand)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	490 000	4.31%	-12 177 715	4.36%	39 251
1 to 5 years	490 000	4.26%	-12 177 715	4.39%	648 228
5 years and more	250 000	4.13%	-6 350 000	4.478%	506 250
Total			1 193 729		

The exchanges of payments under the cross-currency interest rate swaps and coupon payments from issued bonds occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the coupon payments from the issued bonds affect the profit or loss.

36.6. Interest Rate Risk Management

The Group is exposed to the risk of interest rate changes because it borrows funds at both fixed and floating interest rates. The Group manages the interest rate risk by maintaining an appropriate mix between fixed and floating rate financing, and, for this purpose, the Group concludes contracts for interest rate swaps so that the amount of the open risk position does not exceed the limit set for the period by the Risk Management Committee and approved by the Board of Directors of the Parent Company.

36.6.1. Interest Rate Sensitivity Analysis

The exposure to changes in interest rates is measured by the sensitivity analysis. The Group is exposed to the interest rate risk due to:

- Changes in interest expenses from loans and lease with a variable rate;
- Changes in the present value of long-term provisions resulting from the change in the discount rate; and
- Change in the fair value of concluded financial derivatives.

The following table shows the impact that an increase in interest rates of 200 basis points would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates the decrease in the profit and other comprehensive income:

	(CZK '000)	
	2015	2014
Interest from loans and lease with variable rate for the period	-209 096	-6 831
Change in the present value of long-term provisions at the end of the period	85 970	87 055
Change in the fair value of derivatives at the end of the period	10 565	26 760
Total impact on the profit for the period	-112 561	106 984
Change in the fair value of derivatives at the end of the period	402 130	408 198
Total impact on other comprehensive income	402 130	408 198

36.6.2. Interest Rate Swaps

Based on interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to eliminate the risk of changing cash flows on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following table details the terms of interest rate swap contracts outstanding at the end of the reporting period.

31 Dec 2015	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value In CZK thousand
Less than 1 year	Loans from Eurofima	2.43%	EUR 80 million	-30 358
	float interest bonds	1.61%	CZK 4 000 million	-49 405
	leases	1.43%	CZK 1111 million	-18 035
				-97 798
1 to 5 years	Loans from Euroftma	2.58%	EUR 30 million	-10 798
	float interest bonds	1.61%	CZK 4 000 million	-95 406
	leases	1.93%	CZK 882 million	-28 890
				-135 094
5 years and more	leases	1.44%	CZK 122 million	-280
Total				-233 172
31 Dec 2014	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value In CZK thousand
Less than 1 year	Loans from Eurofima	1.50%	EUR 105 million	-39 622
	float interest bonds	1.88%	CZK 5 000 million	-61 213
	leases	1.40%	CZK 1 261 million	-21 313
				-122 148
1 to 5 years	Loans from Eurofima	2.43%	EUR 60 million	-38 924
	float interest bonds	1.61%	CZK 4 000 million	-139 328
	leases	1.85%	CZK 1081 million	-44 607
				-222 859
5 years and more	leases	1.87%	CZK 302 million	-3 006
Total				-348 013

1 Jan 2014	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value In CZK thousand
Less than 1 year	Loans from Eurofima and ČSOB	1.13%	EUR 160 million	-36 075
	float interest bonds	1.88%	CZK 5 000 million	-33 871
	leases	3.27%	CZK 102 million	-14 847
				-84 793
1 to 5 years	Loans from Eurofima and ČSOB	1.50%	EUR 105 million	-54 751
	float interest bonds	1.88%	CZK 5,000 million	-69 884
	leases	1.67%	CZK 1 477 million	-22 187
				-146 822
5 years and more	leases	1.82%	CZK 695 million	10 060
Total				-221 555

The Group settles the difference between the fixed and float interest rates on a net basis. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the float interest rates on debt affect the profit or loss.

36.6.3. Interest Rate Options

In 2011, the Group concluded hedging of interest rates in respect of three lease transactions with floating interest rates. The hedging took the form of a collar, in three individual tranches. The hedging will be effective from 2013 to 2019. These are trading derivatives.

	Hedged range	Principal in CZK thousand	Fair value of assets (liabilities) in CZK thousand at 31 Dec 2015
Less than 1 year	1.13%-3.13%	94 059	-2 534
1 to 5 years	1.13%-3.13%	384 576	-2 896
5 years and more	1.13%-3.13%	0	0
Total			-5 430

	Hedged range	Principal in CZK thousand	Fair value of assets (liabilities) in CZK thousand at 31 Dec 2014
Less than 1 year	1.13% - 3.13%	88 337	-3 246
1 to 5 years	1.13%-3.13%	300 854	-5 283
5 years and more	1.13%-3.13%	64 233	-291
Total			-8 820

	Hedged range	Principal in CZK thousand	Fair value of assets (liabilities) in CZK thousand at 1 Jan 2014
Less than 1 year	1.13%-3.13%	85 818	-2 585
1 to 5 years	1.13%-3.13%	402 585	3 242
5 years and more	1.13%-3.13%	117 458	662
Total			1 319

36.7. Commodity Risk Management

The Group is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically oil and electricity, is a significant cost item of the Group. The Group manages this risk so that the amount of the open risk position does not exceed the limit set for the period by the Risk Management Committee and approved by the Board of Directors of the Parent Company, using a combination of several instruments:

Conclusion of hedging derivatives for oil purchase and traction energy;

In the event of an increase in the price of the commodities the Group has the possibility of asking the regions and the state for increased payments for transportation; and

Negotiating a fixed price of electricity from the relevant supplier always for the following calendar year

36.7.1. Analysis of Sensitivity to Changes in Commodity Prices

The exposure to the change in the price of commodities is measured by the sensitivity analysis. The Group is exposed to the risk of changes in prices of commodities due to:

- Change in the fair value of concluded financial derivatives; and
- Changes in prices of purchased commodities.

The following table shows the impact that an increase in the oil price of 10% would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates a decrease in the profit and other comprehensive income:

	(CZK '000)	
	2015	2014
Costs of oil consumption for the period	-157 269	-188 492
Change in the fair value of derivatives at the end of the period	-2 352	-3 350
Total impact on the profit for the period	-159 621	-191 842
Change in the fair value of derivatives at the end of the period	30 366	42 325
Total impact on other comprehensive income	30 366	42 325

36.7.2. Commodity Derivatives

The table shows outstanding commodity contracts for the purchase of oil as of:

			(CZK '000)
Purchase of oil	Hedged value	Volume of contracts (mt)	Fair value (CZK thousand)
31 Dec 2015	13032 CZK/mt	12 600	-44 888
	11 150- 16 000 CZK/mt	13 500	-57 244
	773 - 775 USD/mt	6 120	-60 447
31 Dec 2014	16 751 CZK/mt	8 400	-35 165
	14 200 - 20 450 CZK/mt	2 040	-49 077
	773 - 970 USD/mt	10 200	-46 702
1 Jan 2014	17 485 CZK/mt	11 760	16 942
	14 200- 19 300 CZK/mt	20 520	18 357

36.8. Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The concentration of the Parent Company's credit risk is low as a significant portion of the Parent Company's revenues (passenger transportation fare) is collected in cash. In other transactions, the Group seeks to deal only with creditworthy counterparties whom the Group reviews on an ongoing basis using publicly available information. The maximum net unhedged exposure to one counterparty in the normal course of business outside of the Group is set at CZK 50 million. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned (the investment grade is required).

The carrying amount of financial assets recognised in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The credit quality of receivables that are not past their due dates or otherwise impaired is good and corresponds to the carrying value.

36.9. Liquidity Risk Management

The ultimate responsibility for liquidity risk management rests with the Board of Directors of the Parent Company which has established an appropriate liquidity risk management framework. The Parent Company manages its liquidity risk by a process of planning future cash flows and provision of short-term funding (bill-of-exchange programme and agreed overdraft loans). Forecasted and actual cash flows are monitored on a continuous basis. In order to minimise the risk of insufficient operating funding, the Parent Company concludes binding lending limits with banks with the minimum period of 12 months.

The Group's short-term liabilities significantly exceed its short-term assets as of 31 December 2015. In order to secure sufficient short-term liquidity, the Parent Company has contracted committed credit facilities so that its available funds exceed its short-term liabilities. The liquidity balance is monitored by the Moody's rating agency on an ongoing basis.

36.9.1. Liquidity and Interest Rate Risk Tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that instruments carry the floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period and may change if interest rates differ from the estimates. The contractual maturity is based on the earliest date on which the Group may be required to pay.

							(CZK '000)
31 Dec 2015	Less than 1 month	1 -3 months	3 months to 1 year	1 year- 5 years	5 years and more	Total	
Non-interest bearing	2 590 991	2 755 671	1 235 794	586 656	53 055	7 222 167	
Derivatives	54 020	28 806	188 797	330 182	571 857	1 173 662	
Finance lease liabilities	95 125	190 947	843 908	3 536 497	753 380	5 419 857	
Float interest rate instruments	42 320	0	1 534 503	5 060 757	0	6 637 580	
Fixed interest rate instruments	1 305	2 435	9 612 023	11 171 508	10 273 905	31 061 176	
Total	2 783 761	2 977 859	13 415 025	20 685 600	11 652 197	51 514 442	

							(CZK '000)
31 Dec 2014	Less than 1 month	1 -3 months	3 months to 1 year	1 year- 5 years	5 years and more	Total	
Non-interest bearing	2 820 118	2 924 878	1 111 994	848 285	55 698	7 760 973	
Derivatives	48 123	33 708	189 666	321 119	178 628	771 244	
Finance lease liabilities	95 508	190 787	854 032	4 051 818	1 300 961	8 493 084	
Float interest rate instruments	43 342	1 251 004	1 120 625	6 814 837	0	9 229 808	
Fixed interest rate instruments	48 819	2 774	909 035	19 594 433	6 516 220	27 071 281	
Total	3 055 908	4 403 131	4 185 352	31 630 492	8 051 507	51 326 390	

							(CZK '000)
1 Jan 2014	Less than 1 month	1 -3 months	3 months to 1 year	1 year- 5 years	5 years and more	Total	
Non-interest bearing	2 910 901	2 828 963	1 032 099	139 495	58 899	6 970 357	
Derivatives	11 439	24 671	167 890	163 645	1 636	369 281	
Finance lease liabilities	121 034	201 991	828 254	3 918 320	1 867 362	6 936 961	
Float interest rate instruments	893 238	708 700	1 970 487	8 607 228	0	12 179 653	
Fixed interest rate instruments	33	69	790 649	10 898 546	8 537 907	20 227 204	
Total	3 936 645	3 764 394	4 789 379	23 727 234	10 465 804	46 683 456	

The following tables present the Group's expected maturity for its financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets reflecting the anticipated maturity period. The table includes cash flows from the interest and principal.

							(CZK '000)
31 Dec 2015	Less than 1 month	1 -3 months	3 months to 1 year	1 year- 5 years	5 years and more	Total	
Non-interest bearing	4 209 663	1 499 417	1 058 821	4 202	343 454	7 115 557	
Derivatives	3 111	847	680 342	296 682	0	980 982	
Finance lease assets	4 561	0	67	59 885	443 176	507 689	
Fixed interest rate instruments	488 159	250 000	0	0	0	738 159	
Total	4 705 494	1 750 264	1 739 230	360 769	786 630	9 342 387	

	(CZK '000)					
31 Dec 2014	Less than 1 month	1 -3 months	3 months to 1 year	1 year- 5 years	5 years and more	Total
Non-interest bearing	5 605 436	702 361	673 060	29 891	320 582	7 331 330
Derivatives	5	0	48 818	1 386 875	0	1 435 698
Finance lease assets	4 542	0	67	43 970	459 181	507 760
Fixed interest rate instruments	250 000	0	0	3 595	0	253 595
Total	5 859 983	702 361	721 945	1 464 331	779 763	9 528 383

	(CZK '000)					
1 Jan 2014	Less than 1 month	1-3 months	3 months to 1 year	1 year- 5 years	5 years and more	Total
Non-interest bearing	3 845 376	746 903	668 067	10 707	320 531	5 591 584
Derivatives	14 941	4 156	72 541	674 616	506 913	1 273 167
Finance lease assets	4 235	0	67	28 099	475 141	507 542
Fixed interest rate instruments	0	0	0	5 775	0	5 775
Total	3 864 552	751 059	740 675	719 197	1 302 585	7 378 068

36.9.2. Financing Facilities

The Group has access to the below loan facilities:

	(CZK '000)		
	31 Dec 2015	31 Dec 2014	1 Jan 2014
Overdraft loan facilities:			
- amount of the loan facility	3 410 000	3 400 000	3 450 000
- amount unused	3 410 000	3 400 000	2 605 309
Promissory notes programme:			
- amount of the loan facility	9 500 000	6 500 000	6 500 000
- amount unused	9 500 000	6 500 000	6 500 000

In the year ended 31 December 2015 the Parent Company's committed promissory notes programme was increased by CZK 3 billion - an underwriting commitment of CZK 1 billion was established in ČSOB, a.s., of CZK 0.3 billion in KB, a.s. and of CZK 0.7 billion in Deutsche Bank, and the commitment in Česká spořitelna, a.s. was increased from CZK 1 billion to CZK 2 billion. As of 31 December 2015, the total amount of the Parent Company's committed promissory notes programme is CZK 8 billion and as of the stated date the limit is not being drawn.

36.10. Fair Value of Financial Instruments

36.10.1. Fair Values of Financial Instruments Carried at Amortised Cost

The Parent Company issued publicly traded Eurobonds with the carrying amount of CZK 16,531,802 thousand as of 31 December 2015. Pursuant to the calculation using interest rate curves, their fair value amounts to CZK 17,199,251 thousand as of 31 December 2015. As of 16 March 2016, the market value of the issues from 2011 and 2012 was listed at 101.25 % and 109.453 %, respectively.

The carrying value of Eurobonds issued by the Parent Company in 2014 and 2015 amounts to CZK 7,995,941 thousand as of 31 December 2015. Pursuant to the calculation using interest rate curves, their fair value amounts to CZK 7,974,088 thousand as of 31 December 2015.

The fair value of the lease as of 31 December 2015 amounts to CZK 3,275,501 thousand. The fair value of leases calculated with the fixed rate is determined by the recalculation according to the current rate. This up-to-date rate is generated based on the margin of the most recent lease transactions and market interest rate applicable as of the year-end which is subsequently used to recalculate the remaining payable of fixed leases.

The fair value of bonds of ČD Cargo, a.s. as of 31 December 2015 amounts to CZK 2,195,069 thousand. The fair value of bonds is recalculated based on the up-to-date issue rate communicated by individual banks.

Management of the Group believes that the carrying amount of all other financial assets and financial liabilities reported in the consolidated financial statements in carrying amounts does not significantly differ from their fair values.

36.10.2. Valuation Techniques Applied for the Purposes of Measuring Fair Value

The fair values of financial assets and financial liabilities are determined as follows:

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

The fair values of other financial assets and financial liabilities (except for financial derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions, dealer quotes for similar instruments and an appropriate yield curve with the corresponding duration as appropriate;

- The fair values of financial derivatives are calculated using quoted prices. If these prices are not available, linear derivatives are measured using discounted cash flows with the use of quoted foreign exchange currency rates, quoted prices of commodities and an appropriate yield curve corresponding to the validity of contracts. An option valuation model is used for derivatives that include an option.

36.10.3. Fair Value Measurements Recognised in the Statement of Financial Position

Financial instruments measured at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments measured at fair value recognised by the Group as of 31 December 2015, 31 December 2014 and 1 January 2014 are included in Level 2.

37. POST BALANCE SHEET EVENTS

In 2016, the Eurobonds issue placed by the Parent Company of EUR 300 million and the domestic bonds issue placed by the subsidiary ČD Cargo of CZK 1.158 billion will fall due for redemption. Both entities are planning to replace those issues with new ones in order to secure sufficient long-term sources of funding.

No other significant events occurred between the balance sheet date and the date of the preparation of the financial statements.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorised for issue on 5 April 2016.

České dráhy, a.s.

**CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH IFRS
AS ADOPTED BY THE EU
AND INDEPENDENT AUDITOR'S REPORT**

AS OF 31 DECEMBER 2014

INDEPENDENT AUDITOR'S REPORT To the Shareholders of České dráhy, a.s.

Having its registered office at: Nábřeží L. Svobody 1222, 110 15 Praha 1
Identification number: 709 94 226

We have audited the accompanying consolidated financial statements of České dráhy, a.s. and its subsidiaries, which comprise the statement of financial position as of 31 December 2014, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of České dráhy, a.s. and its subsidiaries as of 31 December 2014, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter

We draw attention to Note 35 to the financial statements which describes the uncertainty relating to the dispute with ŠKODA TRANSPORTATION and the related recognised provision. Both involved parties are conducting a dispute regarding the manner of finalising this business case and providing mutual financial settlement. The ultimate outcome of the dispute cannot be anticipated as of the financial statements date. Our opinion is not modified in respect of this matter.

In Prague on 8 April 2015

Audit firm:

Deloitte Audit s.r.o.
certificate no. 79



Statutory auditor:

Václav Loubek
certificate no. 2037



Consolidated Financial Statements for the Year Ended 31 December 2014

prepared under IFRS as adopted by the EU

Name of the Company: České dráhy, a.s.
Registered Office: Nábřeží L. Svobody 1222, 11015 Praha 1
Legal Status: Joint Stock Company
Corporate ID: 70994226

Components of the Consolidated Financial Statements:

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

STATEMENT OF PROFIT OR LOSS


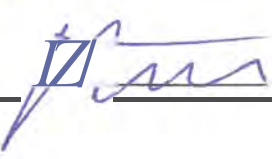
STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF CHANGES IN EQUITY

CASH FLOW STATEMENT

NOTES TO THE FINANCIAL STATEMENTS

These consolidated financial statements were prepared on 8 April 2015.

Statutory body of the reporting entity:	Signature
Pavel Krtek, M.Sc. Chairman of the Board of Directors	
Doc. Dr. Ing. Roman Štěřba Member of the Board of Directors	

České dráhy, a.s.

Consolidated Financial Statements
for the Year Ended 31 December 2014

prepared under IFRS as adopted by the EU

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2014

		31 Dec 2014	31 Dec 2013	1 Jan 2013
		CZK thousand	CZK thousand	CZK thousand
Property, plant and equipment	16	74 999 328	74 197 376	73 545 823
Investment property	17	2 140 185	2 162 067	2 171 692
Intangible assets	18	594 896	571 745	571 451
Investments in joint ventures and associates	19	187 875	200 864	173 754
Deferred tax asset	13	5 858	12 022	6 439
Trade receivables	21	0	0	3 211
Other financial assets	22	1 812 882	1 619 722	724 517
Other assets	23	106 998	58 530	80 760
Total non-current assets		79 848 022	78 822 326	77 277 647
Inventories	20	1 199 967	1 128 138	1 178 752
Trade receivables	21	3 127 474	3 409 896	3 236 625
Tax receivables		60	1 191	10 279
Other financial assets	22	125 807	181 942	192 471
Other assets	23	1 151 710	1 092 974	872 348
Cash and cash equivalents	31	4 042 971	1 755 935	1 524 669
Assets held for sale	15	49 454	59 161	232 551
Total current assets		9 697 443	7 629 237	7 247 695
TOTAL ASSETS		89 545 465	86 451 563	84 525 342
Share capital	24	20 000 000	20 000 000	20 000 000
Reserve and other funds	24	16 046 019	16 315 150	16 393 703
Retained earnings		1 276 631	1 196 207	3 176 714
Equity attributable to equity holders of the parent company		37 322 650	37 511 357	39 570 417
Non-controlling interests		775 505	741 544	748 588
Total equity		38 098 155	38 252 901	40 319 005
Loans and borrowings	25	33 135 989	29 896 632	26 560 597
Deferred tax liability	13	751 416	538 538	364 298
Provisions	26	826 019	213 071	241 144
Other financial liabilities	28	1 183 234	420 663	808 282
Other liabilities	29	581 252	520 291	375 591
Total non-current payables		36 477 910	31 589 195	28 349 912
Trade payables	27	6 694 581	6 582 557	7 428 699
Loans and borrowings	25	3 646 394	4 688 281	3 030 771
Tax payables		88 951	56 628	19 004
Provisions	26	1 288 592	2 016 357	1 721 689
Other financial payables	28	654 401	408 951	769 166
Other payables	29	2 596 481	2 856 693	2 887 096
Payables arising from assets held for sale	15	0	0	0
Total current payables		14 969 400	16 609 467	15 856 425
TOTAL LIABILITIES		89 545 465	86 451 563	84 525 342

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2014

		Year ended 31 Dec 2014 CZK thousand	Year ended 31 Dec 2013 CZK thousand
CONTINUING OPERATIONS			
Revenue from principal operations	5	33 036 221	32 861 100
Other operating income	6	3 700 728	4 061 439
Purchased consumables and services	7	-16 271 198	-17 220 954
Employee benefit costs	8	-12 106 999	-12 684 471
Depreciation and amortisation	9	-5 884 708	-5 726 408
Other operating losses, net	10	-610 835	-1 464 398
Profit (loss) before interest and tax		1 863 209	-173 692
Financial expenses	11	-1 219 510	-1 009 938
Other gains (losses), net	12	-114 650	-467 716
Share of income of joint ventures and associates		13 931	12 273
Profit (loss) before tax		542 980	-1 639 073
Income tax expense	13	-386 774	-314 248
Profit (loss) for the period from continuing operations		156 206	-1 953 321
DISCONTINUED OPERATIONS			
Profit from discontinued operations	15	0	0
Profit (loss) for the year		156 206	-1 953 321
Attributable to equity holders of the parent company		116 397	-1 970 911
Attributable to non-controlling interests		39 809	17 590

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

		Year ended 31 Dec 2014 CZK thousand	Year ended 31 Dec 2013 CZK thousand
Profit (loss) for the year		156 206	-1 953 321
Foreign exchange rate gains or losses from the transfer of foreign branches		-14 188	29 288
Cash flow hedging		-280 325	-139 562
Relating income tax		-10 597	22 131
Other comprehensive income (loss) for the year (items that may be reclassified in profit or loss), net of tax		-305 110	-88 143
Total comprehensive income (loss) for the year		-148 904	- 2 041 464
Attributable to equity holders of the parent company		-188 713	-2 059 054
Attributable to non-controlling interests		39 809	17 590

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital	Reserve and other funds	Retained earnings	Equity attributable to equity holders of the parent company	Non-controlling interests	Total equity
	CZK thousand	CZK thousand	CZK thousand	CZK thousand	CZK thousand	CZK thousand
Balance at 1 Jan 2013	20 000 000	16 393 703	3 176 714	39 570 417	748 588	40 319 005
Profit (loss) for the year	0	0	-1 970 911	-1 970 911	17 590	-1 953 321
Other comprehensive income for the year, net of tax	0	-88 143	0	-88 143	0	-88 143
Allocation to the reserve fund	0	9 596	-9 596	0	0	0
Paid dividends	0	0	0	0	-24 634	-24 634
Other	0	-6	0	-6	0	-6
Balance at 31 Dec 2013	20 000 000	16 315 150	1 196 207	37 511 357	741 544	38 252 901
Profit for the year	0	0	116 397	116 397	39 809	156 206
Other comprehensive income for the year, net of tax	0	-305 110	0	-305 110	0	-305 110
Allocation to the reserve fund	0	35 973	-35 973	0	0	0
Paid dividends	0	0	0	0	-28	-28
Other	0	6	0	6	-5 820	-5 814
Balance at 31 Dec 2014	20 000 000	16 046 019	1 276 631	37 322 650	775 505	38 098 155

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

	Year ended 31 Dec 2014 CZK thousand	Year ended 31 Dec 2013 CZK thousand
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) for the year before tax	542 980	-1 639 073
Dividend income	12 -1 130	-1 926
Financial expenses	11 1 219 510	1 009 938
Profit from the sale and disposal of non-current assets	6 -208 467	-390 749
Depreciation and amortisation of non-current assets	9 5 884 708	5 726 408
Impairment of non-current assets	10 -6 024	458 608
Impairment of trade receivables	67 330	189 246
Foreign exchange rate gains (losses)	46 460	679 743
Other	38 481	33 344
Cash flow from operating activities before changes in working capital	7 583 848	6 065 539
Decrease (increase) in trade receivables	241 211	-276 221
Decrease (increase) in inventories	-41 398	-26 227
Decrease (increase) in other assets	-54 083	-117 497
Increase (decrease) in trade payables	-494 254	514 597
Increase (decrease) in provisions	-115 784	267 142
Increase (decrease) in other payables	328 387	-337 039
Total changes in working capital	-135 921	24 755
Cash flows from operating activities	7 447 927	6 090 294
Interest paid	-1 107 367	-932 146
Income tax paid	-159 062	-86 462
Net cash flows from operating activities	6 181 498	5 071 686
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Payments for property, plant and equipment	-5 703 164	-8 286 326
Proceeds from disposal of property, plant and equipment	207 547	735 311
Payments for investment property	-29 789	-5 600
Costs of acquisition of intangible assets	-211 834	-182 253
Received interest	16 607	14 508
Received dividends	1 130	103
Net cash flows used in investment activities	-5 719 503	-7 724 257
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans and borrowings	5 690 966	7 472 850
Repayments of loans and borrowings	-3 865 897	-4 426 593
Impacts of changes in equity *)	0	-137 786
Dividends paid	-28	-24 634
Net cash flows from financing activities	1 825 041	2 883 837
Net increase (decrease) in cash and cash equivalents	2 287 036	231 266
Cash and cash equivalents at the beginning of the reporting period	1 755 935	1 524 669
Cash and cash equivalents at the end of the reporting period	31 4 042 971	1 755 935

*) In 2012, the share capital of CD - Telematika a. s. was decreased, the decrease in the share capital attributable to non-controlling investments was CZK (166,197) thousand, in the second half of 2012, CZK 28,411 was paid and in 2013, the remaining CZK 137,786 thousand was paid.

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1. GENERAL INFORMATION

1.1. General Information

On the basis of Act 77/2002 Coll, on the Joint Stock Company Czech Railways, the State Organisation Railway Route Administration and the Changes to the Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll, as amended, České dráhy, a. s. (the 'Parent Company' or 'ČD') was formed on 31 March 2002 and the state organisation Czech Railways discontinued its activities and operations on 1 January 2003 and the Company and the state organisation Railway Route Administration ('SŽDC') were formed as its legal successors. As of that date, the Parent Company was recorded in the Register of Companies.

The sole shareholder of the Parent Company is the Czech Republic. The Company's share capital is CZK 20,000,000 thousand. The Company's registered office is located at nábf. L. Svobody 1222, Prague 1.

The company is the Parent Company of the České dráhy Group (the 'Group'). The consolidated financial statements have been prepared as of and for the year ended 31 December 2014. The reporting period is the calendar year, i.e. from 1 January 2014 to 31 December 2014.

1.2. Principal Operations

The Group has been principally engaged in operating railway passenger transportation. Other activities of the Group predominantly include the administration of immovable assets (railway station buildings and other). In addition, the Group is engaged in other activities relating to its principal business activities.

The assets comprising the railway routes are in the ownership of the State, not the Group. The right of management of these assets rests with SŽDC. SŽDC secures the operability and servicing of the railway route.

1.3. Organisational Structure of the Parent Company

The Parent Company is organised into sections overseen directly by the Chairman of the Board of Directors, Vice-Chairman and members of the Board of Directors:

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

departments managed by the Board of Directors.

1.4. Bodies of the Parent Company

The Parent Company's bodies include the General Meeting, Supervisory Board, Board of Directors, and Audit Committee. The General Meeting is the supreme body of the Company. The sole shareholder of the Company is the State which exercises the rights of the General Meeting through the Steering Committee. The composition of the Parent Company's Bodies as of 31 December 2014:

Steering Committee

Chairman	Karel Dobeš
Vice Chairman	Kamil Rudolecký
Member	Jiří Havlíček
Member	Vladislav Koval
Member	Jakub Kulhánek
Member	Jindřich Kušnír
Member	Lukáš Wagenknecht

Pursuant to Resolution No. 125 of the Czech Government of 26 February 2014, the authorisations for the activities in the Steering Committee of České dráhy for Veronika Kramaříková, Petr Pelech, Michal Janeba, Richard Vítek, Lukáš Hampl, Zbyňek Šolc, Josef Kubovský were cancelled with effect from 26 February 2014. Pursuant to this resolution, Lukáš Wagenknecht, Jiří Havlíček, Vladislav Koval, Jakub Kulhánek, Kamil Rudolecký, Karel Dobeš and Jindřich Kušnír were authorised to perform the activities in the Steering Committee starting from 27 February 2014. Karel Dobeš was appointed Chairman and Kamil Rudolecký was appointed Vice-Chairman of the Steering Committee.

Pursuant to Resolution No. 187 of the Czech Government of 16 March 2015, the authorisations for the activities in the Steering Committee of České dráhy for Vladislav Koval and Jakub Kulhánek were cancelled. Karel Dobeš was recalled as Chairman of the Steering Committee. Pursuant to this resolution, Lukasz Kryński and Jakub Landovsky were authorised to perform the activities in the Steering Committee starting from 17 March 2015. Tomáš Čoček was appointed Chairman.

Supervisory Board

Chairman	Milan Feranec
Member	Vojtěch Kocourek
Member	Antonín Tesařík
Member	Jan Haiti
Member	Milan Křístek
Member	Antonin Leitgeb
Member	Jaroslav Pejša
Member	Josef Smýkal
Member	Vladislav Vokoun

At the meeting of the Steering Committee held on 19 March 2014, František Žerava, Miroslav Svítek, Ivana Kubaštová, Antonín Věchet were recalled from the positions of members. In addition, the Steering Committee discussed the resignation of Zdeněk Žemlička which took effect also on 19 March 2014. Vojtěch Kocourek, Antonín Tesařík, Michal Zdeněk, Milan Křístek, Milan Feranec were appointed members of the Supervisory Board with effect from 20 March 2014. On 19 June 2014, Milan Feranec was appointed a member and Chairman of the Supervisory Board with immediate effect. On 2 October 2014, the Steering Committee recalled Michal Zdeněk as a member of the Supervisory Board with immediate effect and appointed Jan Haiti a member of the Supervisory Board with immediate effect.

A sub-committee of the Supervisory Board is the Remuneration Committee. As of 31 December 2014, positions of committee members were vacant.

Board of Directors

Chairman	Pavel Krtek
Member	Ludvík Urban
Member	Michal Štěpán
Member	František Bureš
Member	Roman Štěrbá

At the meeting of the Supervisory Board held on 20 February 2014, Dalibor Zelený was recalled from the position of a members and Chairman of the Board of Directors and Daniel Kurucz and Karel Otava were recalled from the positions of members with effect from 20 February 2014. Daniel Kurucz, Michal Štěpán and Pavel Krtek were appointed members of the Board of Directors with effect from 21 February 2014. The Supervisory Board appointed Daniel Kurucz Chairman of the Board of Directors with effect from 21 February 2014.

At the meeting of the Steering Committee held on 2 October 2014, the Steering Committee decided on the increase in the number of the Board of Directors of ČD, a.s. from three to five.

Subsequently, on 16 October 2014 the Supervisory Board appointed František Bureš a member of the Board of Directors with immediate effect. At the meeting of the Supervisory Board held on 10 November 2014, Daniel Kurucz was recalled as a member and Chairman of the Board of Directors with immediate effect and Pavel Krtek was appointed Chairman of the Board of Directors of ČD, a.s., Ludvík Urban was appointed a member and Vice-Chairman of the Board of Directors and Roman Štěrba was appointed a member of the Board of Directors.

Audit Committee

Chairman	Lukáš Wagenknecht
Vice Chairman	Lukáš Pečeňa
Member	Ivana Kubaštová

On 3 December 2014, the membership of Miroslav Zámečník and Zdeněk Prošek in the Audit Committee expired. At its meeting held on 10 December 2014, the Steering Committee appointed Lukáš Pečeňa a member of the Audit Committee with immediate effect. At the meeting of the Steering Committee held on 21 January 2015, Lukáš Wagenknecht was appointed a member of the Audit Committee with immediate effect. At the meeting of the Audit Committee held on 18 February 2015, Lukáš Wagenknecht was appointed Chairman and Lukáš Pečeňa was appointed Vice-Chairman of the Audit Committee.

The permanent advisory body of the Board of Directors which has its role in the risk management is the Risk Management Committee.

Risk Management Committee

Chairman	Libor Müller
Member	Roman Štěrba
Member	Michal Štěpán
Member	František Bureš
Member	Daniela Kovalčíková

1.5. Definition of the Consolidation Group

1.5.1. Entities Included in the Consolidation

Name of the entity	Registered office	Corporate ID	Ownership percentage*)	Degree of influence
České dráhy, a. s.	Prague 1, Nábřeží L. Svobody 12/1222	70994226		
ČD - Telematika a. s.	Prague 3, Porterova 2819/2a	61459445	59.31	Control
Výzkumný Ústav Železniční, a. s.	Prague 4, Novodvorská 1698	27257258	100	Control
DPOV, a. s.	Přerov, Husova 635/lb	27786331	100	Control
ČD Cargo, a. s.	Prague 7, Jankovcova 1569/2c	28196678	100	Control
ČD - Informační Systémy, a.s.	Prague 3, Pernerova 2819/2a	24829871	100	Control
Dopravní vzdělávací institut, a.s.	Prague 3, Husitská 42/22	27378225	100	Control
ČD travel, s.r.o.	Prague 1, Perlová 370/3	27364976	51.72	Control
CD Generalvertretung GmbH	Germany -Frankfurt n. Moh., Kaiserstrasse 60	DE 14191687	100	Control
CD - Generalvertretung Wien GmbH	Austria - Vienna, Rotentumstrafte 22/24	FN 291407s	100	Control
Koleje Czeskie Sp. z o.o.	Poland - Warsaw Ul. Grzybowska nr. 4, lok. 3	140769114	100	Control
Generálne zastúpenie ČD Cargo, s.r.o.	Slovakia - Bratislava Prievozská 4/B	44349793	100	Control
Auto Terminal Nymburk, s.r.o.	Prague 7, Jankovcova 1569/2c	24234656	100	Control
ČD Logistics, as.	Prague 1, Opletalova 1284/37	27906931	78	Control
Terminal Bmo, a.s.	Bmo, K terminálu 614/11	28295374	66.93	Control
ČD-DUSS Terminál, a.s.	Lovosice, Lukavecká 1189	27316106	51	Control
Smíchov Station Development, a. s.	Prague 8, U Sluncové 666/12a	27244164	51 **)	Joint control
Žižkov Station Development, a. s.	Prague 8, U Sluncové 666/12a	28209915	51 **)	Joint control
Centrum Holešovice, a. s.	Prague 1, Revoluční 767/25	27892646	51 **)	Joint control
RAILREKLAM spol. s r.o.	Prague 4, Štětková 1638/18	17047234	51 **)	Joint control
Masaryk Station Development, a. s.	Prague 1, Na Florenci 2116/15	27185842	34.00	Significant
JLV, a. s.	Prague 4, Chodovská 228/3,	45272298	38.79	Significant
RAILLEX, a.s.	Prague 5, Trnkovo náměstí 3/1112	27560589	50	Significant
BOHEMIAKOMBI, spol. sr.o.	Prague 1, Opletalova 6	45270589	30	Significant
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9	60793171	20	Significant

*) Ownership percentage is the same as the voting rights percentage

***) In accordance with the Articles of Association of these entities, it is necessary to have unanimous consent of the parties that share the control.

Name of the entity	Principal activities
ČD - Telematika a. s.	Provision of telecommunication services, software and advisory services
Výzkumný Ústav Železniční, a. s.	Research, development and testing of rail vehicles and infrastructure facilities
DPOV, a. s.	Inspections, repairs, modernisation and renovation of railway vehicles
ČD Cargo, a. s.	Freight railway transportation
ČD - Informační Systémy, a.s.	Provision of telecommunication services, software and advisory
Dopravní vzdělávací institut, a.s.	Organisation of professional courses, training and other educational events, language courses.
ČD travel, s.r.o.	Travel agency and provision of travel services.
CD Generalvertretung GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo,a.s.
CD - Generalvertretung Wien GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. andshipping.
Koleje Czeskie Sp. z o.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo,a.s.
Generálne zastúpenie ČD Cargo, s.r.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s. andshipping.
ČD Logistics, a.s.	Shipping
Terminal Bmo, a.s.	Operations of the combined transport terminal in Bmo.
ČD-DUSS Terminál, a.s.	Operations of the container terminal in Lovosice.
Auto Terminal Nymburk, s.r.o.	Shipping and technical services in transportation.
Smíchov Station Development, a. s.	Design, renovations, modernisation and development in the Smíchovské train station locality
Žižkov Station Development, a. s.	Design, renovations, modernisation and development in the Žižkov train station locality
Centrum Holešovice, a. s.	Renovations, modernisation and development in the Holešovice train station locality
RAILREKLAM spol. s r.o.	Advertising and mediation of services.
Masaryk Station Development, a. s.	Development of the Masaryk railway station locality
JLV, a. s.	Provision of accommodation and catering services
RAILLEX, a.s.	Handling of cargo and technical services in transportation
BOHEMIAKOMBI, spol. s r.o.	Mediation of services in transportation except for the transportation by own vehicles
Ostravská dopravní společnost, a.s.	Operations of railway transportation and lease of locomotives

The consolidation group is hereinafter referred to as the “Group”.

1.5.2. Changes in the Composition of the Group

On 22 December 2014, EXIMTRA a.s. transferred 22% of shares of ČD Logistics, a.s. to ČD Cargo, a.s. Currently, ČD Cargo, a.s. owns a total of 78% of the share capital of ČD Logistics, a.s., (CZK 7,800 thousand). This share transfer was not registered in the Register of Companies as of 31 December 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2.2. Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments.

2.3. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.4. Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods and other assets is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership.

Sales of services are recognised when services are rendered to counterparties. Revenues related to transportation services are recognised in the period in which the services are provided by reference to the stage of completion of the service contract (eg period of validity of long-term travel documents).

Dividend revenue from investments is recognised when the Group's right to receive payment has been established.

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

2.5. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.5.1. The Group as a Lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2.5.2. The Group as a Lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

2.6. Foreign Currencies

Each entity in the Group determines its functional currency according to the environment in which it operates. Given the economic substance of transactions and the environment in which the Group operates, the presentation currency used in the consolidated financial statements is the Czech crown (CZK). The Czech crown is also the functional currency of the Parent Company.

Transactions denominated in foreign currencies are recorded at the ruling fixed exchange rate announced by the Czech National Bank. If the ruling exchange rate does not significantly change over time, the Company uses the foreign exchange rate promulgated as of the first day of the period for a longer period of time - usually one month. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the exchange rate of the Czech National Bank ruling as of that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss except for exchange differences on transactions entered into in order to hedge certain foreign currency risks. Such foreign exchange rate differences are recognised directly in equity and reclassified to profit or loss when the hedged underlying item is settled.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into CZK using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

2.7. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.8. Government Grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a reduced cost of non-current assets in the statement of financial position.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group without future related costs are recognised in profit or loss in the period in which they become receivable.

2.9. Employee Benefit Costs

Employee benefit costs predominantly include payroll costs, payments of the employer portion of statutory health insurance, social security, pension insurance and costs of other employee benefits resulting from the collective agreement.

The employee benefit obligations and provisions reported in the statement of financial position represent their present value as adjusted for unrecognised actuarial gains and losses. Additions to these obligations and provisions are reported as part of expenses after the employees render services for which they will have the right for such benefits.

2.10. Taxation

The income tax includes current tax payable and deferred tax.

2.10.1. Current Tax Payable

The tax currently payable is based on taxable profit for the year. The taxable profit differs from the profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax payable is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2.10.2. Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2.10.3. Current Tax Payable and Deferred Tax for the Period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside of profit or loss (whether in comprehensive income or directly in equity), in which case the tax is also recognised outside of profit or loss.

2.11. Property, Plant and Equipment

Property, plant and equipment are carried at cost reduced by accumulated losses from impairment, and by accumulated depreciation in respect of property and equipment. Freehold land is not depreciated.

Properties in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. Railway vehicles are depreciated using the components depreciation. Wagons and traction vehicles without components are depreciated to the estimated residual value. Components of these railway vehicles are depreciated based on the actual mileage. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. If there is no sufficient certainty that the lessee will acquire the ownership of an asset at the end of the lease, this asset is depreciated over the lease period if it is shorter than the anticipated useful life.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The Group capitalises major (periodical) repairs of rail vehicles. The costs of repairs are recorded as a separate asset item (component) and are depreciated over the useful life of repairs. The depreciation period of the components is determined for the series of rail vehicles and type of the components (periodical repairs - major, significant and overhaul). The average period of depreciation is six years.

2.12. Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, the Group measures its investment property using the cost valuation model in accordance with the requirements of IAS 16 Property, plant and equipment.

2.13. Intangible Assets

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2.14. Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.15. Investments in Joint Ventures and Associates

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of joint ventures and associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture or an associate is initially recognised in the consolidated statement of financial position at cost and subsequently adjusted to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part of the interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with a joint venture or associate of the Group, profits and losses arising from the transactions with the joint venture or associate are reported in the Group's consolidated financial statements to the extent of the interest in the relevant associate that is not owned by the Group.

2.16. Investments in Subsidiaries and Associates Excluded from the Consolidation

Investments in subsidiaries and associates excluded from the consolidation are considered immaterial for the Group. They are reported as other financial assets available for sale in the financial statements. As their fair value cannot be reliably determined, they are measured at cost.

2.17. Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.18. Inventories

Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined using the weighted arithmetic average method. The net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.19. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received by the Group and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

2.20. Financial Instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets are classified into the following four categories: financial assets ‘at fair value through profit or loss’ (FVTPL), ‘held-to-maturity’ investments, ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’.

2.20.1. Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income and expenses are recognised on an effective interest basis for debt instruments other than those financial assets and liabilities classified as at FVTPL.

2.20.2. Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

In this category the Group reports derivatives that do not have the function of an effective hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

2.20.3. Held-to-maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

2.20.4. Financial Assets Available for Sale

Financial assets available for sale are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The Group holds equity investments that are not traded on an active market, classified as financial assets available for sale and carried at cost less any impairment losses as their fair value cannot be reliably determined.

Dividends on the AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established.

2.20.5. Loans and Receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables for which the recognition of interest would be immaterial.

2.20.6. Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The Group records impairment losses (allowances) based on an individual assessment of trade receivables and full allowances against receivables that are past due by greater than twelve months and their value does not exceed CZK 30 thousand and full allowances against receivables registered for recovery under insolvency proceedings and receivables where court proceedings against the relevant debtor have been initiated. The Group does not recognise allowances against receivables with the carrying amount exceeding CZK 200 thousand at the moment of their origination and no arbitration or legal proceedings have been initiated in respect of these receivables. In addition, the Group recognises no allowances against receivables from SŽDC, s.o.

With the exception of the AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of the AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

2.20.7. Derecognition of Financial Assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Upon derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

2.20.8. Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

2.20.9. Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

In this category, the Group reports derivatives that do not have the function of an effective hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

2.20.10. Other Financial Liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

2.20.11. Derecognition of Financial Liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

2.20.12. Derivative Financial Instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, currency and commodity risks.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured at their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

2.20.13. Hedge Accounting

The Group designates certain hedging instruments as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

2.20.14. Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of profit or loss as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

2.20.15. Fair Value Hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of profit or loss relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

2.20.16. Financial Derivatives Held for Trading

All derivative transactions that the Group concludes are agreed on economic terms for hedging purposes, but some of them are not classified as hedging instruments for formal reasons. Derivatives that do not meet the conditions for hedging derivatives are classified by the Group as derivatives held for trading.

The change in the fair value of derivatives held for trading is recognised as an expense or income from derivative transactions.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1. Standards and Interpretations Effective for Annual Periods Ended 31 December 2014

During the year ended 31 December 2014, the following standards, revised standards and interpretations took effect:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 10 - Consolidated Financial Statements *)	1 January 2013
IFRS 11 - Joint Arrangements *)	1 January 2013
IFRS 12 - Disclosure of Interests in Other Entities *)	1 January 2013
IFRS 10,11,12 - Amendments to IFRS 10, IFRS 11 and IFRS 12: Transition Guidance *)	1 January 2013
IFRS 10,12, IAS 27 - Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities	1 January 2014
IAS 27 (2011)- Separate Financial Statements *)	1 January 2013
IAS 28 (2011) - Investments in Associates and Joint Ventures *)	1 January 2013
IAS 32 - Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 36 - Amendments to IAS - Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
IAS 39-Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014

*) effective since 1 January 2014 in the EU

The adoption of IFRS 12 has no significant impact on the amounts reported in the financial statements of the Company except for additional disclosures. IFRS 10 changes the definition of control as compared to the definition in the original IAS 27; however, the adoption of IFRS 10 has no impact on the reporting of equity investments in the Group's consolidated financial statements. Other standards and interpretations referred to above have no impact on recognition and presentation.

3.2. Standards and Interpretations Used before their Effective Dates

The Group used no standards or interpretations before their effective dates.

3.3. Standards and Interpretations in Issue not yet Adopted

At the balance sheet date, the following standards and interpretations were issued but not yet effective and the Group did not adopt them in advance of their effective dates.

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 9 - Financial Instruments (2014)	1 January 2018
IFRS 10, IAS 28 - Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
IFRS 10, IFRS 12 and IAS 28 - Amendment to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception	1 January 2016
IFRS 11 - Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2017
IFRS 14 - Regulatory Deferral Accounts	1 January 2016
IFRS 15 - Revenue from Contracts with Customers	1 January 2017
IAS 1 - Amendment to IAS 1 Disclosure Initiative	1 January 2016
IAS 16, IAS 38 - Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 16, IAS 41 - Amendments to IAS 16 and IAS 41 - Bearer Plants	1 January 2016
IAS 19 - Amendments to IAS 19 Defined Benefit Plans: Employee Contributions	1 July 2014
IAS 27 - Amendment to IAS 27 - Equity Method in Separate Financial Statements	1 January 2016
IFRIC 21 Levies*)	1 January 2014
Improvements to IFRSs - cycle 2010 - 2012 (published in December 2013)	1 July 2014
Improvements to IFRSs - cycle 2011 - 2013 (published in December 2013)	1 July 2014
Improvements to IFRSs - cycle 2012 - 2014 (published in September 2014)	1 January 2016

*) effective for periods starting on 17 June 2014 in the EU

Management of the Group anticipates that the adoption of these standards, revised standards and interpretations will have no material impact on the Group in the following periods, except for IFRS 9 and IFRS 15 where the impact cannot be reliably estimated given the remote effective date.

3.4. Standards and Interpretations that are Issued by the International Accounting Standard Board (IASB) but not yet Adopted by the European Union

At the balance sheet date, some of the standards and interpretations disclosed in the prior note have not been adopted by the European Union:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 9 - Financial Instruments (2014)	1 January 2018
IFRS 10, IAS 28 - Amendment to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
IFRS 10, IFRS 12 and IAS 28 - Amendment to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception	1 January 2016
IFRS 11 - Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	1 January 2017
IFRS 14 - Regulatory Deferral Accounts	1 January 2016
IFRS 15 - Revenue from Contracts with Customers	1 January 2017
IAS 1 - Amendment to IAS 1 Disclosure Initiative	1 January 2016
IAS 16, IAS 38 - Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 16, IAS 41 - Amendments to IAS 16 and IAS 41 - Bearer Plants	1 January 2016
IAS 19 - Amendments to IAS 19 Defined Benefit Plans: Employee Contributions	1 July 2014
IAS 27 - Amendment to IAS 27 - Equity Method in Separate Financial Statements	1 January 2016
Improvements to IFRSs - cycle 2010-2012 (published in December 2013)	1 July 2014
Improvements to IFRSs - cycle 2012 - 2014 (issued in September 2014)	1 January 2016

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.1. Useful Lives of Property, Plant and Equipment

The Group reviews the estimated useful lives of depreciated property, plant and equipment at the end of each annual reporting period. Although the Group identified no changes in the useful lives of property, plant and equipment, the situation may change in the following periods.

4.2. Impairment of Assets

The Group assesses the recoverable value of all asset components when there are indicators of their impairment (with the exception of intangible assets under construction, the recoverable value of which is assessed annually). This assessment is based on anticipated assumptions and may change in the future as the situation evolves and information is available.

4.3. Revenue and Expenses from International Transportation

Given the long intervals of settlement of mutual payments between transporters in the international transportation, the Parent Company has to estimate the amount of these expenses and revenues. The actual value confirmed by an international settlement institution may be different.

4.4. Measurement of Financial Derivatives

The Group uses financial derivatives for cash flow and fair value hedging. The measurement of derivatives in the financial statements performed by the Group using its own measurement model is based on appropriate measurement techniques using identifiable market assumptions. If these assumptions changed, the measurement of financial derivatives would be different.

4.5. Income Taxation

The Group records significant deferred tax assets. The determination of the recoverable value of these assets depends on the estimate of their future realisation.

4.6. Provision for Employee Benefits

The Group recognises a provision for employee benefits. In calculating the provision, the Group uses an actuarial model which is based on the up-to-date employee information and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents. A change in the anticipated parameters would impact the amount of the provision.

4.7. Provisions for Legal Disputes and Business Risks

The Group is involved in a number of court and out-of-court commercial disputes. Where the criteria for the recognition of provisions are met, the Group creates provisions for these disputes on the basis of the best available information and estimates. However, the actual outcome of the disputes may differ from these estimates.

4.8. Sale of Fixed Assets

The Parent Company owns a large quantity of fixed assets that are no longer used for its principal activities, ie passenger railway transportation. These are assets that are part of the railway infrastructure (train station buildings, land around the railroads) and assets that are used differently (eg commercial lease). Given its medium-term strategy, the Company plans to dispose of these assets, either by a transfer for consideration to SŽDC or sale to commercial interested parties. The specific manner and timing have not yet been determined.

4.9. Values of the Assets and Liabilities of ČD Cargo and ČD Telematika

In 2014, ČD Cargo, a.s. continued to implement measures designed to strengthen its liquidity and to achieve the medium-term objective involving balanced economic results in the segment of individual vehicle shipments in 2017 and to attain a stable level of profit in the principal business activities. In order to achieve this objective, restructuring measures will continue to be taken in 2015.

At present, the telecommunication sector is subject to significant ownership changes. This may have an impact on the market value of the assets and liabilities of ČD Telematika, principally the items of its assets, backbone optical network.

5. REVENUE FROM PRINCIPAL OPERATIONS

All of the below additional information on the statement of profit or loss relates to continuing operations. Profits and losses from discontinued operations are disclosed in a separate note (Note 15).

	2014	2013
		(CZK '000)
Revenue from passenger transportation - fere	7 463 438	7 087 191
- <i>Intrastate passenger transportation</i>	3 149 864	5 002 000
- <i>International passenger transportation</i>	2 313 574	2 085 191
Revenue from passenger transportation - payments from public service orderers	13 227 453	12 771 890
- <i>Payment from the state budget</i>	4 249 926	4 030 252
- <i>Payment from the regional budget</i>	8 977 527	8 741 638
Revenue from freight transportation	11 699 082	12 427 752
- <i>Intrastate freight transportation</i>	4 292 864	4 544 406
- <i>International freight transportation</i>	7 406 218	7 883 346
Other revenue from principal operations	646 248	574 267
Total revenue from principal operations - continuing operations	33 036 221	32 861 100

Payments from public service orderers relate to regional and long-distance intrastate passenger transportation. Other revenue from principal operations predominantly includes the revenue from railway transportation by other transporters and owners of railways, revenue from other transportation, revenue from the lease of wagons and other revenue from freight transportation.

6. OTHER OPERATING INCOME

	2014	2013
		(CZK '000)
Gain from disposal of property, plant and equipment and investment property	208 467	390 749
Gain from the sale of inventory	20 890	11 501
Sales of other services	2 156 404	2 105 871
Rental income	913 058	1 102 896
Compensations for deficits and damage	154 483	129 341
Gain on material	56 625	42 572
Other subsidies	19 584	23 184
Other	171 217	255 325
Total other operating income - continuing operations	3 700 728	4 061 439

7. PURCHASED CONSUMABLES AND SERVICES

	(CZK '000)	
	2014	2013
Traction costs	-4 207 615	-4 552 103
- Traction fuel (diesel)	-1 804 616	-1 836 115
- Traction electricity	-2 402 999	-2 715 988
Payment for the use of railway route	-3 385 789	-3 551 757
Other purchased consumables and services	-8 677 794	-9 117 094
Consumed material	-1 340 847	-1 325 443
Consumed other energy	-572 320	-676 549
Consumed fuel	-93 098	-115 656
Repairs and maintenance	-541 157	-603 997
Travel costs	-154 099	-157 027
Telecommunication, data and postal services	-259 356	-306 629
Other rental	-262 067	-275 427
Rental for rail vehicles	-1 258 477	-1 199 682
Transportation charges	-1 415 119	-1 561 878
Services of dining and sleeping carriages	-115 419	-107 646
Services associated with the use of buildings	-309 201	-305 272
Operational cleaning of rail vehicles	-340 886	-364 502
Border area services	-456 268	-420 369
Advertising and promotion costs	-140 437	-178 219
Other services	-1 419 043	-1 518 798
Total purchased consumables and services - continuing operations	-16 271 198	-17 220 954

Other services predominantly include expenses related to the environment, commissions to ticket vendors, education, representation costs, IT services and other services.

8. EMPLOYEE BENEFIT COSTS

	(CZK '000)	
	2014	2013
Payroll costs	-8 524 133	-8 743 343
Severance pay	-96 895	-375 734
Statutory social security and health insurance	-2 831 062	-2 919 436
Benefits resulting from the collective agreement	-128 507	-124 739
Other social costs	-465 874	-483 847
Other employee benefit costs	-60 528	-37 372
Total employees benefit costs - continuing operations	-12 106 999	-12 684 471

9. DEPRECIATION AND AMORTISATION

	(CZK '000)	
	2014	2013
Depreciation of property, plant and equipment	-5 617 974	-5 473 000
Depreciation of investment property	-76 444	-75 425
Amortisation of intangible assets	-190 290	-177 983
Total depreciation and amortisation - continuing operations	-5 884 708	-5 726 408

10. OTHER OPERATING LOSSES

	(CZK '000)	
	2014	2013
Change in provisions	160 116	-300 051
Reversal of losses (losses) from impaired receivables	41 448	-135 395
Reversal of losses (losses) from impaired property, plant and equipment, investment property and assets held for sale	6 024	-458 608
Reversal of write-down (write-down) of inventories to their net realisable value	396 18	-56 067
Costs of contractual fines and default interest	-122 748	-50 201
Taxes and fees	-27 875	-40 210
Other operating expenses	-707 418	-423 866
Total other operating losses - continuing operations	-610 835	-1 464 398

Other operating expenses primarily include costs of written-off receivables, damages and insurance. As compared to 2013, other operating expenses in 2014 primarily include costs of ČD Cargo, a.s. for the settlement of payables arising from the legal ruling dated 15 January 2014 in the legal dispute for damage due to traffic closures caused by SŽDC. These expenses amounted to CZK 127,184 thousand. In 2014, other operating expenses additionally include costs of written-off receivables and costs of ČD Cargo, a.s. from the concluded agreement on out-of-court settlement with SŽDC regarding the dispute for the price of consumed traction energy during 2009 and settlement of damage due to traffic closures caused by SŽDC. The expenses arising from the out-of-court settlement with SŽDC amounted to CZK 59,835 thousand.

11. FINANCIAL EXPENSES

	2014	(CZK '000) 2013
Interest on bank overdraft accounts and loans	-6 508	-13 869
Interest on the loan from ČSOB and loans from Eurofima	-10 086	-15 529
Interest on issued bonds	-926 519	-812 083
Interest on finance lease payables	-263 930	-256 397
Other interest	-58 569	-31 451
Less: amounts capitalised as part of the costs of an eligible asset	47 069	118 844
Unwinding of the discount of provisions	-967	547
Total financial expenses - continuing operations	-1 219 510	-1 009 938

The capitalisation rate in the year ended 31 December 2014 is 1% p. a.(2013: 2% p. a.).

12. OTHER LOSSES

	2014	(CZK '000) 2013
Net foreign exchange gains (losses)	-43 836	-475 718
Received dividends	1 130	1 926
Received interest	16 607	14 507
Gains from current financial assets	925	897
Banking fees	-14 914	-17012
Actuarial gains (losses)	-41 315	15 143
Gains (losses) from derivative transactions	-11 834	10 940
Other	-21 413	-18 399
Total other losses - continuing operations	-114 650	-467 716

13. INCOME TAXATION

13.1. Income Tax Reported in Profit or Loss

	2014	(CZK '000) 2013
Current income tax for the period reported in the statement of profit or loss	-178 329	-123094
Deferred tax recognised in the statement of profit or loss	-208 445	-191154
Other *)	0	0
Total tax charge relating to continuing operations	-386 774	-314 248

Reconciliation of the total tax charge for the period to the accounting profit:

	2014	(CZK '000) 2013
Loss from continuing operations before tax	542980	-1 639 073
Income tax calculated using the statutory rate of 19%	-103 166	311424
Effect of the unrecognised deferred tax asset	-197 226	-173 194
Other*)	-86 382	-452 478
Income tax reported in profit or loss	-386 774	-314 248

*) The effect of permanently non-tax expenses and income, tax calculated from the individual tax base

The tax rate used in the reconciliation is the corporate income tax rate which has to be paid by Czech legal entities from their taxable profits according to Czech tax laws.

13.2. Income Tax Recognised in Other Comprehensive Income

	2014	(CZK '000) 2013
Remeasurement of financial instruments recognised as cash flow hedging	-10 597	22 131
Total income tax recognised in other comprehensive income	-10 597	22 131

13.3. Deferred Tax

	(CZK '000)							
	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Derivatives	Other	Total
Balance at 1 Jan 2013- calculated	429 527	-593 307	325 617	-268 499	20 827	31 546	62 028	7 739
Balance at 1 Jan 2013- recognised	7 096	-447 427	254 809	-232 097	8 645	7 780	43 335	-357 859
Deferred tax recognised in profit or loss:	-7 096	-166 523	17 909	-55 343	17 344	0	2 555	-191 154
– of which current changes in the deferred tax	345 583	-305 408	7 770	-92 381	3 823	0	-11 762	-17 960
– of which impairment *)	-352 679	138 885	10 139	3 7 038	-20 894	0	14 317	-173 194
Deferred tax recognised in other comprehensive income	0	0	0	0	0	22 131	0	22 131
– of which current changes in the deferred tax	0	0	0	0	0	63 173	0	63 173
– of which impairment *)	0	0	0	0	0	-41 042	0	-41 042
Impacts of the change in the consolidation group	0	0	0	0	0	0	366	366
Balance at 31 Dec 2013- calculated	775 110	-898 715	333 387	-360 880	59 065	94 719	50 632	53 318
Balance at 31 Dec 2013- recognised	0	-613 950	272 718	-287 440	25 989	29 911	46 256	-526 516
- of which liability	0	-616 890	268 585	-291 337	29 119	29 911	42 074	-538 538
- of which asset	0	2 940	4 133	3 897	-3 130	0	4 182	12 022
Deferred tax recognised in the statement of profit or loss:	106	-167 493	-17 503	-53 336	6 418	0	23 363	-208 445
- of which current changes in the deferred tax	-260 482	317 683	2 129	-93 968	-6 060	0	29 479	-112 129
– of which impairment *)	260 588	-485 176	-19 632	40 632	12 478	0	-6 116	-197 226
Deferred tax recognised in other comprehensive income	0	0	0	0	0	-10 597	0	-10 597
- of which current changes in the deferred tax	0	0	0	0	0	57 371	0	57 371
- of which impairment *)	0	0	0	0	0	-67 968	0	-67 968
Revaluation							0	0
Balance at 31 Dec 2014 - calculated	514 628	-581 032	335 516	-454 848	53 005	152 090	80 111	99 470
Balance at 31 Dec 2014 - recognised	106	-781 443	255 215	-340 776	32 407	19 314	69 619	-745 558
- of which liability	106	-781 335	254 923	-340 812	31 987	19 314	64 401	-751 416
- of which asset	0	-108	292	36	420	0	5 218	5 858

*) The decrease in the deferred tax asset recognised in the balance sheet (directly or indirectly as items decreasing deferred tax liabilities) to its recoverable value

According to the preliminary due corporate income tax return for the 2014 taxation period, the Parent Company records a utilisable tax loss for the 2009 and 2013 taxation periods in the amount of CZK 4,135,744 thousand. The tax loss is utilisable always in five taxation periods subsequent to the period in which the relevant loss was assessed, ie the loss from 2009 is utilisable through 2014 and the loss for 2013 is utilisable between 2014 and 2018.

Given the low anticipated taxable profits of the Parent Company, the realisation of deferred tax assets is uncertain. For this reason, the Parent Company attributes a zero recoverable value to this deferred tax asset when the resulting net position as of the balance sheet date is a deferred tax asset.

14. SEGMENT INFORMATION

14.1. Products and Services from which Reportable Segments Derive their Revenues

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Parent Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The Group's reportable segments under IFRS 8 are therefore as follows:

- Passenger transportation - other information on passenger railway transportation is disclosed in Note 14.3.
- Freight transportation - other information on freight railway transportation is disclosed in Note 14.3.
- Administration of assets - the segment provides the administration and operations of real estate owned by the Group, including internal and external leases. Real estate predominantly includes station buildings and land surrounding the railroad.
- Other - predominantly activities of less significant subsidiaries and overhead activities that are not allocated to other segments.

14.2. Segment Revenues and Expenses

The following is an analysis of the Group's results from continuing operations by reportable segment in the format in which the financial statement is presented to the Parent Company's management.

2014 **)						(CZK million)	
	Passenger transportation	Administration of assets	Freight transportation	Other	Elimination and reconciliation *)	Total	
Revenue from principal operations							
Revenue from passenger transportation	7 477	0	0	0	-14	7463	
Revenue from securing railway routes	0	0	0	0	0	0	
Payments from orderers	13 227	0	0	0	0	13 227	
Other	19	0	13 629	0	-1 302	12 346	
	20 723	0	13 629	0	-1 316	33 036	
Purchased consumables and services	-2 597	0	-1 649	0	38	4 208	
Traction costs	-1869	0	-1 517	0	0	-3 386	
Payment for the use of the railway route	4 153	-502	-4 569	-2 533	3 080	-8 677	
Other purchased consumables and services	-8 619	-502	-7 735	-2 533	3 118	-16 271	
Staff costs							
Payroll costs	-4 920	-185	-2 682	-963	129	-8 621	
Social security and health insurance	-1 615	-60	-878	-320	42	-2 831	
Statutory social costs	-254	-17	-167	-35	7	-466	
Statutory social costs - benefits arising from the collective agreement	-88	2	-81	-35	13	-189	
	-6 877	-260	-3 808	-1 353	191	-12 107	
Other operating income and expenses	168	838	468	3 650	-2 034	3 090	
Intracompany income and expenses	-99	109	0	-10	0	0	
Overhead costs - operating	-777	-50	0	827	0	0	
Depreciation and amortisation	-4 397	-240	-1 075	-332	159	-5 885	
Other income and expenses	-1 051	9	-602	74	-137	-1 707	
Overhead costs - financial and other	64	4	0	-68	0	0	
Profit (loss) for the period from continuing operations	-865	-92	877	255	-19	156	
Profit (loss) for the period from discontinued operations	0	0	0	0	0	0	
Profit (loss) for the period	-865	-92	877	255	-19	156	
Profit attributable to non-controlling interests	0	0	0	0	40	40	
Profit (loss) attributable to owners of the parent company	-865	-92	877	255	-59	116	

*) The 'Elimination and reconciliation' column includes eliminations of intracompany relations.

**) In January 2014, the Company made a change in the segment reporting methodology. Individual segments are reported in amounts under IFRS. The comparative period was restated.

2013**)	Passenger transportation	Administration of assets	Freight transportation	Other	Elimination and reconciliation *)	(CZK million) Total
Revenue from principal operations						
Revenue from passenger transportation	7 134	0	0	0	-47	7 087
Revenue from securing railway routes	0	0	0	0	0	0
Payments from orderers	12 772	0	0	0	0	12 772
Other	17	0	14 213	0	-1 228	13 002
	19 923	0	14 213	0	-1 275	32 861
Purchased consumables and services						
Traction costs	-2 897	0	-1 694	0	39	-4 552
Payment for the use of the railway route	-1 738	0	-1 814	0		-3 552
Other purchased consumables and services	-4 248	-643	-4 625	-2 382	2 781	-9 117
	-8 883	-643	-8 133	-2 382	2 820	-17 221
Staff costs						
Payroll costs	-4 953	-179	-3 054	-1 043	110	-9 119
Social security and health insurance	-1 622	-58	-953	-324	38	-2 919
Statutory social costs	-264	-17	-178	-33	8	-484
Statutory social costs - benefits arising from the collective agreement	-84	5	-61	-22		-162
	-6 923	-249	-4 246	-1 422	156	-12 684
Other operating income and expenses	384	858	455	3 151	-2 251	2 597
Intracompany income and expenses	-94	99	0	-5	0	0
Overhead costs - operating	-1086	-71	0	1 157	0	0
Depreciation and amortisation	-4 088	-237	-1 137	-350	86	-5 726
Other income and expenses	-1 379	11	-375	-2 718***)	2 681	-1 780
Overhead costs - financial and other	93	7	0	-100	0	0
Profit (loss) for the period from continuing operations	-2 053	-225	777	-2 669	2 217	-1953
Profit (loss) for the period from discontinued operations	0	0	0	0		0
Profit (loss) for the period	-2 053	-225	777	-2 669	2 217	-1953
Profit attributable to non-controlling interests	0	0	0	0	18	18
Profit (loss) attributable to owners of the parent company	-2 053	-225	777	-2 669	2 199	-1 971

*) The 'Elimination and reconciliation' column includes eliminations of intracompany relations.

**) In January 2014, the Company made a change in the segment reporting methodology. Individual segments are reported in amounts under IFRS. The comparative period was restated.

***) Other income and expenses include the impairment of the equity investment in ČD Cargo (CZK (2,852) million).

14.3. Information on Principal Customers

The Parent Company provides transportation services in the public railway passenger transportation segment for a fixed (cost adjusted) price and procures transportation services in designated categories of passenger trains in the Czech Republic's rail network. The scope of these services and the level of compensation (income for the Company) are defined in agreements entered into with the State and territorial self-governing units. The level of the compensation from the orderer (the State) is linked to the volume of funds set out in the State budget to finance provable losses incurred in respect of passenger transportation. On 2 December 2009, the Company concluded the Contract for Public Service Commitments for the period from 2010 to 2019 with the State.

By adopting Act No. 194/2010 Coll., on Public Services in Passenger Transportation and Changes in Other Acts, the Czech Republic has harmonised its public transport legislation with EU laws. The Parent Company has concluded contracts for the public service commitment for the period of 10 years and more which are governed by the legal regulations before the adoption of the Act referred to above. All contracts or their amendments were concluded before Regulation (EC) No. 1370/2007 entered into effect for the period of 10 years or more, ie before 3 December 2009. Similarly as the contract with the State, they are governed by legal regulations that were in effect before the Regulation became effective.

Governmental Resolution No. 1132/2009 dated 31 August 2009 secures the additional funding of the regional railway transportation through a special-purpose grant to regions, including the rules for the increase or decrease in the scope of ordered railway transportation and increase in the special-purpose grant in individual following years.

As of the 2014 consolidated financial statements date, intensive negotiations are pending with regard to amendments to long-term contracts for 2015. Four amendments have been concluded for 2015, other seven have been discussed and are currently being discussed by the regional authorities. Management of the Parent Company believes that the conclusion of all the amendments is very likely in terms of the search for savings. In the context of the provision of public services in the transportation of passengers, this fact does not constitute any limitations - given the concluded long-term contracts, there is no threat regarding the interruption of their provision or their funding. Prepayments for the settlement of the provable loss are made - in respect of the not-yet-signed amendments for 2015 - in the amount of the prepayments from 2014.

ČD Cargo, a.s. provides its services to several thousands of business partners. The most important local customers in terms of the sales volume include MORAVIA STEEL a.s., ČEZ, a.s., CARBOSPED, spol. s r.o., NH TRANS SE, EP Cargo a.s. a Rail Cargo Logistics - Czech Republic, s.r.o. Principal foreign customers are A.P. Møller - Maersk A/S, ŠTVA S.A, METRANS, BLG Auto Rail GmbH, and principal foreign railway customers are DB Schenker Rail Deutschland AG, Železničná spoločnosť Cargo Slovakia, a.s., Rail Cargo Austria AG, and PKP Cargo S.A.

15. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

15.1. Assets Held for Sale

	31 Dec 2014	31 Dec 2013	(CZK '000) 1 Jan 2013
Intangible assets	0	0	0
Land	25 368	53 922	60 000
Buildings	24 086	5 239	172 551
Total	49 454	59 161	232 551

16. PROPERTY, PLANT AND EQUIPMENT

Cost	(CZK '000)								
	Balance at 1 Jan 2013	Additions	Disposals	Reclassification	Balance at 31 Dec 2013	Additions	Disposals	Reclassification	Balance at 31 Dec 2014
Land	6 168 284	8 525	23 677	-82 735	6 070 397	11 282	797	9 680	6 090 562
Structures	18 089 477	385 332	88 279	-118 176	18 268 354	164 111	34 645	-164 792	18 233 028
Individual movable assets	109 706 405	10 412 184	2 425 138	2 295	117 695 746	7 352 406	2 271 472	-21 111	122 754 903
<i>Machinery, equipment, and furniture and fixtures</i>	<i>4 232 681</i>	<i>85 557</i>	<i>108 348</i>	<i>7 617</i>	<i>4 217 507</i>	<i>142 935</i>	<i>141 417</i>	<i>7 887</i>	<i>4 226 912</i>
<i>Vehicles</i>	<i>9 413 069</i>	<i>10 189 925</i>	<i>2 224 093</i>	<i>-521 909</i>	<i>101 580 992</i>	<i>6 984 264</i>	<i>2 058 185</i>	<i>256 110</i>	<i>106 763 181</i>
<i>Vehicles acquired under finance leases</i>	<i>11 221 673</i>	<i>129 943</i>	<i>82 836</i>	<i>520 926</i>	<i>11 789 706</i>	<i>205 691</i>	<i>63 885</i>	<i>-285 522</i>	<i>11 645 990</i>
<i>Other</i>	<i>114 982</i>	<i>6 759</i>	<i>9 861</i>	<i>-4 339</i>	<i>107 541</i>	<i>19 516</i>	<i>7 985</i>	<i>-252</i>	<i>118 820</i>
Other assets	41 169	13 553	907	-1 253	52 562	6 767	4 727	0	54 602
Assets under construction	2 425 625	8 647 802	75 284	-9 423 752	1 574 391	6 095 403	25 619	-6 122 341	1 521 834
Prepayments	4 083 689	153 779	3 244 889	0	992 579	31 368	899 150	0	124 797
Total	140 514 649	19 621 175	5 858 174	-9 623 621	144 654 029	13 661 337	3 236 410	-6 299 230	148 779 726

Accumulated depreciation	(CZK '000)								
	Balance at 1 Jan 2013	Additions	Disposals	Reclassification	Balance at 31 Dec 2013	Additions	Disposals	Reclassification	Balance at 31 Dec 2014
Structures	8 342 281	427 564	79 536	-154 428	8 535 881	427 872	27 346	-72 838	8 863 569
Individual movable assets	57 846 872	4 976 904	2 096 470	268	60 727 574	5 024 999	2 052 918	6 401	63 706 056
<i>Machinery, equipment, and furniture and fixtures</i>	<i>2 971 031</i>	<i>215 412</i>	<i>107 873</i>	<i>4 458</i>	<i>3 083 028</i>	<i>192 474</i>	<i>128 327</i>	<i>1 163</i>	<i>3 148 338</i>
<i>Vehicles</i>	<i>52 102 954</i>	<i>4 189 667</i>	<i>1 900 181</i>	<i>-369 427</i>	<i>54 023 013</i>	<i>4 322 776</i>	<i>1 857 599</i>	<i>46 483</i>	<i>56 534 673</i>
<i>Vehicles acquired under finance leases</i>	<i>2 670 192</i>	<i>564 222</i>	<i>78 594</i>	<i>369 668</i>	<i>3 525 488</i>	<i>497 276</i>	<i>59 046</i>	<i>-41 004</i>	<i>3 922 714</i>
<i>Other</i>	<i>102 695</i>	<i>7 603</i>	<i>9 822</i>	<i>-4 431</i>	<i>96 045</i>	<i>12 473</i>	<i>7 946</i>	<i>-241</i>	<i>100 331</i>
Other assets	14 728	8 701	658	23	22 794	8 889	4 540	0	27 143
Total	66 203 881	5 413 169	2 176 664	-154 137	69 286 249	5 461 760	2 084 804	-66 437	72 596 768

Impairment	(CZK '000)								
	Balance at 1 Jan 2013	Additions	Disposals	Reclassification	Balance at 31 Dec 2013	Additions	Disposals	Reclassification	Balance at 31 Dec 2014
Land	39 514	16 612	0	0	56 126	3 149	0	0	59 275
Structures	43 433	452	0	0	43 885	393	4 465	0	39 813
Individual movable assets	681 489	449 606	129 558	0	1 001 537	365 912	419 334	0	948 115
<i>- Machinery, equipment, and furniture and fixtures</i>	<i>1 484</i>	<i>661</i>	<i>1 484</i>	<i>0</i>	<i>661</i>	<i>512</i>	<i>0</i>	<i>0</i>	<i>1 173</i>
<i>- Vehicles</i>	<i>680 005</i>	<i>448 945</i>	<i>128 074</i>	<i>0</i>	<i>1 000 876</i>	<i>351 078</i>	<i>419 334</i>	<i>0</i>	<i>932 620</i>
Other assets	0	0	0	0	0	14 322	0	0	14 322
Assets under construction	432	0	390	0	42	1 186	34	0	1 194
Prepayments	77	68 814	77	0	68 814	66 419	0	0	135 233
Total	764 945	535 484	130 025	0	1 170 404	437 059	423 833	0	1 183 630

Reclassifications predominantly include transfers of asset items between individual groups (IAS 16, LAS 40, IFRS 5), in assets under construction, these include assets put into use.

Net book value	(CZK '000)		
	Balance at 1 Jan 2013	Balance at 31 Dec 2013	Balance at 31 Dec 2014
Land	6 128 770	6 014 271	6 031 287
Buildings	9 703 763	9 688 588	9 329 646
Individual movable assets	51 178 044	55 966 635	58 100 732
- <i>Machinery, equipment, and furniture and fixtures</i>	<i>1 260 166</i>	<i>1 133 818</i>	<i>1 077 401</i>
- <i>Vehicles</i>	<i>41 354 110</i>	<i>46 557 103</i>	<i>49 295 888</i>
- <i>Vehicles acquired under finance leases</i>	<i>8 551 481</i>	<i>8 264 218</i>	<i>7 708 954</i>
- <i>Other</i>	<i>12 287</i>	<i>11 496</i>	<i>18 489</i>
Other assets	26 009	29 726	26 265
Assets under construction	2 425 548	1 505 577	1 386 601
Prepayments	4 083 689	992 579	124 797
Total	73 545 823	74 197 376	74 999 328

Principal additions from 1 January 2013 to 31 December 2014 include the acquisition of railway vehicles as part of the renewal of the Parent Company's rolling stock. Given the long-term nature of the acquisition of this type of assets, significant balances are reported on the accounts of assets under construction and prepayments. In the year ended 31 December 2014, the Parent Company provided no significant prepayments. As of 31 December 2013, this primarily involved the purchase of train sets for regional transportation and purchase of seven Siemens Viaggio Comfort trains.

Principal additions to individual movable assets in the year ended 31 December 2014 included the modernisation of wagons of CZK 310,946 thousand, inspection repairs (components) of wagons of CZK 196,812 thousand, major and general repairs (components) of traction vehicles of CZK 217,674 thousand and technical improvements on wagons of CZK 41,546 thousand.

In the year ended 31 December 2014, ČD Cargo, a.s. carried out the first stage of wagons scrapping - 299 wagons were scrapped. In respect of other wagons and traction vehicles intended for scrapping, ČD Cargo, a.s. mapped the current physical condition, recorded parts that could be used as spare parts for repairs and the remaining parts of wagons intended for direct scrapping. Management anticipates that the scrapping process will continue in the following years.

In 2014, the Group acquired fixed assets financed through government grants in the amount of CZK 622,233 thousand (2013: CZK 1,628,565 thousand). The cost of the assets was reduced by the amount of the grant.

16.1. Impairment Losses Recognised in the Reporting Period

Vehicles predominantly include railway vehicles (locomotives, wagons, other railway vehicles) used for operating railway transportation. Pursuant to the inventory count and analyses, items of assets were identified for which there is a significant doubt about their future usability. The Group recognised an impairment loss for these items in the amount of the difference between the net book value and the estimated recoverable value. The recoverable value is usually determined as net proceeds from the sale less cost to sell.

The principal impairment loss as of 31 December 2014, 2013 and 1 January 2013 is the loss on the 680 series tilting trains (Pendolino) amounting to CZK 581,541 thousand, CZK 609,233 thousand and CZK 492,953 thousand, respectively. In 2013, the impairment was determined on the basis of an independent expert's assessment reflecting the market value net of the costs of sale. In 2014, the independent expert's assessment does not indicate any decline in the value. The costs and income associated with the Pendolino trains are reported in the Passenger Transportation segment.

The Parent Company records a set of assets with the net book value of CZK 3,978 million that primarily include railway station buildings and land and real estate relating to their operations. This real estate is used not only by the Company, but also by other participants in the railway transport operations in the Czech Republic. The Parent Company is planning to transfer this real estate to another state organisation and focus on its core business activities. In order to determine a potential impairment of these assets, the Parent Company assessed the recoverable value in line with accounting policies and concluded that the assets show no signs of impairment reported in the Company's accounting records. The principal assumptions underlying the recoverable value primarily include the amount of rental for the use of this real estate by railway transporters and Správa Železniční Dopravní Cesty s.o., grants received to cover the operating expenses relating to the redundant capacity of this real estate and capital expenditures for the renovation of these assets. A failure, if any, to fulfil any of these assumptions would have a materially adverse impact on the outcome of this assessment. The recoverable value was assessed by an external advisory firm based on the discounted cash flows method using the 7.7% discount rate.

As of the balance sheet date, ČD - Telematika a.s. assesses the risk of impairment of fixed assets reported in the balance sheet and potential need for the recognition of impairment losses with the following conclusions. The fixed assets of this entity are replaced, maintained and used by the entity on an ongoing basis and no temporary or permanent decrease in the value in use or market value of the assets was identified as compared to the net book value in the accounting records pursuant to the inventory count. The most significant item of assets is the set of tangible and intangible assets relating to transmission grids. A significant assumption for assessing the impairment risk is their market value derived from the future use of the grid on the market of telecommunication services in the Czech Republic and the development of the market as such. Pursuant to the above assessments, no impairment losses were recognised.

Impairment losses are included in other operating expenses in the statement of profit or loss.

The following useful lives were used in the calculation of depreciation:

	Number of years	
Buildings	30 -50	
Structures	20 -50	
Locomotives	20 -30	
Passenger coaches		20 -30
Wagons	25 -33	
Machinery and equipment		8-20
Components	2-24	
Optical fibres	35	

16.2. Assets Pledged as Collateral

The Parent Company holds assets at the net book value of CZK 2,442,202 thousand that were pledged as collateral, of which train sets of the 471 series amounted to CZK 2,060,091 thousand, the Ampz passenger coaches amounted to CZK 190,560 thousand and the Bmz passenger coaches amounted to CZK 191,551 thousand. The pledge was established in favour of EUROFIMA.

16.3. Redundant Immovable Assets

In the property, plant and equipment class, the Group reports assets of CZK 236,482 thousand which are currently not used. These are primarily vacant buildings. The Group anticipates selling the assets in the future but it did not report these assets as assets held for sale, as they have not yet complied with the criteria set out in IFRS 5.

17. INVESTMENT PROPERTY

Set out below is an analysis of investment property:

	2014	(CZK '000) 2013
Balance at the beginning of the year	2 162 067	2171692
Additions from subsequent capitalised expenses	7 330	13 339
Disposals	50	-9 175
Disposals, annual depreciation	-76 444	-75 425
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	226 467	105 404
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	-137 808	16 364
Transfers to assets held for sale (from IAS 40 to IFRS 5)	-8 031	-58 031
Change in the value	-56 043	273
Transfers of assets held for sale (from IFRS 5 to IAS 40)	22 597	-2 374
Balance at the end of the year	2 140 185	2 162 067

	Balance at 31 Dec 2014	Balance at 31 Dec 2013	(CZK '000) Balance at 1 Jan 2013
Cost	3 732 862	3 509 998	3454 630
Accumulated depreciation	-1 648 703	-1 347 658	-1 282 650
Impairment	56 026	-273	-288
Net book value	2 140 185	2 162 067	2 171 692

The Group includes in investment property real estate where at least 50% of its useful area is leased to an external lessee.

The property is located around the railway route, in train stations and depots of rail vehicles. The fair value based on market comparison cannot be determined with a reasonable certainty given the different nature and location of the property. The Parent Company used a valuation model in determining the fair value of investment property. In respect of land, the calculation includes the product of the market price for m2 for the specific locality and the area of the land. In respect of buildings, the calculation is based on the yield method from market rental. The estimate of the fair value as of 31 December 2014, 2013 and 1 January 2013 is CZK 6,033,000 thousand, CZK 4,085,062 thousand and CZK 5,281,562 thousand, respectively. The investment property is classified to level 3 in terms of determining the fair value.

The Parent Company determines the depreciation method and useful lives of investment property on the same basis as for property included in property, plant and equipment.

18. INTANGIBLE ASSETS

Cost	(CZK '000)								
	Balance at 1 Jan 2013	Additions	Disposals	Reclassification	Balance at 31 Dec 2013	Additions	Disposals	Reclassification	Balance at 31 Dec 2014
Development costs	95 907	0	0	0	95 907	0	93 892	0	2 015
Software	1 508 345	230 994	36 873	-141	1 702 325	146 549	154 736	-91	1 694 047
Valuable rights	661 591	20 965	422	145	682 279	20 084	17 298	0	685 065
Other assets	2 076	403	0	0	2 479	-1	760	0	1 718
Assets under construction	196 786	144 605	0	-212 853	128 538	248 125	0	-172 381	204 282
Prepayments	1 075	327	1 393	0	9	147	156	0	0
Total	2 465 780	397 294	38 688	-212 849	2 611 537	414 904	266 842	-172 472	2 587 127

Accumulated amortisation	(CZK '000)								
	Balance at 1 Jan 2013	Additions	Disposals	Reclassification	Balance at 31 Dec 2013	Additions	Disposals	Reclassification	Balance at 31 Dec 2014
Development costs	95 907	0	0	0	95 907	0	93 892	0	2 015
Software	1 332 113	111 247	37 169	0	1 406 191	140 701	145 062	-119	1 401 711
Valuable rights	465 115	71 571	422	0	536 264	55 205	3 878	0	587 591
Other assets	1 194	236	0	0	1 430	244	760	0	914
ToU	189 4329	183 054	37 591	0	2 039 792	196 150	243 592	-119	1 992 231

Net book value	(CZK '000)		
	Balance at 1 Jan 2013	Balance at 31 Dec 2013	Balance at 31 Dec 2014
Development costs	0	0	0
Software	176 232	296 134	292 336
Valuable rights	196 476	146 015	97 474
Other assets	882	1 049	804
Assets under construction	196 786	128 538	204 282
Prepayments	1 075	9	0
Total	571 451	571 745	594 896

The costs of amortisation were reported in the line 'Depreciation and amortisation' in the statement of profit or loss. The Group used useful lives of 1.5 - 6 years in calculating amortisation.

Intangible fixed assets include software used in business activities entitled ARES, In-card, UNIPOK, IS OPT, GSM-R, IS-ADPV, POP, KASO and items related to the SAP R/3 accounting software and its modules.

Intangible fixed assets predominantly include the operational business information system of ČD Cargo, a.s. - PROBIS. In the year ended 31 December 2014, the Group continued the second phase of the implementation of PROBIS that was acquired for CZK 104,428 thousand of total investments in intangible assets of CZK 134,302 thousand. The upgrade of the IS in the second phase of the PROBIS implementation will be completed and the IS put into use in 2015.

Intangible assets under construction primarily relate to the development of software for train monitoring, train traffic management and expenditure relating to the SAP R/3, software used in business activities - DISOD, SAP R/3, In-karta.

19. SUBSIDIARIES

19.1. Details on Co-owned Subsidiaries that Have Significant Non-Controlling Interests

Subsidiary	Equity investment held by non-controlling interests*)		Profit attributable to non-controlling interests		Accumulated non-controlling interests	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
ČD - Telematika a. s.	40.69 %	40.69 %	36 040	10 769	731 544	695 504

*) The equity investments is identical to the share in voting rights held by non-controlling interests.

	31 Dec 2014	31 Dec 2013
ČD - Telematika a. s.		
Fixed assets	1 797 671	1 784 057
Current assets	1 139 739	865 374
Long-term payables	150 487	191 539
Short-term payables	989 077	748 618
Equity attributable to owners of the company	1 066 302	1 013 770
Non-controlling interests	731 544	695 504
	Year ended	Year ended
	31 Dec 2014	31 Dec 2013
Income	1465 311	1 228 280
Expenses	-1 376 740	-1 201 814
Profit for the period	88 571	26 466
Profit attributable to owners of the company	52 531	15 697
Profit attributable to non-controlling interests	36 040	10 769
Other comprehensive income attributable to owners of the company	0	0
Other comprehensive income attributable to non-controlling interests	0	0
Total other comprehensive income	0	0
Total comprehensive income attributable to owners of the company	52 531	15 697
Total comprehensive income attributable to non-controlling interests	36 040	10 769
Total comprehensive income		
Dividends paid to non-controlling interests	0	24 466
Net cash flows from operating activities	395 697	214 774
Net cash flows from investments activities	-124 211	-44 708
Net cash flows from financing	-25 857	-230 378
Total cash flow	245 629	-60 312

20. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

Entity		(CZK '000)			
		Value of investment at 31 Dec 2014	Ownership percentage at 31 Dec 2014	Value of investment at 31 Dec 2013	Ownership percentage at 31 Dec 2013
RAILLEX, a.s.	Associate	16 214	50%	12 051	50%
BOHEMIÁKOMBI, spol. s r.o.	Associate	3 286	30%	2 837	30%
Ostravská dopravní společnost, a.s.	Associate	20 984	20%	41 871	20%
JLV, a. s.	Associate	125 429	38.79%	121 662	38.79%
Masaryk Station Development, a. s.	Associate	0	34%	0	34%
Total - associates		165 913	-	178 421	-
Smíchov Station Development, a. s.	Joint venture	0	51%	0	51%
Žižkov Station Development, a. s.	Joint venture	659	51%	747	51%
Centrum Holešovice, a. s.	Joint venture	116	51%	122	51%
RAILREKLAM, spol. s r.o.	Joint venture	21 187	51%	21 574	51%
Total - joint ventures		21 962	-	22 443	-
Total - investments in joint ventures and associates		187 875	-	200 864	-

Summary of financial information on associates:

	31 Dec 2014	31 Dec 2013	(CZK '000)
Total assets	991 526	1 077 714	1 Jan 2013
Total liabilities	549 019	544 323	1 031 095
Net assets	442 507	533 391	513 971
Share of the Company in associates' net assets	156 003	170 584	517 124
			166 654
		2014	(CZK '000)
Total income		2 000 344	2013
Profit for the period		37 095	1 925 448
Share of the Company in associates' profit for the period		12 275	33 692
			10 099

Summary of financial information on joint ventures:

	31 Dec 2014	31 Dec 2013	(CZK '000) 1 Jan 2013
Total assets	147 610	146 597	81 464
Total liabilities	119 742	115 506	90 468
Net assets	27 868	31 091	-9 004
The Company's share of net assets	14 213	15 856	-4 592

	2014	2013
Total income	102 562	120 941
Profit (loss) for the period	3 248	4 263
The Company's share of profit (loss)	1 656	2 174

21. INVENTORIES

	31 Dec 2014	31 Dec 2013	(CZK '000) 1 Jan 2013
Spare parts for machinery and equipment	67 968	67 905	69 747
Spare parts and other components for rail vehicles and locomotives	840 706	784 754	758 118
Other machinery, tools and equipment and their spare parts	142 919	167 220	160 403
Fuels, lubricants and other oil products	30 683	28 789	31 834
Work clothes, work shoes, protective devices	101 239	99 768	125 478
Other	95 317	98 184	95 609
Total cost	1 278 832	1 246 620	1 241 189
Write-down of inventories to their net realisable value	-78 865	-118 482	-62 437
Total net book value	1 199 967	1 128 138	1 178 752

The Parent Company's inventories are gathered in the Supply Centre in Česká Třebová.

22. TRADE RECEIVABLES

	31 Dec 2014	31 Dec 2013	(CZK '000) 1 Jan 2013
Long-term	0	0	3211
Short-term	3 127 474	3 409 896	3 236 625
Total	3 127 474	3 409 896	3 239 836

22.1. Aging of Trade Receivables

	Category	Before due date	Past due date (days)					Total past due date	(CZK '000) Total
			1-30 days	31-90 days	91-180 days	181-365 days	365 and more		
31 Dec 2014	Gross	2 949 093	109 099	51 383	16 047	28 249	262 057	466 835	3 415 928
	Allowances	-28 461	-178	-3 269	-1 463	-17 386	-237 697	-259 993	-288 454
	Net	2 920 632	108 921	48 114	14 584	10 863	24 360	206 842	3 127 474
31 Dec 2013	Gross	3 024 313	133 712	227 888	118 234	64 221	232 750	776 805	3 801 118
	Allowances	-104 929	-603	-745	-57 440	-39 393	-188 112	-286 293	-391 222
	Net	2 919 384	133 109	227 143	60 794	24 828	44 638	490 512	3 409 896
1 Jan 2013	Gross	2 998 858	85 275	53 910	35 739	34 370	225 183	434 477	3 433 335
	Allowances	-3 031	-418	-7 970	-8 074	-18 074	-155 932	-190 468	-193 499
	Net	2 995 827	84 857	45 940	27 665	16 296	69 251	244 009	3 239 836

22.2. Movements in Allowances for Doubtful Receivables

	2014	(CZK '000) 2013
Balance at the beginning of the year	391 222	193 499
Recognition of allowances	153 303	31 1205
Use of allowances	-256 071	-113 482
Balance at the end of the year	288 454	391 222

23. OTHER FINANCIAL ASSETS

	31 Dec 2014	31 Dec 2013	(CZK '000) 1 Jan 2013
Financial assets available for sale	320 531	320 531	335 323
Receivables from finance leases	96 152	103 996	109 132
Hedging derivatives	1 386 875	1 177 625	258 047
Other financial derivatives	0	3 904	0
Other	9 324	13 666	22 015
Total non-current financial assets	1 812 882	1 619 722	724 517
Receivables from finance leases	-7 641	-7 026	-6 784
Hedging derivatives	48 818	91 638	46 920
Other financial derivatives	5	0	0
Other	84 625	97 330	152 335
Total current financial assets	125 807	181 942	192 471
Total	1 938 689	1 801 664	916 988

23.1. Receivables from Finance Leases

The Parent Company has leased the station buildings at Brno - hlavní nádraží.

	Minimum lease payments		Present value of minimum lease payments			
	31 Dec 2014	31 Dec 2013	1 Jan 2013	31 Dec 2014	31 Dec 2013	1 Jan 2013
Under 1 year	4 609	4 302	4 131	-7 641	-7 026	-6 784
From 1 to 5 years	43 970	28 099	26 569	-17 027	-29 410	-27 694
5 years and more	459 181	475 141	463 430	113 179	133 406	136 826
Total	507 760	507 542	494 130	88 511	96 970	102 348
Less: unrealised financial income	-419 249	-410 572	-391 782	0	0	0
Present value of receivables of minimum lease payments	88 511	96 970	102 348	88 511	96 970	102 348
In the statement of financial position as:						
- Other current financial assets				-7 641	-7 026	-6 784
- Other non-current financial assets				96 152	103 996	109 132
Total				88 511	96 970	102 348

The fair value of receivables from finance leases approximates their carrying amount. Negative values in certain lines of the table indicate that lease payments in the period are lower than unrealised financial income hence the present value of the minimum lease payments increases in this period.

24. OTHER ASSETS

	31 Dec 2014	31 Dec 2013	(CZK '000) 1 Jan 2013
Total non-current assets	106 998	58 530	80 760
Prepayments made	270 874	217 244	180 935
Tax receivables (except for the corporate income tax)	629 569	687 620	516 941
Prepaid expenses	133 236	143 905	118 433
Other	118 031	44 205	56 039
Total current assets	1 151 710	1 092 974	872 348
Total	1 258 708	1 151 504	953 108

25. EQUITY

25.1. Share Capital

The Parent Company's share capital is composed of the investment made by the Czech State as the sole shareholder, represented by the Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government.

25.2. Reserve and Other Funds

	31 Dec 2014	31 Dec 2013	(CZK '000) 1 Jan 2013
Share premium	16439 605	16 439 605	16 439 605
Statutory reserve fund	257 866	222 030	211064
Cash flow hedging reserve	-655 878	-364 956	-247 525
Foreign currency translation fund	13411	27 599	-1 689
Other	-1 861	-1 871	-1 903
Non-controlling interests	-7 124	-7257	-5 849
Total	16 046019	16 315 150	16 393 703

Allocations are made to the statutory reserve fund in accordance with the national legislation.

25.2.1. Cash Flow Hedging Reserve

	31 Dec 2014	(CZK '000) 31 Dec 2013
Balance at the beginning of the year	-364 956	-247 525
Profit (loss) from revaluation	-423 814	-140 847
Settled deferred derivatives	-4 278	-21 433
Reclassifications to profit or loss upon settlement	147 767	22 718
Total change in the cash flow hedging reserve	-280 325	-139 562
Relating income tax	-10 597	22 131
Balance at the year-end	-655 878	-364 956

The cash flow hedging reserve includes accumulated gains and losses from the effective hedging of cash flows. The accumulated accrued profit or loss from hedging derivatives is reclassified to the profit or loss only if the hedging transaction impacts the profit or loss or is included as an adjustment to the base in the hedged non-financial item in accordance with relevant accounting principles.

Gains and losses reclassified during the year from equity are included in the statement of profit or loss lines 'Revenue from principal activities', 'Purchased consumables and services' and 'Financial expenses'.

25.2.2. Foreign Currency Translation Fund

	31 Dec 2014	(CZK '000) 31 Dec 2013
Balance at the beginning of the year	27 599	-1 689
Foreign exchange rate gains or losses arising from translation of foreign operations	-14 188	29 288
Tax on the profit relating to profits arising from translation of net assets of foreign operations	0	0
Balance at the year-end	13 411	27 599

Foreign exchange rate gains or losses relating to the translation of the results and net assets of foreign operations of the Group from their functional currencies to the presentation currency of the Group (i.e. CZK) are reported directly in other comprehensive income and are accumulated in the foreign currency translation fund.

25.3. Equity - Non-Controlling Interests

The additional purchase of the equity investment of 22% in ČD Logistics, a.s. resulted in a decrease in non-controlling interests of CZK 5,820 thousand.

26. LOANS AND BORROWINGS

	31 Dec 2014	31 Dec 2013	(CZK '000) 1 Jan 2013
Short-term bank loans	0	281 283	277 617
Short-term issued promissory notes	0	0	0
Payables from finance leases	925 250	927 893	1 185 723
Payable to EUROFIMA	1 250 380	1 239 761	377 100
Overdraft accounts	53	844 691	859 505
Issued bonds	1410 817	1 383 624	314 342
Other received short-term loans and borrowings	59 894	11 029	16 484
Total short-term	3 646 394	4 688 281	3 030 771
Payable to EUROFIMA	1 663 500	2 879 625	3 770 950
Issued bonds	26 691 323	21 874 864	17 490 291
Other - received loans and borrowings - long-term	42 128	51 411	58 018
Loan from ČSOB - long-term	0	0	257 617
Payables from finance leases	4 739 038	5 090 732	4 983 721
Total long-term	33 135 989	29 896 632	26 560 597
Total	36 782 383	34 584 913	29 591 368

Portions of long-term loans and borrowings that are repayable in a period shorter than one year from the financial statements date are recognised as short-term loans and borrowings.

The Parent Company received in several tranches a long-term loan from EUROFIMA to finance the purchase of railway vehicles. The interest rate is determined based on the Euribor reference rate. The amount of capitalised interest on the loan from EUROFIMA for the year ended 31 December 2014 was CZK 27 thousand (2013: CZK 2,908 thousand, 2012: CZK 13,445 thousand). The maturity of the loan is 10 years for each individual tranche.

On 24 June 2011, the Parent Company issued Eurobonds with a five-year maturity and fixed coupon of 4.5% p.a. The issue amounted to EUR 300 million and the issue rate was 99.479%. These bonds are listed on the Luxembourg stock exchange.

On 23 July 2012, the Parent Company issued Eurobonds with a seven-year maturity and fixed coupon of 4.125% p.a. The issue amounted to EUR 300 million and the issue rate was 99.821%. These are bonds listed on the Luxembourg stock exchange.

On 25 July 2013, the Parent Company issued domestic bonds with a total nominal value of CZK 4 billion with the issue rate of 99.502 % of the nominal value, with the maturity of five years and a float interest yield on a half-year basis which is composed of the 6M PRIBOR rate plus a margin of 1.70 % p.a. The bonds are listed on the Regulated Market of the Prague Stock Exchange (Regulovaný trh Burzy cenných papírů Praha, a.s.).

On 5 November 2014 the Parent Company issued a EUR 180 million dual tranche debt private placement, consisting of a EUR 30 million 2.875% standalone bond with maturity of 10 years and a EUR 150 million 3.50% registered note ("Namensschuldverschreibung") with maturity of 15 years.

On 25 November 2014, the Parent Company made the last loan repayment pursuant to the loan agreement with a consortium of banks led by Československá obchodní banka, a.s. Other members of the consortium include Kreditanstalt für Wiederaufbau, Bayerische Landesbank, Česká spořitelna, a.s. and Deutsche Bank Filiale Prag, org. složka. The loan was provided to finance the renovation of the Company's rolling stock and is collateralised by a state guarantee issued by the Czech Finance Ministry. This guarantee serves to collateralise the principal balance and interest.

ČD Cargo, a.s. has an approved bond programme in the maximum amount of CZK 6 billion for 10 years under which it placed to the first issue of five-year bonds with a fixed coupon of 3.183% p.a. for the first three years and 5% p.a. for the remaining two years on 20 June 2011. The issue amounted to CZK 1 billion with the issue rate of 98.025%.

On 21 December 2011, in the second issue, ČD Cargo, a. s. issued five-year bonds in the aggregate amount of CZK 500 million with the issue rate of 99.941 % and the fixed interest yield of 3.8% p. a. through Československá obchodní banka, a.s.

The third issue was placed on 22 December 2011 when ČD Cargo issued four-year bonds with the aggregate nominal value of CZK 500 million, with the issue rate of 97.464 % and a variable interest yield based on the 6M PRIBOR reference rate. The interest on these bonds is paid twice a year.

In 2012, ČD Cargo placed two issues of bonds worth CZK 500 million through Československá obchodní banka, a.s. Both issues are due on 22 December 2015. The nominal value of the issued bonds is CZK 1. The interest rate attached to the bonds is variable. The interest on these bonds is paid twice a year.

ČD Cargo, a.s. recorded calls for a premature redemption of part of the first issue of the bonds placed through KB, a.s. with the summary total nominal value of CZK 341.7 million within the due period. This amount was redeemed as of 20 June 2014.

The issue of bonds of ČD Cargo, a.s. in Československá obchodní banka in the amount of CZK 1 billion was reclassified from long-term to short-term as of 31 December 2014 as a result of the maturity on 22 December 2015.

The supplier of Výzkumný Ústav Železniční, a.s., Chládek a Tintěra, provided the entity with a commercial loan of CZK 61,200 thousand. The loan was repaid in mid-2014.

The Group breached no loan covenants in the reporting period.

26.1. Finance Lease Payables

The finance lease applies to railway vehicles, vehicles and equipment for computers and servers. The value of finance leases is as follows:

	(CZK '000)					
	31 Dec 2014	Minimum lease payments 31 Dec 2013	1 Jan 2013	Present value of minimum lease payments 31 Dec 2014	31 Dec 2013	1 Jan 2013
Less than 1 year	1 140 305	1 151 279	1 429 443	925 250	927 893	1 185 723
From 1 to 5 years	4 051 818	3 918 320	3 668 208	3 530 299	3 341 935	3 037 859
5 years and more	1 300 961	1 867 362	2 111 597	1 208 739	1 748 797	1 945 862
Total	6 493 084	6 936 961	7 209 248	5 664 288	6 018 625	6 169 444
Less future finance expenses	-828 796	-918 336	-1 039 804			
Present value of minimum lease payments	5 664 288	6 018 625	6 169 444	5 664 288	6 018 625	6 169 444
In the statement of financial position as:						
- short-term loans				925 250	927 893	1 185 723
- long-term loans				4 739 038	5 090 732	4 983 721
Total				5 664 288	6 018 625	6 169 444

The fair value of finance lease payables approximates their carrying amount, except for the items described in the Note 'Financial Instruments'.

The acquisition of fixed assets under finance leases is reported as a non-cash transaction in the statement of cash flows. Finance leases are not presented as a loan provided to purchase tangible assets according to the substance of the transaction but only according to the actual cash flow from financing.

27. PROVISIONS

	Balance at 1 Jan 2013	Charge	Use	Balance at 31 Dec 2013	Charge	Use	(CZK '000) Balance at 31 Dec 2014
Provision for discounts and refunds	52 824	41 388	73 391	20 821	16 176	20 820	16 177
Provision for rents	6511	206	1 969	4 748	197	496	4 449
Provision for legal disputes	336 159	293 628	23 937	605 850	341 201	107 041	840 010
Provision for outstanding vacation days	73 595	75 317	73 699	75 213	80 173	75 674	79 712
Provision for removal of the environmental burden	34 304	0	30 471	3 833	0	3 833	0
Provisions for employees benefits	373 782	96 183	119 587	350 378	183 365	139 180	394 563
Provisions for business risks	539 988	362 959	0	902 947	37 275	916 518	23 704
Provisions for restructuring	535 125	0	285 152	249 973	0	69 652	180 321
Provisions for loss-making transactions	0	0	0	0	525 450	0	525 450
Other provisions	10 545	31 844	26 724	15 665	83 287	48 727	50 225
Total provisions	1 962 833	901 525	634 930	2 229 428	1 267 124	1 381 941	2 114 611
- long-term	241 144			213 071			826 019
- short-term	1 721 689			2 016 357			1 288 592

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate important birthdays, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. In calculating the provision, the Group used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees of 5%, anticipated increase in salaries of 2%, anticipated inflation level of 2%, likelihood of death or disablement according to the data of the Czech Statistical Office. A change in the amount of the provision due to the change in these parameters is reported as actuarial gains (losses) in the statement of profit or loss. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

The provision for the removal of the environmental burden is recognised for the clean-up of the locality in Brodek u Přerova. All costs have been invoiced, the provision was released in 2014. The Group does not recognise provisions for other environmental burdens as it is unable to estimate the scope of these burdens and the level, if any, of its share in their removal.

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

After having considered all existing legal analyses and results of negotiations in existing legal disputes and having assessed all potential risks, current developments in legal disputes and in accordance with the inherent level of prudence, management of ČD Cargo, a.s. has decided to decrease the amount of the non-tax deductible provision to cover potential expenses relating to potential risks for business transactions. The total balance of the provision as of 31 December 2014 is CZK 23,705 thousand. The provision for business risks was decreased by CZK 916,518 thousand primarily due to the conclusion of an agreement on out-of-court settlement with SŽDC regarding the consumed traction energy during 2009 and settlement of damage due to traffic closures caused by SŽDC. The out-of-court settlement agreement was concluded for the total amount of CZK 375,811 thousand, of which CZK 61,786 thousand relates to the settlement of damage caused by the traffic closures and CZK 314,025 thousand relates to the price of purchased traction energy for 2009. In addition, a court ruling was made on 15 January 2014 regarding the legal dispute for the damage due to SŽDC's traffic closures based on which ČD Cargo, a.s. is obliged to settle the payable of CZK 164,152 thousand to SŽDC.

As of 31 December 2012, management of ČD Cargo, a.s. decided to make organisational changes pursuant to the prepared restructuring plan, the main features of which were communicated within the company. The future cash outflows associated with the restructuring were estimated at CZK 535,000 thousand in the plan. During the year ended 31 December 2013, the amount of the provision decreased by the use by CZK 285,027 thousand to the balance of CZK 249,973 thousand as of 31 December 2013. During the year ended 31 December 2014, this provision was used and specified, it amounted to CZK 180,321 thousand as of 31 December 2014. These funds will continue to be available to the company to cover the costs relating to the restructuring in the following reporting period.

During the year, ČD Cargo, a.s. recognised a provision for loss-making transactions. The amount of the provision is determined on the basis of a reasonable estimate as equal to the future liability arising from the loss.

The amount includes the difference between the discounted net anticipated income and discounted anticipated expenses. The provision amounts to CZK 525,450 thousand as of 31 December 2014.

28. TRADE PAYABLES

Year	Category	Before due date	Past due date (days)				Total past due date	(CZK '000)	
			1-30 days	31-90 days	91-180 days	181-365 days		365 and more	Total
31 Dec 2014	Short-term	6 339 790	150 034	11 460	5 212	175 935	12 150	354 791	6 694 581
31 Dec 2013	Short-term	6 430 037	64 052	75 091	5 428	2316	5 633	152 520	6 582 557
1 Jan 2013	Short-term	7 153 972	188 347	16 043	3 155	24 607	42 575	274 727	7 428 699

29. OTHER FINANCIAL LIABILITIES

	(CZK '000)		
	31 Dec 2014	31 Dec 2013	1 Jan 2013
Hedging derivatives	494 172	155 269	377 018
Other financial derivatives	5 573	10 014	0
Other long-term liabilities	683 489	255 380	431 264
Total long-term	1 183 234	420 663	808 282
Hedging derivatives	254 787	189 382	50 687
Other financial derivatives	16 712	14 616	41 661
Other	382 902	204 953	676 818
Total short-term	654 401	408 951	769 166
Total	~ 1 837 635	829 614	1 577 448

Long-term other financial liabilities primarily include liabilities of ČD Cargo, a.s. to SŽDC of CZK 331,966 thousand and consist of the long-term portion of a payable arising from the concluded out-of-court agreement regarding the dispute about the price of traction energy during 2009 and settlement of damage due to SŽDC's traffic closures. Another long-term liability of ČD Cargo, a.s. to SŽDC of CZK 77,522 thousand relates to the settlement of the damage due to SŽDC's traffic closures pursuant to a court ruling dated 15 January 2014.

As of 31 December 2014, short-term other financial liabilities primarily include a payable of ČD Cargo, a.s. to SŽDC of CZK 98,562 thousand.

“Other” additionally includes a payable arising from supplier loans divided to short-term and long-term portions.

30. OTHER LIABILITIES

	31 Dec 2014	31 Dec 2013	(CZK '000) 1 Jan 2013
Total long-term	581252	520 291 *	375 591
Received prepayments	431 189	303 302	298 239
Payables from the transition period (SŽDC-transformation)	0	0	12 585
Payables to employees	948 164	1 043 061	1 110 783
Social security and health insurance payables	345 532	360 186	355 374
Subsidies	5 737	4 475	6 041
Other	865 859	1 145 669	1 104 074
Total short-term	2 596 481	2 856 693	2 887 096
Total	3 177 733	3 376 984	3 262 687

Other short-term liabilities predominantly include leases received in advance, tax withheld from employees and other deferred income.

The Group carries no payables to taxation authorities, social security authorities or health insurers past their due dates.

31. RELATED PARTY TRANSACTIONS

31.1. Loans to Related Parties

The Group provided no loans to related parties as of 31 December 2014, 31 December 2013 and 1 January 2013.

31.2. Key Management Members Compensation

Directors and other members of key management received short-term employee benefits of CZK 166,561 thousand in 2014 (2013: CZK 220,829 thousand) and post-employment benefits of CZK 14,968 thousand. The members of the Parent Company's statutory and supervisory bodies had the possibility of using reduced fares. Cash bonuses to the members of the Group's statutory and supervisory bodies in the years ended 31 December 2014 and 2013 amounted to CZK 60,528 thousand and CZK 37,372 thousand, respectively. Management of the Group is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.

31.3. Transactions with SŽDC and the ČEZ Group

The Parent Company is wholly owned by the state. In accordance with the exemption listed in paragraphs 25 - 27 of IAS 24, the Parent Company does not include other state-owned entities among related parties. The table below presents only transactions with SŽDC and the ČEZ group as a result of their significant position in the Group's activities. The most significant transactions with these entities include use of the railway route, purchase of electricity and freight transportation revenues.

The expenses and income resulting from the transactions conducted with SŽDC and the ČEZ group were as follows:

	2014		(CZK '000) 2013	
	SŽDC	ČEZ group	SŽDC	ČEZ group
Expenses	4 512 650	625 614	4 478 386	809 994
Income	1 054 211	512 925	870 918	758 483

Receivables and payables of the Group resulting from the transactions with SŽDC and the ČEZ group were as follows:

	31 Dec 2014		31 Dec 2013		(CZK'000) 1 Jan 2013	
	SŽDC	ČEZ group	SŽDC	ČEZ group	SŽDC	ČEZ group
Receivables ("Trade receivables" line)	253 296	74 392	263 074	76 463	184 577	198 122
Payables ("Trade payables" line)	1 512 920	177 803	1 104 871	229 195	959 897	255 360
Prepayments made ("Other assets" short-term line)	52 117	2 581	32 177	2 774	47 492	724
Received prepayments ("Other liabilities" short-term line)	257 380	2 404	197 445	249	122 374	2 829
Estimated payables ("Trade payables" line)	37 734	129	51 442	1 568	15 064	3 069
Estimated receivables ("Trade receivables" line)	70 736	0	59 462	23	49 826	287

32. CASH AND CASH EQUIVALENTS

For cash flow reporting purposes, cash and cash equivalents include cash on hand, cash at bank and investments in the money market instruments after reflecting negative balances on overdraft accounts. Cash and cash equivalents at the end of the reporting period reported in the cash flows statement can be reconciled to the relevant items in the statement of financial position as follows:

	31 Dec 2014		31 Dec 2013		(CZK'000) 1 Jan 2013	
	SŽDC	ČEZ group	SŽDC	ČEZ group	SŽDC	ČEZ group
Cash on hand and cash in transit	55 853		64 450		92 806	
Cash at bank	3 737 118		1 551 485		1 431 863	
Short-term securities	250 000		140 000		0	
Total	4 042 971		1 755 935		1 524 669	

33. CONTRACTS FOR OPERATING LEASES

33.1. The Group as a Lessee

Assets under operating leases which are reported off balance sheet as of 31 December 2014, 31 December 2013 and 1 January 2013 amount to CZK. 57,101 thousand, CZK 53,582 thousand and CZK 52,665 thousand, respectively. Assets include a number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognised in expenses in the years ended 31 December 2014 and 2013 amounted to CZK 62,544 thousand and CZK 68,831 thousand, respectively.

The Group as a lessee has not concluded any irrevocable lease contracts, contingent lease contracts or onerous contracts.

33.2. The Group as a Lessor

Operating leases apply to investment property and movable assets held by the Group with various lease periods.

The revenue that the Group generated from investment property based on the operating leases amounts to CZK 518,122 thousand in 2014 (2013: CZK 536,822 thousand).

Direct operating expenses relating to investment property for 2014 amounted to CZK 212,889 thousand (2013: CZK 203,064 thousand).

Income from operating leases of movable assets in 2014 amounts to CZK 406,414 thousand (2013: CZK 580,989 thousand).

The Group as a lessor concluded no irrevocable contracts for operating leases.

34. CONTRACTUAL OBLIGATIONS RELATING TO EXPENSES

As of the consolidated balance sheet date, the Group concluded contracts for the purchase of land, buildings and equipment and investment property in the amount of CZK 12,673,850 thousand, of which CZK 4,374,159 thousand relates to supplies contracted for 2015 and CZK 3,108,043 thousand relates to supplies contracted for the following years. The remaining CZK 5,191,648 thousand was paid as of 31 December 2014. A significant portion of the obligations relating to expenses (CZK 12,094,277 thousand) include investments in railway vehicles.

35. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the ongoing arbitration proceedings, Škoda Transportation a.s. is claiming the total amount of approximately CZK 1.088 million and accrued interest. In these arbitration proceedings, České dráhy, a.s. (ČD) is claiming the total amount of approximately CZK 906 million and accrued interest plus the provision of authorisation for operating locomotives in Germany and Austria. The Company recognises a provision (refer to the provision for legal disputes) for part of the claimed amount where the Company considers the risk of future cash outflows to be material. The Company considers the other amounts claimed by Škoda Transportation a.s. and the total amount claimed by České dráhy a.s. to be conditioned by the outcome of the arbitration court which has not yet ruled on the merits of the above claims; for this reason, it is not possible to determine the form and amount of the final settlement.

In 2014, the audit bodies of the Ministry of Finance initiated an audit of the use of subsidies by the Parent Company. The audit body is of the view that České dráhy breached the conditions underlying the subsidy by allowing the conclusion of an amendment that, according to the audit body, resulted in an unauthorised significant change in the contract in terms of the Public Procurement Act. České dráhy does not agree with the conclusions made by the audit body and is undertaking the relevant legal steps. The audit body did not conduct a comprehensive assessment of the matter. On the contrary, the amendment allowed České dráhy to use railway vehicles for its business activities and consequently generate profit and obtain a longer guarantee for the vehicles. The Company has not yet been called upon to refund the subsidy. The amount of subsidies that have been subject to the audit is CZK 825,590 thousand. The sanction in the form of the refund of the subsidy may amount up to 25% of this amount according to the conditions.

The Parent Company holds a 1% equity investment in EUROFIMA. Shareholders of the entity are European national railway transporters and the purpose of this entity is to acquire funds for funding of railway vehicles purchases. According to Article 5 of the Articles of Association, shareholders pay to EUROFIMA only 20% of the equity investment value and the remaining 80% can be required by EUROFIMA as needed pursuant to the resolution of the Board of Directors according to Point 6, Article 21, of the Articles of Association. The nominal value of unpaid shares as of 31 December 2014 was CHF 20,800 thousand. The likelihood that the Parent Company will be asked to pay the nominal value of the unpaid portion of the equity investment is considered to be low by the Parent Company's management.

ČD Cargo reports a bank guarantee in favour of WestInvest Waterfront Towers s.r.o. for the compliance with all liabilities and obligations of a lessee resulting from the lease contract with WestInvest Waterfront Towers s.r.o. - Lighthouse in the amount of EUR 227 thousand with maturity on 30 September 2015.

ČD Cargo reports a bank guarantee in favour of HYPARKOS, s.r.o. which is held to cover the situation where ČD Cargo would not comply with the obligations stipulated in the Contract for the Lease of Buildings and Land in the Lovosice Logistics Centre. The guarantee amounts to CZK 16,517 thousand and is valid until 30 June 2015.

ČD Cargo, a.s. records a bank guarantee in favour of the Customs Authority for the South Bohemian region as a customs guarantee for other than transit transactions, to secure customs and tax debt which means the obligation to pay the customs duty, taxes and fee collected in import, including accrued interest, except for fines. The guarantee amounts to CZK 2 million and is due without limitations.

ČD Cargo, a.s. additionally the following securement from orders:

Name of the order	Applicant-name	Required securements	Securement paid on
Inspection repairs of Eas 11 wagons	Legios Loco, a.s.	CZK 3 500 000	10 Jan 2014
Inspection repairs of Eas Eas 11 wagons	Ostravské opravny a strojírny, s.r.o.	CZK 3 500 000	8 Jan 2014
Inspection repairs of Falls 11 wagons	Ostravské opravny a strojírny, s.r.o.	CZK 12 000 000	8 Jan 2014
Inspection repairs of Falls 11 wagons	Legios Loco, a.s.	CZK 12 000 000	10 Jan 2014
Inspection repairs of Eas 52 wagons	Ostravské opravny a strojírny, s.r.o.	CZK 4 000 000	8 Jan 2014
Inspection repairs of Eas 52 wagons	Legios Loco, a.s.	CZK 4 000 000	10 Jan 2014
Inspection repairs of Eas 53 wagons	Ostravské opravny a strojírny, s.r.o.	CZK 4 000 000	8 Jan 2014
Inspection repairs of Eas 53 wagons	Legios Loco, a.s.	CZK 4 000 000	10 Jan 2014
Technical inspection of Eas 53 wagons	Ostravské opravny a strojírny, s.r.o.	CZK 1 225 000	29 Aug 2014
Technical inspection of Falls 11 wagons	Ostravské opravny a strojírny, s.r.o.	CZK 1 400 000	29 Aug 2014
Technical inspection of Eas 53 wagons	Legios Loco, a.s.	CZK 1 225 000	9 Sept 2014
Technical inspection of Falls 11 wagons	Legios Loco, a.s.	CZK 1 400 000	9 Sept 2014

The Parent Company's aggregate costs of clean-ups in 2014 and 2013 were CZK 29 million and CZK 32 million, respectively. The Parent Company is not aware of any environmental burdens that would exceed legislative limits and represent harm to human health or property of third parties. The provisions for clean-ups of other environmental burdens are not recognised as the Parent Company is unable to estimate the scope of these burdens and its potential involvement in their removal. The Parent Company has not prepared an overall strategy and plan of clean-ups according to which it could recognise the provisions.

36. FINANCIAL INSTRUMENTS

36.1. Capital Risk Management

The Group manages its capital to ensure that it is able to continue as a going concern while optimising the debt and equity balance. The Board of Directors and the Supervisory Board of the Parent Company are regularly informed about the development of debt. Any additional debt is subject to approval by the Parent Company's statutory bodies, ie the Board of Directors, the Supervisory Board and the Steering Committee.

The Group uses issues of bonds as a principal source of long-term funding.

36.2. Significant Accounting Policies

Details of the significant accounting policies and methods adopted for each class of financial asset, financial liability and equity instrument are disclosed in Note 2.

36.3. Categories of Financial Instruments

	31 Dec 2014	31 Dec 2013	(CZK '000)
Financial assets			1 Jan 2013
Cash and bank accounts	3 792 971	1 755 935	1 513 949
Derivative instruments in designated hedge accounting relationships	1 435 693	1 269 263	304 967
Other financial derivatives	5	3 904	0
Held-to-maturity investments (term deposits and promissory notes)	250 000	0	10 720
Loans and receivables	3 309 934	3 617 862	3 516 534
Available-for-sale financial assets	320 531	320 531	335 323
Total	9 109 134	6 967 495	5 681 493

	31 Dec 2014	31 Dec 2013	(CZK '000)
Financial liabilities			1 Jan 2013
Derivative instruments in designated hedge accounting relationships	748 959	344 651	427 705
Other financial derivative instruments	22 285	24 630	41 661
Measured at amortised cost	44 543 355	41 627 803	38 128 149
Total	45 314 599	41 997 084	38 597 515

Other financial derivative instruments are classified as Financial assets/liabilities at fair value through profit or loss.

Available-for-sale financial assets include investments in equity investments that do not have listed market values on an active market and are measured at cost as their fair value cannot be reliably determined.

Income from individual categories of financial assets is as follows:

	2014	2013	(CZK'000)
Financial assets		Reported in the statement of profit or loss line	
Interest on cash in bank accounts	4 734	3 106	Other losses
Interest on investments held to maturity (term deposits and promissory notes)	963	1 016	Other losses
Dividends from available-for-sale financial assets	1 129	1 926	Other losses
Total	6 826	6 048	

Impairment losses on financial assets are presented in the Note 'Trade receivables'. No significant impairment was noted in respect of any other class of financial assets.

36.4. Financial Risk Management Objectives

The Group's Treasury function provides services to the Parent Company, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Parent Company through internal risk reports which analyse risks by materiality. These risks include market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

36.5. Currency Risk Management

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. These transactions predominantly include income from international transportation, received loans and issued bonds. In line with the approved Risk Management Strategy, the Group hedges the anticipated payments in a foreign currency up to 70%.

The carrying amounts of the Group's foreign currency denominated financial assets and financial liabilities, net of currency hedging, at the end of the reporting period are as follows:

31 Dec 2014	EUR	USD	Other	(CZK '000)
Financial assets	2 491 476	9 354	6 697	Total 2 507 527
Financial liabilities	-26 816 680	-1 813	-7 769	-26 826 262
Total	-24 325 204	7 541	-1 072	-24 318 735

31 Dec 2013	EUR	USD	Other	(CZK '000)
Financial assets	2 181 298	5 697	214 902	Total 2 401 897
Financial liabilities	-22 749 772	-5 845	-138 168	-22 893 785
Total	-20 568 474	-148	76 734	-20 491 888

1 Jan 2013	EUR	USD	Other	(CZK '000)
Financial assets	2 200 954	16 173	60 067	Total 2 277 194
Financial liabilities	-21 609 983	-109 450	-779	-21 720 212
Total	-19 409 029	-93 277	59 288	-19 443 018

36.5.1. Foreign Currency Sensitivity Analysis

The exposure to currency risks is measured by a sensitivity analysis. The Group is exposed to the currency risk due to:

- Changes in the value of cash items denominated in foreign currencies; and
- Changes in the fair value of concluded financial derivatives.

The following table shows the impact that the strengthening of the Czech currency by one crown in respect of the relevant foreign currencies would have on the profit and other comprehensive income. A positive number indicates an increase in the profit and other comprehensive income, a negative number indicates the decrease in the profit and other comprehensive income:

	(CZK '000)	
	2014	2013
Translation of items denominated in foreign currencies at the end of the period	874 657	735 035
Change in the fair value of derivatives at the end of the period	-677 338	-543 348
Total impact on the profit for the period	197 319	191 687
Change in the fair value of derivatives at the end of the period	-55 704	43 093
Total impact on other comprehensive income	-55 704	43 093

36.5.2. Currency Forwards and Options

In line with its principles, the Group enters into currency forwards and options to cover the received payments denominated in foreign currencies.

The table shows outstanding foreign currency forwards and options for the sale of the foreign currency as of:

					(CZK '000)
Sale	Average currency exchange rate	Foreign currency	Nominal value		Fair value
31 Dec 2014	27.182	EUR	55 000		-31271
	26.45-27.25	EUR	24 000		-8 603
31 Dec 2013	26.066	EUR	86 000		-117 642
	25.17-26.20	EUR	12 000		3 123
1 Jan 2013	25.626	EUR	23 000		12 560

The table shows outstanding foreign currency forwards and options for the purchase of the foreign currency as of:

					(CZK '000)
Purchase	Average currency exchange rate	Foreign currency	Nominal value		Fair value
31 Dec 2014	22.51	USD	15		5
	26.94	EUR	44 000		21 648
31 Dec 2013	20.16	USD	1 110		-310
	24.84	EUR	205		-7
1 Jan 2013	19.32	USD	70		-20
	22.51	USD	15		5

In 2013, the Parent Company concluded currency forwards in order to hedge repayments of EUR loans that were due in the first half of 2014. These derivatives were classified as fair value hedges. The gain from fair value hedging instruments amounts to CZK 1,534 thousand and CZK 21,648 thousand for the years ended 31 December 2014 and 2013, respectively. The loss from the hedged item was identical and the hedging was fully effective.

36.5.3. Cross-currency Interest Rate Swaps

In accordance with the currency risk management requirements, the Group has entered into cross-currency interest rate swaps which reduce the risk of the change in the future cash flows resulting from the bond funding in EUR and the risk of the change in the fair value of those bonds.

The table shows the terms of contracts for cross-currency interest rate swaps that were opened at the end of the reporting period.

31 Dec 2014	Nominal value (EUR thousand)	Collected interest rate (annual)	Nominal value (CZK thousand)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	667 000	4.07%	-17 100 970	4.13%	35 283
1 to 5 years	667 000	3.91%	-17 100 970	4.09%	1 325 154
5 years and more	177 000	3.40%	-4 923 255	3.55%	-176 941
Total					1 183 496

31 Dec 2013	Nominal value (EUR thousand)	Collected interest rate (annual)	Nominal value (CZK Average paid thousand) interest rate (annual)	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	490 000	4.31%	-12 177 715 4.36%	39 251
1 to 5 years	490 000	4.26%	-12 177 715 4.39%	648 228
5 years and more	250 000	4.13%	-6 350 000 4.478%	506 250
Total				1 193 729

1 Jan 2013	Nominal value (EUR thousand)	Collected interest rate (annual)	Nominal value (CZK Average paid thousand) interest rate (annual)	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	490 000	4.31%	-12 177 715 4.36%	-8 464
1 to 5 years	490 000	4.31%	-12 177 715 4.36%	100 777
5 years and more	250 000	4.48%	-6 350 000 4.478%	-65 000
Total				27313

The exchanges of payments under the cross-currency interest rate swaps and coupon payments from issued bonds occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the coupon payments from the issued bonds affect the profit or loss.

36.6. Interest Rate Risk Management

The Group is exposed to the risk of interest rate changes because it borrows funds at both fixed and floating interest rates. The Group manages the interest rate risk by maintaining an appropriate mix between fixed and floating rate financing, and, for this purpose, the Group concludes contracts for interest rate swaps so that the proportion of long-term external sources of funding with floating interest rates does not exceed the maximum level of 50%. The hedging is regularly assessed to bring the opinions on the development of interest rates into line with the defined level of acceptable risk. This treatment provides for the application of the economically most effective hedging strategies.

36.6.1. Interest Rate Sensitivity Analysis

The exposure to changes in interest rates is measured by the sensitivity analysis. The Group is exposed to the interest rate risk due to:

- Changes in interest expenses from loans and lease with a variable rate;
- Changes in the present value of long-term provisions resulting from the change in the discount rate; and
- Change in the fair value of concluded financial derivatives.

The following table shows the impact that an increase in interest rates of 200 basis points would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates the decrease in the profit and other comprehensive income:

	2014	(CZK '000) 2013
Interest from loans and lease with variable rate for the period	-6 831	-5 837
Change in the present value of long-term provisions at the end of the period	87 055	25968
Change in the fair value of derivatives at the end of the period	26 760	45161
Total impact on the profit for the period	106 984	65292
Change in the fair value of derivatives at the end of the period	408 198	466237
Total impact on other comprehensive income	408198	466 237

36.6.2. Interest Rate Swaps

Based on interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to eliminate the risk of changing cash flows on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following table details the terms of interest rate swap contracts outstanding at the end of the reporting period.

	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value of assets as of 31 December 2014
Less than 1 year	Loans from Eurofima and ČSOB float interest bonds	1.50%	EUR 105 million	-39 622
		1.88%	CZK 5 000 million	-61 213
		1.40%	CZK 1 261 million	-21 313
				-122 148
1 to 5 years	Loans from Eurofima and ČSOB float interest bonds	2.43%	EUR 60 million	-38 924
		1.61%	CZK 4 000 million	-139 328
		1.85%	CZK 1 081 million	-44 607
				-222 859
5 years and more	leases	1.87%	CZK 302 million	-3 006
Total				-348 013

	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value of assets as of 31 December 2013
Less than 1 year	Loans from Eurofima and ČSOB float interest bonds	1.13%	EUR 160 million	-36 075
		1.88%	CZK 5 000 million	-33 871
		3.27%	CZK 102 million	-14 847
				-84 793
1 to 5 years	Loans from Eurofima and ČSOB float interest bonds	1.50%	EUR 105 million	-54 751
		1.88%	CZK 5,000 million	-69 884
		1.67%	CZK 1 477 million	-22 187
				-146 822
5 years and more	leases	1.82%	CZK 695 million	10 060
Total				-221 555

1 Dec 2013	Hedging of interest rate from	Average contracted fixed interest rate	Principal	Fair value in CZK thousand
Less than 1 year	Loans from Eurofima and ČSOB float interest bonds	1.13%	EUR 170 million	-33 016
		3.07%	CZK 1 678 million	-24 984
1 to 5 years	Loans from Eurofima and ČSOB float interest bonds	1.19%	EUR 160 million	-83 762
		3.13%	CZK 2 433 million	-55 689
5 years and more	leases	3.27%	CZK 478 million	-8 055
Total		-205 506		

The Group settles the difference between the fixed and float interest rates on a net basis. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the float interest rates on debt affect the profit or loss.

36.6.3. Interest Rate Options

In 2011, the Group concluded hedging of interest rates in respect of three lease transactions with floating interest rates. The hedging took the form of a collar, in three individual tranches. The hedging will be effective from 2013 to 2019. These are trading derivatives.

	Hedged range	Principal in CZK thousand	Fair value of assets (liabilities) in CZK thousand at 31 Dec 2014
Less than 1 year	1.13%-3.13%	88 337	-3 246
1 to 5 years	1.13%-3.13%	300 854	-5 283
5 yeats and more	1.13%-3.13%	64 233	-291
Total			-8 819

	Hedged range	Principal in CZK thousand	Fair value of assets (liabilities) in CZK thousand at 31 Dec 2013	Fair value of assets (liabilities) in CZK thousand at 31 Dec 2012
Less than 1 year	1.13%-3.13%	85 818	-2 585	-3 971
1 to 5 years	1.13%-3.13%	402 585	3 242	-6 282
5 years and more	1.13%-3.13%	117 458	662	31
Total			1 319	-10 222

36.7. Commodity Risk Management

The Group is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically oil and electricity, is a significant cost item of the Group. The Group manages this risk using the combination of several instruments as follows:

- Conclusion of hedging derivatives for oil purchase and traction energy;
- In the event of an increase in the price of the commodities the Group has the possibility of asking the regions and the state for increased payments for transportation; and
- Negotiating a fixed price of electricity from the relevant supplier always for the following calendar year.

36.7.1. Analysis of Sensitivity to Changes in Commodity Prices

The exposure to the change in the price of commodities is measured by the sensitivity analysis. The Group is exposed to the risk of changes in prices of commodities due to:

- Change in the fair value of concluded financial derivatives; and
- Changes in prices of purchased commodities.

The following table shows the impact that an increase in the oil price of 10% would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates a decrease in the profit and other comprehensive income:

	(CZK '000)	
	2014 "	2013
Costs of oil consumption for the period *)	-188 492	-195 631
Change in the fair value of derivatives at the end of the period	-3 350	-1 865
Total impact on the profit for the period	-191 842	-197 496
Change in the fair value of derivatives at the end of the period	42 325	53 978
Total impact on other comprehensive income	42 325	53 978

*) includes both the hedged and unhedged part of oil consumption

3 6.7.2. Commodity Derivatives

The table shows outstanding commodity contracts for the purchase of oil as of:

Purchase of oil	Hedged value	Volume of contracts (mt)	(CZK'000)	
			Fair value (CZK thousand)	
31 Dec 2014	16 751	8400	-35 165	
	14 200 - 20 450 CZK/mt	2 040	-49 077	
	773 - 970 USD/mt	10 200	-46 702	
31 Dec 2013	CZK 17 485	11 760	16 942	
	14 200- 19 300 CZK/mt	20 520	18 357	
1 Jan 2013	CZK 17277	21650	7 350	
	17 010- 19 300 (CZK/mt)	8 640	-986	
	670 - 820 (USD/mt)	786	1 996	

36.8. Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The concentration of the Parent Company's credit risk is low as a significant portion of the Parent Company's revenues (passenger transportation fare) is collected in cash. In other transactions, the Group seeks to deal only with creditworthy counterparties whom the Group reviews on an ongoing basis using publicly available information. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned (the investment grade is required).

The carrying amount of financial assets recognised in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The credit quality of receivables that are not past their due dates or otherwise impaired is good and corresponds to the carrying value.

36.9. Liquidity Risk Management

The ultimate responsibility for liquidity risk management rests with the Board of Directors of the Parent Company which has established an appropriate liquidity risk management framework. The Parent Company manages its liquidity risk by a process of planning future cash flows and provision of short-term funding (bill-of-exchange programme and agreed overdraft loans). Forecasted and actual cash flows are monitored on a continuous basis. In order to minimise the risk of insufficient operating funding, the Parent Company concludes binding lending limits with banks with the minimum period of 12 months.

The Group's short-term liabilities significantly exceed its short-term assets as of 31 December 2014. In order to secure sufficient short-term liquidity, the Parent Company has contracted committed credit facilities so that its available funds exceed its short-term liabilities. The liquidity balance is monitored by the Moody's rating agency on an ongoing basis.

36.9.1. Liquidity and Interest Rate Risk Tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that instruments carry the floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period and may change if interest rates differ from the estimates. The contractual maturity is based on the earliest date on which the Group may be required to pay.

31 Dec 2014	Less than 1 month	1-3 months	3 months to 1 year	1 year- 5 years	5 years and more	(CZK '000) Total
Non-interest bearing	2 820 118	2 924 878	1 111 994	848 285	55 698	7 760 973
Derivatives	48 123	33 708	189 666	321 119	178 628	771 244
Finance lease liabilities	95 506	190 767	854 032	4 051 818	1 300 961	6 493 084
Float interest rate instruments	43 342	1 251 004	1 120 625	6 814 837	0	9 229 808
Fixed interest rate instruments	48 819	2 774	909 035	19 594 433	6 516 220	27 071 281
Total	3 055 908	4 403 131	4 185 352	31 630 492	8 051 507	51 326 390

31 Dec 2013	Less than 1 month	1-3 months	3 months to 1 year	1 year- 5 years	5 years and more	(CZK '000) Total
Non-interest bearing	2 910 901	2 828 963	1 032 099	139 495	58 899	6 970 357
Derivatives	11 439	24 671	167 890	163 645	1 636	369 281
Finance lease liabilities	121 034	201 991	828 254	3 918 320	1 867 362	6 936 961
Float interest rate instruments	893 238	708 700	1 970 487	8 607 228	0	12 179 653
Fixed interest rate instruments	33	69	790 649	10 898 546	8 537 907	20 227 204
Total	3 936 645	3 764 394	4 789 379	23 727 234	10 465 804	46 683 456

1 Jan 2013	Less than 1 month	1-3 months	3 months to 1 year	1 year- 5 years	5 years and more	(CZK '000) Total
Non-interest bearing	3 585 937	3 441 813	1 052 857	299 015	57 332	8 436 954
Derivatives	1 108	16 740	101 807	276 656	73 055	469 366
Finance lease liabilities	135 377	249 379	1 044 687	3 668 208	2 111 597	7 209 248
Float interest rate instruments	861 215	408 825	368 505	6 237 116	0	7 875 661
Fixed interest rate instruments	626	1 367	714 250	10 429 526	8 155 549	19 301 318
Total	4 584 263	4 118 124	3 282 106	20 910 521	10 397 533	43 292 547

The following tables present the Group's expected maturity for its financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets reflecting the anticipated maturity period. The table includes cash flows from the interest and principal.

31 Dec 2014						(CZK '000)
	Less than 1 month	1-3 months	3 months to 1 year	1 year- 5 years	5 years and more	Total
Non-interest bearing	5 605 436	702 361	673 060	29 891	320 582	7 331 330
Derivatives	5	0	48 818	1 386 875	0	1 435 698
Finance lease assets	4 542	0	67	43 970	459 181	507 760
Fixed interest rate instruments	250 000	0	0	3 595	0	253 595
Total	5 859 983	702 361	721 945	1464 331	779 763	9 528 383

31 Dec 2013						(CZK '000)
	Less than 1 month	1-3 months	3 months to 1 year	1 year- 5 years	5 years and more	Total
Non-interest bearing	3 845 376	746 903	668 067	10 707	320 531	5 591 584
Derivatives	14 941	4 156	72 541	674 616	506 913	1 273 167
Finance lease assets	4 235	0	67	28 099	475 141	507 542
Fixed interest rate instruments	0	0	0	5 775	0	5 775
Total	3 864 552	751 059	740 675	719 197	1302 585	7 378 068

1 Jan 2013						(CZK '000)
	Less than 1 month	1-3 months	3 months to 1 year	1 year- 5 years	5 years and more	Total
Non-interest bearing	3 577 524	793 869	566 832	18 575	335 344	5 292 144
Derivatives	4 619	6 523	35 778	258 047	0	304 967
Finance lease assets	4 064	0	67	26 569	463 430	494 130
Fixed interest rate instruments	2 096	4 192	4 432	10 772	0	21492
Total	3 588 303	804 584	607 109	313 963	798 774	6 112 733

36.9.2. Financing Facilities

The Group has access to the below loan facilities:

	31 Dec 2014	31 Dec 2013	(CZK '000) 1 Jan 2013
Overdraft loan facilities:			
– amount of the loan facility	3 400 000	3 450 000	3 430 000
– amount unused	3 400 000	2 605 309	2 570 495
Promissory notes programme:			
– amount of the loan facility	6 500 000	6 500 000	6 500 000
– amount unused	6 500 000	6 500 000	6 500 000

In April 2013, the ČD Group commenced implementing physical group cash-pooling. The total cash-pool overdraft facility is agreed to be CZK 1.5 billion. Komerční banka, a.s. was selected on the basis of a public tender to be the provider of physical cash-pooling, including the overdraft loan and the related banking services.

36.10. Fair Value of Financial Instruments

36.10.1. Fair Values of Financial Instruments Carried at Amortised Cost

The Parent Company issued publicly traded Eurobonds with the carrying amount of CZK 16,940,581 thousand as of 31 December 2014. Pursuant to the calculation using interest rate curves, their fair value amounts to CZK 17,912,568 thousand as of 31 December 2014. As of 12 March 2015, the market value of the issues from 2011 and 2012 was listed at 104.786% and 111.962%, respectively.

The carrying value of Eurobonds issued by the Parent Company in 2014 amounts to CZK 4,967,558 thousand as of 31 December 2014. Pursuant to the calculation using interest rate curves, their fair value amounts to CZK 5,237,779 thousand as of 31 December 2014.

The fair value of the lease as of 31 December 2014 amounts to CZK 5,742,703 thousand. The fair value of leases calculated with the fixed rate is determined by the recalculation according to the current rate. This up-to-date rate is generated based on the margin of the most recent lease transactions and market interest rate applicable as of the year-end which is subsequently used to recalculate the remaining payable of fixed leases.

The fair value of bonds of ČD Cargo, a.s. as of 31 December 2014 amounts to CZK 2,132,715 thousand. The fair value of bonds is recalculated based on the up-to-date issue rate communicated by individual banks.

Management of the Group believes that the carrying amount of all other financial assets and financial liabilities reported in the consolidated financial statements in carrying amounts does not significantly differ from their fair values.

36.10.2. Valuation Techniques Applied for the Purposes of Measuring Fair Value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- The fair values of other financial assets and financial liabilities (except for financial derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions, dealer quotes for similar instruments and an appropriate yield curve with the corresponding duration as appropriate;
- The fair values of financial derivatives are calculated using quoted prices. If these prices are not available, linear derivatives are measured using discounted cash flows with the use of quoted foreign exchange currency rates, quoted prices of commodities and an appropriate yield curve corresponding to the validity of contracts. An option valuation model is used for derivatives that include an option.

36.10.3. Fair Value Measurements Recognised in the Statement of Financial Position

Financial instruments measured at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments measured at fair value recognised by the Group as of 31 December 2014, 31 December 2013 and 1 January 2013 are included in Level 2.

37. POST BALANCE SHEET EVENTS

In January 2015, the Parent Company signed an out-of-court agreement regarding the dispute about the price of consumed traction energy during 2009 and settlement of damage due to traffic closures caused by SZDC. The out-of-court agreement was concluded in the total amount of CZK 375,811 thousand, of which CZK 61,786 thousand relates to the settlement of damage due to traffic closures and CZK 314,025 thousand relates to the price of the consumed traction energy for 2009.

The Parent Company is conducting a legal dispute with the Antimonopoly Office regarding the abuse of its dominant position and the relating imposed penalty of CZK 254 million. The Parent Company has recognised a provision for this penalty. Pursuant to the legal remedies filed by ČD, the court revoked the ruling of the Chairman of the Antimonopoly Office on 1 April 2015. The case is being referred back to the Antimonopoly Office which is required to deal with the matter again and make additional inquiries as and when appropriate. The Parent Company continues to treat the matter as being open and believes that the recognised provision is appropriate.

No other significant events occurred between the balance sheet date and the date of the preparation of the financial statements.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorised for issue on 8 April 2015.

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