



České dráhy, a.s.

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

Legal Entity Identifier (LEI): 31570010000000034336

EUR 500,000,000 1.500 per cent. Notes due 2026

The issue price of the EUR 500,000,000 1.500 per cent. Notes due 2026 (the “Notes”) of České dráhy, a.s. (the “Issuer” or “ČD”) is 98.619 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 23 May 2026 (the “Maturity Date”). 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. The Notes may also be redeemed at the option of the Issuer, in whole or in part pursuant to Condition 5(c) (Redemption at the option the Issuer) at their Make Whole Redemption Amount at any time until three months prior to their Maturity Date or at their principal amount on any date from three months prior to their Maturity Date until their Maturity Date. 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 23 May 2019 at the rate of 1.500 per cent. per annum payable annually in arrear on 23 May in each year commencing on 23 May 2020. 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 (the “Prospectus Directive”) as a prospectus. 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 Bookrunners (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 Citigroup Global Markets Europe AG as nominee for, and deposited with, the common safekeeper for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking SA (“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 10.

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 18 March 2019) on the ESMA website <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 Global Coordinators and Bookrunners

CITIGROUP

ERSTE GROUP BANK AG

Joint Bookrunner

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The date of this Prospectus is 21 May 2019

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 Bookrunners named under “*Subscription and Sale*” below (the “**Joint Bookrunners**”) 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 Bookrunners.

Neither the Joint Bookrunners 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 Bookrunners 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 Bookrunners 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.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”) or; (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs**”

Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

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 stabilisation may not occur. 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 cease 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(s) (or persons acting on behalf of the Stabilising Manager(s)) 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 or provided by the Ministry of Transportation of the Czech Republic (the “**Ministry of Transport**”), the European Investment Bank (the “**EIB**”), Eurostat, the Union Internationale des Chemins de Fer (“**UIC**”), Trans-European Transport Network (TEN-T), Czech Railway Infrastructure Administration (*Správa železniční dopravní cesty, státní organizace*) (“**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.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The financial information of the Group set forth in this Prospectus has, unless otherwise indicated, been derived from the Issuer's audited consolidated financial statements as of and for the years ended 31 December 2018 and 2017 incorporated by reference into this Prospectus (collectively the "Financial Statements"). See "Information Incorporated by Reference".

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted in the European Union (the "EU") and have been audited. The Czech Koruna is the presentation currency for the Financial Statements. The Financial Statements and financial information included elsewhere in this Prospectus have, unless otherwise noted, been presented in Czech Korunas.

Non-IFRS Information

Included in this Prospectus are certain measures which are not measures defined by IFRS, namely EBIT, EBITDA, EBITDA Margin, Leverage, Current Liquidity, Capital Expenditures, Return on Capital Employed, Total Debt, Total Debt/EBITDA, Total Net Debt, Total Net Debt/EBITDA, and which meet the definition of alternative performance measures (each an "APM") as described in the ESMA Guidelines on Alternative Performance Measures (the "ESMA Guidelines") published by the European Securities and Markets Authority on 5 October 2015. The ESMA Guidelines provide that an APM is understood as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. The ESMA Guidelines also note that they do not apply to APMs disclosed in accordance with applicable legislation, other than the applicable financial reporting framework, that sets out specific requirements governing the determination of such measures.

For the Group, measures that might be considered to be APMs in this Prospectus (and that are not defined or specified by IFRS or any other legislation applicable to the Group) include the following (such terms being used in this Prospectus as defined below):

"EBIT" is defined as profit on operating activities before tax.

"EBITDA" is defined as profit on operating activities before tax plus depreciation and amortization.

The following table provides a reconciliation of the Group's EBIT and EBITDA to profit for the period for the years ended 31 December 2018 and 2017:

Key Metrics	Passenger Transport Business	Freight Transport Business	Asset Management Business	Other Business	Elimination and reconciliation	Total
2018						<i>(in CZK millions)</i>
Profit for the period.....	(230)	663	262	798	(308)	1,185
Income tax expense.....	-	215	-	67	5	287
Interest income	(39)	-	(17)	(2)	29	(29)
Interest expense	919	135	-	27	(30)	1,051
Other financial income and expense	112	6	-	2	11	131
EBIT	762	1,019	245	892	(293)	2,625
Depreciation and amortisation.....	4,635	1,235	85	366	(98)	6,223
EBITDA	5,397	2,254	330	1,258	(391)	8,848
2017						<i>(in CZK millions)</i>
Profit for the period.....	(27)	743	98	551	(381)	984
Income tax expense.....	-	203	-	85	(9)	279
Interest income	(14)	-	(17)	-	9	(22)
Interest expense	1,023	148	-	8	(11)	1,168

Other financial income and expense.....	(675)	1	(11)	20	(40)	(705)
EBIT	307	1,095	70	664	(432)	1,704
Depreciation and amortisation.....	4,674	1,190	92	303	(91)	6,168
EBITDA	4,981	2,285	162	967	(523)	7,872

“**EBITDA Margin**” is defined as EBITDA divided by revenue.

“**Leverage**” is defined as total non-current liabilities and total current liabilities divided by total assets.

“**Current Liquidity**” is defined as total current assets divided by total current liabilities.

“**Capital Expenditures**” is defined as payments for property, plant and equipment, payments for investment property, payments for intangible assets and acquisition of subsidiaries and joint ventures.

“**Return on Capital Employed**” is defined as EBIT divided by total assets minus total current liabilities.

“**Total Debt**” is defined as current loans and borrowings and non-current loans and borrowings.

“**Total Debt/EBITDA**” is defined as Total Debt divided by EBITDA.

“**Total Net Debt**” is defined as current loans and borrowings and non-current loans and borrowings less cash and cash equivalents.

“**Total Net Debt/EBITDA**” is defined as Total Net Debt divided by EBITDA.

The Group has presented these APMs (1) as they are used by its management to monitor its financial position for outstanding debt and available operating liquidity and (2) to represent similar measures that are widely used by certain investors, securities analysts and other interested parties as supplemental measures of financial position, financial performance and liquidity. The Group believes these measures enhance the investor’s understanding of the Group’s performance and indebtedness and current ability of the Group to fund its ongoing operations.

However, the APMs mentioned in this Prospectus are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Investors should exercise caution in comparing EBIT, EBITDA, EBITDA Margin, Leverage, Current Liquidity, Capital Expenditures, Return on Capital Employed, Total Debt, Total Debt/EBITDA, Total Net Debt, Total Net Debt/EBITDA, and the other APMs mentioned in this Prospectus to similar measures used by other companies.

Further, none of these APMs is a measurement of performance under IFRS, and investors should not consider EBIT, EBITDA, EBITDA Margin, Leverage, Current Liquidity, Capital Expenditures Return on Capital Employed, Total Debt, Total Debt/EBITDA, Total Net Debt, Total Net Debt/EBITDA, or the other APMs mentioned in this Prospectus as an alternative to Profit (loss) for the period, Profit on operating activities before tax, Net cash flows from operating activities, investment activities or financing activities or other measures determined in accordance with IFRS. These APMs have limitations as analytical tools, and investors should not consider them in isolation. Some of these limitations include:

- that they do not reflect cash expenditures or future requirements for capital expenditures or contractual commitments;
- that they do not reflect changes in, or cash requirements for, working capital needs;
- that they do not reflect the interest expense, or the cash requirements necessary, to service interest or principal payments on debt;
- that although depreciation and amortisation are non-monetary charges, the assets being depreciated and amortised will often need to be replaced in the future and EBIT and EBITDA do not reflect any cash requirements that would be required for such replacements;

- that some of the items eliminated in calculating EBIT and EBITDA reflect cash payments that were made, or will be made in the future; and
- the fact that other companies in the same industry may calculate EBIT and EBITDA and the other APMs mentioned in this Prospectus differently than those mentioned in this Prospectus, which limits their usefulness as comparative measures.

Changes in Accounting Policies

Since 1 January 2018, the Group applies the rules of the accounting standards IFRS 9 “Financial instruments” and IFRS 15 “Revenue from contract with customers”, which has caused changes in the adopted accounting policies and the presentation of the Group’s financial statements. As a result, prospective investors should note that the financial data presented in this Prospectus for the years ended 31 December 2018 and 2017 may not be fully comparable.

In addition, since 1 January 2019, the IFRS 16 “Leases” will apply to the Group’s financial reporting. IFRS 16, applicable to accounting periods beginning on 1 January 2019 or after that date, eliminates the classification of leases as either operating leases or finance leases, as required by IAS 17, and, instead, introduces a single lease accounting model. As of the date of this Prospectus, the Group expects a need of recognition of significant number of lease agreements in the balance sheet. The Group assessed the impact of the new standard and the analysis shows that after the implementation of the modified retrospective method of IFRS 16, the Issuer’s assets should increase by CZK 3,756 million and liabilities should increase by CZK 4,260 million, of which current liabilities represent CZK 886 million. The impact to retained earnings is estimated to be a decrease of CZK 504 million.

For details see Note 3 to the 2018 Financial Statements.

Change in Presentation of the Segment Information

In 2018, the Group’s management introduced certain changes in the presentation of the segmental information. In the 2017 Financial Statements, the Group disclosed its overhead costs in separate lines. In the 2018 Financial Statements, these costs are included in the costs and revenues to which they relate. The relevant figures for the year ended 31 December 2017 were therefore adjusted accordingly to reflect such changes.

For the purposes of this Prospectus, financial information relating to operating segments was provided on a revised presentation basis.

For details see Note 5 to the 2018 Financial Statements.

Use of Certain Terms

The terms EBITDA, financial indebtedness, total net debt, and leverage of the Group included in this Prospectus do not represent the terms of the same or similar names as may be defined by any documentation for any financial liabilities of the Group.

Exchange Rate Information

Where the text of this Prospectus mentions EUR equivalents next to the original CZK amounts, the amounts have been converted using the exchange rate as of 31 December 2018 at CZK 25.725 = EUR 1.00.

Foreign Language Terms

This Prospectus is drawn up in English. Certain legislative references and technical terms in the English version have been cited in their original Czech language such that the correct technical meaning may be ascribed to them under applicable law.

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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, including the documents incorporated by reference.

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
Legal Entity Identifier (“LEI”) of the Issuer:	31570010000000034336
Joint Global Coordinators and Bookrunners:	Citigroup Global Markets Limited and Erste Group Bank AG
Joint Bookrunner:	ING Bank N.V., London Branch
The Notes:	EUR 500,000,000 1.500 per cent. Notes due 2026
Issue Price:	98.619 per cent. of the principal amount of the Notes
Issue Date:	Expected to be on or about 23 May 2019
Maturity Date:	23 May 2026
Use of Proceeds:	The net proceeds of the issue of the Notes will be used by the Issuer to repay certain financial indebtedness of the Group, to finance capital expenditures and for general corporate purposes. See “ <i>Use of Proceeds</i> ”.
Interest:	The Notes will bear interest from 23 May 2019 at a rate of 1.500 per cent. per annum payable annually in arrear on 23 May in each year commencing 23 May 2020.
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>). The Notes will also be redeemable at the option of the Issuer either at a Make-Whole Amount or at their principal amount, as further described in Condition 7(c) (<i>Redemption at the Option of the Issuer</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-Acceleration:	The terms of the Notes contain a cross acceleration provision as further described in Condition 10(c) (<i>Cross-acceleration 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 9 (<i>Taxation</i>).
Governing Law:	The Notes, the Fiscal Agency Agreement, the Deed of Covenant, and the Subscription Agreement will be 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:	Euroclear and Clearstream, Luxembourg
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>Presentation of Financial and Other Information</i> ", " <i>Selected Historical Financial and Operating Information</i> " and " <i>Information Incorporated by Reference</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 that 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 that 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 and industries generally

Industry risks

The Group is exposed to competition from other providers of rail transport.

The Group has a leading position in the rail transport market in the Czech Republic, with ČD's market share of 82 per cent. in terms of passenger kilometres for the provision of passenger rail transport and ČD Cargo, a.s.'s ("**ČD Cargo**") market share of 65 per cent. in terms of gross tonne-kilometres for the provision of freight rail transport, as of 31 December 2018, according to preliminary data published by the Ministry of Transport. However, the Group's business is exposed to competitive pressures, including in the areas of pricing and service, from other operators of rail transport and from modes of transport other than rail.

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 regions of the Czech Republic (the "**Czech Regions**") and the Czech Republic (the "**State**"). Due to the liberalisation of the passenger transport market, the Group may fail to renew contracts between ČD and the Czech Regions for regional passenger rail transport and between ČD and the State for long-distance passenger rail transport.

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 affordable for consumers. In addition to tickets sales, revenues are generated from compensation received from the Czech Regions and the State acting through 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 State and the Czech Regions in 2009 (the "**Memorandum**"). Due to the high density of the network and low occupancy rates, regional rail transport is, to a large extent, dependent on this compensation.

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. As such, the Czech Regions will receive the same amount from the State budget as before, adjusted for inflation.

As most of the current long-term contracts governing regional passenger transport expire on 14 December 2019, the Czech Regions will have to enter into new contracts as from 15 December 2019. In line with

applicable EU legislation, some Czech Regions are selecting new passenger transport providers in a public tender, whilst others have indicated their intention to grant the relevant contract directly to a selected operator.

As of the date of this Prospectus, ČD has signed contracts with certain Czech Regions beginning in 2020 for an average period of eight years. Negotiations with several other Czech Regions are still ongoing. Based on the status of the ongoing negotiations as of the date of this Prospectus, ČD expects to secure in total 83.4 per cent. of its 2019 transport volume in the regional transport and obtain a total output of up to 82.86 million train-kilometres. This would represent a decrease by approximately 3.3 per cent. compared to ČD's total expected output in the regional transport in 2019. However, there is no guarantee that ČD will obtain such transport volume.

When the existing contracts expire, ČD may not be successful in obtaining new contracts either through direct orders from the Czech Regions, or through public tenders. As from 2023, direct orders will be permitted by EU legislation only in limited circumstances, subject to strict contractual requirements for service quality, frequency, and capacity. After a ten-year transition period, direct orders will no longer be permitted by EU legislation and contracts will be awarded only through public tenders. ČD's competitors in these public tenders may include Czech low-cost passenger rail operators, such as RegioJet a.s. ("**RegioJet**") and Leo Express Global a.s. ("**LEO Express**"), as well as Arriva, a subsidiary of Deutsche Bahn. As such, there can be no guarantee that ČD will be able to renew its current contracts in the future. 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, financial condition, cash flows and 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 State, acting through the Ministry of Transport, regarding the provision of long-distance transport services are due to expire in December 2019. The Ministry of Transport has already taken steps in order to open the long-distance passenger rail transport market to competition. On 7 March 2019, the Ministry of Transport officially announced its intention to award all remaining 19 long-distance lines, including the international lines Praha – Berlin, Praha – Vienna, Praha – Bratislava – Budapest, directly to ČD. Operation on these main international lines would be covered by the public service obligation contract that is, as of the date of this Prospectus, expected to be concluded between ČD and the Ministry of Transport for a period of 10 years until 2030. However, there is no guarantee that ČD will conclude any or all of these contracts.

The Group cannot provide any assurance that it will be awarded any tendered contracts or 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. ČD's competitors in these public tenders may include Czech low-cost passenger rail operators, such as 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, this may have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

Commercial Passenger Transport

Commercial passenger transport is undertaken by ČD and other passenger rail operators on commercial routes purely on economic grounds and without any compensation from the State of the Czech Regions. As of the date of this Prospectus, the Praha-Ostrava-Košice route is the only non-regulated commercial route in the Czech Republic. As a result, this line is characterised by high levels of 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. Should ČD fail to effectively respond to competition from the existing or new passenger rail operators on any commercial route, it may not be able to maintain its market share. This could have a material adverse impact on the Group's business, results of operations, financial condition, cash flows and prospects.

Freight Transport Business

ČD Cargo 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. 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 business, results of operations, financial condition, cash flows and prospects.

Business risks

The Group is exposed to operational risks, as well as natural disasters, extreme weather conditions, human error and sabotage.

The Group is exposed to the risk of operational incidents. Certain operational incidents are outside the Group's control, which may cause delays or interruptions in the Group's operations, increase capital expenditures and harm the Group's business and reputation. For instance, the Group's operations as well as the railway systems on which the Group operates may be adversely affected by many factors, including a breakdown or failure of equipment, natural disasters and extreme weather conditions, spread of pandemic diseases, 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 existing 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;
- a derailment of a passenger train in Horažďovice in 2015, which was caused by junctions improperly set by SŽDC and resulted in damages of approximately CZK 7.2 million; and
- in 2016, a child travelling on one of ČD's older units fell out of the train when the doors that had not been properly closed at the station opened unintentionally as a result of high speed.

Any operational or other safety incident involving harm to any person, loss of life or significant damage to property or assets exposes the Group to financial risk including personal injury claims and other liability claims and criminal proceedings, as well as the possibility that its operations may be suspended or terminated. 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.

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, the Group may also be responsible for spillage or leakage from its rolling stock that may be transporting environmentally sensitive materials, the cost of which may exceed any reimbursement received from relevant insurance.

The materialisation of any of the above risks could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

The Group is subject to legal proceedings.

The Group is involved in several legal proceedings and in proceedings by Czech regulatory agencies. As of the date of this Prospectus, 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 10.49 billion.

Adverse monetary awards, judgments in litigation or arbitral proceedings, individually or in 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 2018, the Group maintained provisions in relation to legal, regulatory and administrative proceedings in the amount of CZK 450 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 the Group 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 Group cannot give any assurance that its provisions will be adequate to cover all amounts payable in connection with any such proceedings. The Group'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 and prospects.

The Group is unable to or may not insure itself against all potential risks and may become subject to higher insurance premiums.

The Group maintains a comprehensive set of insurance policies to cover those risks that it believes to be common in the area of its key activities. The Group does not maintain insurance in relation to damages to its train units. The Group's insurance policies are subject to commercially negotiated deductibles, exclusions and limitations, and the Group will only receive insurance proceeds in respect of a claim made to the extent that its insurers have the funds to make payment. In addition, the Group's operations may be affected by a number of risks for which full insurance cover is either not available or not available on commercially reasonable terms. The Group cannot assure investors that its insurance coverage will be sufficient to cover losses arising from any, or all, of such risks, or that it will be able to renew existing insurance cover on commercially reasonable terms, if at all.

Should an incident occur in relation to which the Group has no insurance coverage or inadequate insurance coverage, the Group could lose the capital invested in, and anticipated future revenue relating to, any asset that is damaged or destroyed and, in certain cases, the Group may remain liable for financial obligations related to the impacted asset. Similarly, in the event that any assessments are made against the Group in excess of any related insurance coverage that it may maintain, its assets could be subject to attachment, confiscation or restraint under various judicial procedures. Any of these occurrences could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and 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 2019 and 2023, the Group is planning to invest CZK 36.6 billion into modernisation of the rolling stock, not taking into account subsidies. The Group cannot guarantee that it will generate sufficient cash flows in the future or that it will be able to raise funds at commercially reasonable rates to be able to meet its capital expenditure needs, sustain its operations, or meet its other capital requirements as and when they arise. 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, financial condition, cash flows and prospects. Such changes may also harm the Group's ability to compete in tenders for both passenger and cargo services.

The Group's transport services and their quality are dependent on the quality of the railway systems on which it operates and on timetables established by SŽDC in cooperation with ČD and other rail transport providers.

The transport services the Group provides, and their quality, are dependent on the quality of the railway systems on which the Group 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, results of operations, financial condition, cash flows and prospects.

For example, in 2018, the Issuer incurred extraordinary expenditures of CZK 975 million related to 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. Out of those expenditures, CZK 831 million has been compensated by SŽDC, resulting in a net expense for the Group in the amount of CZK 144 million.

Further, the ability of the Group to provide rail transport services is to a large extent dependant on timetables established between SŽDC and 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, results of operations, financial condition, cash flows and prospects.

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, results of operations, cash flows and prospects.

ČD Cargo's business depends to a large extent on a limited number of key customers. In the year ended 31 December 2018, 59 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, results of operations, financial condition, cash flows and prospects.

Furthermore, ČD Cargo is exposed to a credit risk relating 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, which may be further exacerbated during a period of economic downturn or weaker economic conditions, increase this risk. A failure of customers to pay any material due amounts to ČD Cargo could have a materially adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

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 certain 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. The Group is particularly dependent on certain suppliers of rolling stock, repair and maintenance services, and IT. 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, financial condition, cash flows and prospects.

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. The costs payable to SŽDC for the usage of the rail network in 2018 and 2017 amounted to CZK 2.85 billion and CZK 3.16 billion, respectively. 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, financial condition, cash flows and prospects.

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. 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 that 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, financial condition, cash flows and prospects.

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

The Group relies on advanced IT systems and technologies for coordination of scheduling, dispatching and other aspects of its railway operations, such as accounting, ticket sales for passenger trains, tracking of freight deliveries and numerous other functions. There is a risk that such technology could fail. 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. The Group has in place disaster recovery procedures, security measures, support and maintenance, usually provided in-house in the first instance and thereafter by third party contractors, in the event of failure or disruption, but such procedures and measures may not anticipate, prevent or mitigate any material adverse effect of such failure or disruption on the Group's business, results of operations, financial condition, cash flows and prospects.

Furthermore, the Group may at any time be required to expend significant capital or other resources to protect against failure and disruption, including the replacement or upgrading of its existing business continuity systems, procedures and security measures. If replacements, expansions, upgrades and other maintenance are not completed efficiently or there are operational failures, the quality of service experienced by passengers or clients may decline. If, as a result, passengers or clients were to reduce or stop their use of the Group's services, this could have a material adverse effect on the Group's business, financial condition and results of operations. Additionally, if the Group is unable to acquire or implement new technology, it may suffer a competitive disadvantage, which could also have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

The Group is exposed to cyber risk and other unauthorised access of its internal and customer data. If the Group fails to maintain the privacy and security of its customers' confidential and sensitive information or to prevent significant data breaches or cyber attacks, the Group may incur substantial additional costs, become subject to litigation, enforcement actions or regulatory investigation and suffer reputational damage.

The scale of the Group's business and nature of its operations requires the Group to receive, process and store confidential information about its customers, employees and counterparties, all of which needs to be safeguarded against loss, mismanagement or unauthorised disclosure. Despite the Group's security measures and data protection mechanisms, its information technology and infrastructure may be vulnerable to cyber-attacks by hackers or breaches due to employee error, malfeasance or other disruptions. Any such breach could compromise the Group's networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could damage the Group's reputation and result in regulatory sanctions and other liability for breach of data protection laws. Such breach may, among other things, result in significant fines under

applicable data protection laws. Cyber-attacks could also result in the loss of internal communication or communication with the Group's customers and business partners, which may result in reduced productivity and a loss of revenues. In addition, it could cause the Group's service to be perceived as not being safe, thereby harming the Group's reputation and deterring current and potential customers from using the Group's services. Cyber-attacks may also prevent the Group from discharging its contractual or regulatory obligations. The materialisation of any of these risks could cause the Group to incur substantial additional costs, become subject to litigation, enforcement actions or regulatory investigations, and therefore could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

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 and the Group's ability to maintain its competitive position and to implement its business strategy is thus largely dependent on its ability to retain key managers and other personnel with significant industry knowledge and experience, and on the ability to attract and retain additional qualified personnel. Due to a limited availability of personnel with sufficient knowledge and expertise, such as train operators, train conductors, train mechanics and IT specialists, and increased competition in the market for such employees, the hiring of new employees or replacing existing employees may require additional time and resources. Any loss of personnel or the inability to attract additional personnel with the necessary experience, for instance as a result of labour shortages or low unemployment rates, could hinder the Group's ability to recruit and retain qualified employees. This may lead the Group to increase its levels of compensation to remain competitive and increase its costs of recruiting and training personnel, which could have a material adverse effect on the Group's operating costs, market position and ability to execute strategic goals, and therefore on its business, results of operations, financial condition, cash flows and 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 majority of the 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 on 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 its 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, financial condition, cash flows and prospects.

The Group is exposed to commodity risks that could adversely affect the Group's business, financial condition, results of operations, cash flows and prospects.

Purchases of fuel or electricity represent significant costs to the Group and the Group is thus exposed to commodity price risk as a result of fuel and electricity usage. The price of fuel and electricity can be volatile as their prices and supply levels can be influenced significantly by international, political and economic circumstances. Accordingly, any significant increases in fuel or electricity prices could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

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, financial condition, cash flows and prospects may be adversely affected.

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 has led to lower costs for these modes of transport and thus increased their attractiveness relative to railway transport. If the price of oil further decreases or stays on relatively low levels, 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, financial condition, cash flows and prospects.

The Group is exposed to risks arising from the opening of the passenger railway market to competition before the necessary conditions have been established.

On certain lines, 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, the Ministry of Transport, the Czech Railway Authority (*Drážní úřad*) 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. If ČD is at a competitive disadvantage as compared to its competitors for the above or for any other reasons, this could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

The Group may not be successful in securing certain EU subsidies.

The market in which the Group operates may from time to time receive subsidies provided under various policies at the EU or national level, such as subsidies for acquisition or modernisation of rolling stock. Such subsidies could, if awarded, benefit the Group's business, results of operations and financial condition. However, national authorities may be unable to implement the respective measures in order to provide the subsidies as intended by the respective EU or national policies, for example due to budgeting constraints. In order to apply for subsidies, EU or national authorities may also impose conditions that are unfair, unpredictable or otherwise disadvantageous for the relevant Group's operating subsidiary. There is also no assurance that the Group will fulfil the relevant conditions to receive any subsidy. In any of the foregoing events, it is possible that the Group's competitors will be successful in such a programme and gain a competitive advantage. A failure of the Group to obtain, or success of the Group's competitors in obtaining, subsidies may negatively affect the Group's business, results of operations, financial condition, cash flows and prospects.

The Group may fail to successfully implement its business strategy.

The financial performance and success of the Group depends in large part on its ability to successfully implement its business strategy. As of the date of this Prospectus, the Group plans to primarily focus on continued optimisation within the Group, further cost reductions, renewal and modernisation of its rolling stock and possible expansion. Changes, such as these, may be costly, time-consuming and, if implemented incorrectly, may jeopardise the achievement of qualitative or quantitative targets.

There is no guarantee that the Group will be able to successfully implement its business strategy, realise any benefit from the same or be able to improve its results of operations. Implementation of the Group's business strategy could be affected by a number of factors beyond the Group's control, such as increased competition, consumer behaviour, legal and regulatory developments, general economic conditions or an increase in operating costs. Any failure to successfully implement the Group's business strategy could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

The Group participates and may in the future participate in joint ventures in which the Group owns less than a majority of voting rights or which the Group does not manage or otherwise control, which entails certain risks, and the Group may enter into further such arrangements in the future.

The Group has entered into, and may in the future enter into, certain joint venture arrangements in which the Group owns less than a majority of voting rights or which the Group does not manage or otherwise control, and may from time to time enter into arrangements in which minority holders will be granted protective rights. For instance, the Issuer participates in a joint venture with the Czech investment group Penta, which owns a 66 per cent. ownership interest in Masaryk Station Development, a.s. (“MSD”). Similarly, the Issuer owns a 51 per cent. ownership interest in Žižkov Station Development, a.s. (“ŽSD”) and Smíchov Station Development, a.s. (“SSD”). In both of these joint ventures, the Czech investment group Sekyra Group as the minority holder has been granted some protective rights. In such cases the Group depends on the approval of joint venture partners for certain matters or may also depend of the joint venture partners to operate the relevant entities. The approval of such partners may also be required for the Group to receive distributions of funds from the projects or entities or to transfer the Group’s interest in projects or entities. Any occurrence of these risks could have an adverse effect on the success of the joint venture arrangement or on the Group’s interest therein and, in turn, on the Group’s business, results of operations, financial condition, cash flows and prospects.

The Group may not be successful in selling any or all of its non-core assets.

Because the Group owns significant non-core assets, the maintenance of which is costly to the Group, 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, such as individuals, companies and municipalities. 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. The Group cannot guarantee that it will be able to sell any of the non-core assets as and when expected or at all, or that it will be able to sell them under favourable conditions. This could have a material adverse effect on the Group’s business, results of operations, financial condition, cash flows and prospects.

If the Group fails to continue to maintain an effective system of internal controls over financial reporting, the Group may not be able to report financial results accurately or prevent fraud or other unfavourable transactions.

The Group has taken reasonable steps to maintain and further develop adequate procedures, systems and controls to enable it to comply with its legal, regulatory and contractual obligations, including with regard to financial reporting, which it evaluates periodically. Any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. The Group’s integrated information systems only cover some of its subsidiaries, while the remaining subsidiaries have their own accounting platform and accounting methodologies. The Group’s operating subsidiaries prepare separate financial statements under the applicable local accounting standards for statutory purposes and part of the IFRS financial statements consolidation process is manual. It involves the transformation of the statutory financial statements of the Group’s subsidiaries into IFRS financial statements through accounting adjustments and a consolidation of all entities’ financial statements using the Group’s accounting policies. This process is complicated and time consuming and involves significant manual intervention, all of which increases the possibility of error. Any failure to maintain an adequate system of internal controls, to successfully implement any changes to such system or to be able to produce accurate financial information on a timely basis could increase the Group’s operating costs and materially impair its ability to operate business, any of which could materially and adversely affect the Group’s business, results of operations, financial condition, cash flows and prospects.

The Group is exposed to risks associated with changes of accounting standards.

The Issuer’s accounting policies and methods are fundamental to how it records and reports its financial condition and results of operations. The Issuer prepares its consolidated financial statements in

accordance with IFRS as adopted by the EU. From time to time amendments are adopted to the applicable financial accounting and reporting standards that govern the preparations of the Issuer's financial statements.

For example, in January 2016, the International Accounting Standards Board published the accounting standard IFRS 16, 'Leases', which replaces the previous standard IAS 17, 'Leases', and IFRIC 4, 'Determining Whether an Arrangement Contains a Lease'. In particular, IFRS 16 amends the accounting treatment of leases with the lessee. Under IFRS 16, the lessee is to regularly capitalise an asset for the right of use in connection with the leasing arrangement and recognise a corresponding leasing liability. Excluded from IFRS 16 are low-value assets and leasing arrangements with a term of less than 12 months if the corresponding options are exercised. The lessor is to continue to differentiate between finance leases and operating leases. IFRS 16 also contains a number of other provisions relating to recognition, disclosures and sale and leaseback transactions. IFRS 16 applies to the Group's financial reporting as from 1 January 2019. As a result, as of the date of this Prospectus, the Group expects a need of recognition of significant number of lease agreements in the Balance sheet. The Group assessed the impact of the new standard and the analysis shows that after the implementation of modified retrospective method of IFRS 16, the Issuer's assets will increase by CZK 3,756 million and liabilities will increase by CZK 4,260 million, of which CZK 886 million are current liabilities. The impact to retained earnings is an estimated decrease of CZK 504 million.

As of the date of this Prospectus, the Group is not able to assess the precise impact of the above and other such changes to the accounting standards. These and any amendments to the IFRS which may in the future be adopted by the EU and which concern the valuation of the balance sheet, off-balance sheet items, disclosures or creating write-downs and provisions, may have a negative impact on the presentation of the financial and economic situation of the Group.

The Group is exposed to risks arising from attempted terrorist activities and other acts of violence.

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. For instance, actual or attempted terrorist acts and the public's concerns about potential attacks could adversely affect demand for the Group's services. There have been multiple acts of terrorism on public transport systems and other terrorist attacks in Europe that whilst not directly targeting public transport have discouraged travel. As a result of actual or attempted terrorist activities or other acts of violence, governmental authorities may mandate security procedures in addition to those currently employed by the Group, thereby increasing the Group's costs. 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 conflicts or could be used by the Czech Republic in response to such attacks. The materialization of any of these risks could have a material adverse impact on the Group's business, results of operations, financial condition, cash flows and prospects.

Risks related to the Group's financial profile

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 2018, the Group had total loans and borrowings of CZK 31.47 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 the purchase or maintenance of essential assets, primarily rolling stock. 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 potential breaches 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, financial condition, results of operations, cash flows and prospects, its credit rating and on the Group's ability to satisfy its debt obligations, including under the Notes.

The Group may not be able to extend its existing credit arrangements, refinance its debt on substantially similar terms when it matures or obtain financing on financially attractive terms as and when needed.

The Group is reliant upon having financial strength and access to credit and bond markets to meet its financial requirements. If the Group's financial performance does not meet its existing contractual obligations or market expectations, it may not be able to refinance existing debt issuances or facilities on terms considered favourable. If the Group is no longer able to obtain the financing it needs as and when needed, or if it is able to do so only on onerous terms, its further development and competitiveness could be severely constrained. The Group's ability to raise additional capital could be further influenced by factors such as changing market interest rates, restrictive covenants in its debt instruments or negative changes in its credit rating. At the same time, any additional debt incurred in connection with future acquisitions, construction or development could have a significant negative impact on the Group's performance indicators, and could result in higher interest expenses for the Group. If the Group does not generate sufficient cash flows or if it is unable to obtain sufficient funds from future financings or at acceptable interest rates, the Group may not be able to pay its debts as they fall due or to fund other liquidity needs. The materialisation of any of these risks could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

The Group's ability to access credit and capital markets and its ability to raise additional financing is in part dependent on its credit ratings.

The Group's ability to access the capital markets and other forms of financing (or refinancing), and the costs connected with such activities, depends in part on the credit rating of the Issuer. As at the date of this Prospectus, the Issuer has been assigned a long-term corporate credit rating of Baa2 (outlook stable) by Moody's. 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. The Issuer's ability to maintain its current rating is dependent on a number of factors, some of which may be beyond its control. In the event that the Issuer's credit rating is lowered, the Group's ability to access credit and bond markets and other forms of financing (or refinancing) could be limited. This may have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

A part of the Group's financial indebtedness is structurally senior to the financial indebtedness of the Issuer under the Notes.

As of 31 December 2018, 11.7 per cent of the Group's financial indebtedness was owed by the subsidiaries of the Issuer and, consequently, is structurally senior to the financial indebtedness of the Issuer under the Notes. In the event of any foreclosure, dissolution, winding-up, liquidation, reorganisation, administration or other bankruptcy or insolvency proceedings in respect of the subsidiaries of the Issuer, investors in the Notes will not have access to the assets of such subsidiaries until after all of the subsidiary's creditors have been paid and the remaining assets have been distributed to the Issuer as their direct or indirect shareholder.

The Group is exposed to credit risk.

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. In addition, as of 31 December 2018, the top 20 clients of ČD Cargo account for 59 per cent. of ČD Cargo's revenues. As such, any deterioration in the credit quality of one or more such clients or the materialisation of any of the credit issues described above could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

The Group is exposed to liquidity risks.

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, financial condition, cash flows and prospects.

The Group is exposed to interest rate risks.

The Group utilises external financing that bears floating or fixed interest rates, including domestic bonds, Eurobonds, bank loans, leases, 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, financial condition, cash flows and prospects.

The Group is exposed to currency fluctuation risk.

The Group is exposed to the risk of fluctuations in the value of the Czech Koruna 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, financial condition, cash flows and prospects.

The Group's hedging strategy may not prove successful or its hedge counterparties may not perform their obligations under the relevant hedging arrangements to which the Group is a party.

The Group uses interest and currency rate swaps and other types of derivatives to reduce the amount of exposure to interest and currency rate fluctuations. However, the Group may incur losses if any of the variety of instruments and strategies used to hedge exposures are not effective or cannot be implemented. The Group's actual hedging decisions will be determined in light of the facts and circumstances existing at the time of the hedge and may differ from time to time. Also, the risk management procedures the Group has in place may not always be followed or may not work as planned. In addition, the Group is exposed to the risk that its hedging counterparties will not perform their obligations under the relevant hedging arrangements to which the Group is a party. Hedging counterparties may default on their obligations towards the Group due to lack of liquidity, operational failure, bankruptcy or other reasons. The materialisation of any of the above risks could adversely affect the Group's business, results of operations, financial condition, cash flows and prospects.

Risks related to the Czech Republic

The Group is exposed to the risk of poor performance of the Czech economy.

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 that commenced in the second half of 2008 and the financial turmoil in many Eurozone countries that commenced in 2009. A significant decline in the economic growth of any of the Czech Republic'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 condition, cash flows and prospects.

The Group is exposed to political risks in the Czech Republic.

The most recent general elections in the Czech Republic were held in October 2017 and the government was formed by two coalition parties: ANO 2011 and the Czech Social Democratic Party (*Česká strana sociálně demokratická*). The next general elections in the Czech Republic are scheduled to take place in October 2021. 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, financial condition, cash flows and prospects.

Similarly, 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 2020. 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. Since a substantial part of the revenues of the Group's Passenger Transport Business comprises compensation paid to ČD by the Czech Regions, in the event of a change in a public policy, this could influence the volumes of regional passenger rail service tendered by some of the Czech Regions.

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 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. Accordingly, the Group may be negatively affected by changes to key decision-makers at, or the strategy of, any of these ministries, such as 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, financial condition, cash flows and prospects.

The Group is exposed to the risk of the poor financial condition of the State and the Czech Regions.

A significant amount of ČD's revenues is 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, financial condition, cash flows and prospects and may harm the Group's ability to meet its liabilities, including under the Notes.

Risks related to governmental regulations and laws

The Group is exposed to adverse changes in laws or regulations.

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, antitrust laws, employment requirements, environmental procedures, insurance coverage and other operating issues. These laws are constantly subject to change. There is a risk that the transport industry will become more heavily regulated, or that local authorities with whom the Group contracts could specify levels of quality and service with which the Group must comply. The costs associated with complying with changes in interpretations of existing, or the adoption of new legislation, regulations or other laws in the jurisdictions

in which the Group operates and of meeting specific levels of quality and service under contractual obligations could have a material adverse effect on the Group.

For example, since staff costs made up CZK 14.38 billion (representing 38 per cent.) of the Groups' operating expenditure for the year ended 31 December 2018, the cost base could be adversely affected by legislative changes if these significantly alter minimum or living wage costs or provisions around paid leave. In addition, 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 Government regulation. Moreover, the Government has introduced subsidised fare for pupils and students up to 26 years of age and elderly over 65 on all national long-distance and regional bus and rail lines, integrated transport systems as well as urban public transport links that cross city borders. Service providers, including ČD, receive a compensation for the discounted fares from the state budget up to the commercial price of the tickets. The subsidised fare has led to a generally higher demand for public transport and its discontinuation could thus negatively affect demand for public transport services, including those provided by the Issuer.

Materialisation of any of the above risks, including adverse changes in employment legislation, increase of the applicable VAT or the discontinuation of the subsidies fare, could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

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 that 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 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 remain 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 condition, cash flows and prospects.

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

As a transport company, the Group's operations are subject to extensive local, national and international environmental, health and safety laws and regulations, such as laws and regulations governing emissions and the transport of products that are hazardous to the environment. It cannot be guaranteed that the Group will always comply with these laws and regulations and any such violation could result in fines, sanctions or the commencement of legal proceedings against the Group, resulting in reputational harm to the Group. The regulation of health, safety and environmental protection is complex and subject to frequent changes, and regulation has become more stringent over time. The Group may be required to change its environmental policy and adopt stricter procedures and measures to comply with applicable regulation and, as a result, the Group may be required to increase its capital expenditure to ensure continued compliance. All of these liabilities and additional costs may affect the Group's business, results of operations, financial condition, cash flows and prospects.

Non-compliance with the General Data Protection Regulation (GDPR), or stricter interpretation of the existing requirements or future modifications of the data protection laws, could have a negative impact on the Group's business, financial condition, results of operations, cash flows and prospects.

With effect as of 25 May 2018, the Group's operations and services need to comply with Regulation (EU) 2016/679, General Data Protection Regulation ("GDPR"), which generally imposes uniform rules for all market participants operating within the EU and strict sector specific rules under the e-Privacy Directive (Directive 2002/58/EC). GDPR implements a stricter data protection compliance regime and substantially increases fines for a breach of data protection regulation. Under GDPR, data protection agencies have the right to audit the Group and impose orders and fines, up to EUR 20 million, or up to 4 per cent. of the worldwide annual revenue for the previous financial year, if they find that any member of the Group has not complied with applicable laws and adequately protected customer data. As of the date of this Prospectus, there are few official guidelines available that would indicate how data protection

agencies will evaluate and investigate non-compliance issues and a degree of uncertainty therefore remains in this regard. As such, there can be no assurance that the Group is fully compliant with GDPR in all aspects of its operations and that the way in which it has implemented GDPR compliance measures will not be challenged by any data protection agency. Any difference in interpretation of the GDPR or any other applicable data protection rules by the data protection agencies resulting in the Group's non-compliance with GDPR or any other applicable data protection laws, or any limitations imposed by stricter interpretation of the existing requirements or by future modifications of the data protection laws, could have a significant impact on the Group's business operations and its ability to market products and services to existing or potential customers. As such, the materialisation of any of the above could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

The Group can incur limitations on procurement due to the Public Procurement Act.

As of the date of this Prospectus, the Group is subject to public procurement rules stipulated in Act No. 134/2016 Coll., on Public Procurement, as amended (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 VAT). 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, financial condition, results of operations, cash flows and prospects.

The institutional history of the Czech Republic is shorter compared to Western Europe.

The institutional history of the Czech Republic is shorter when compared to some western European countries. As a result, it may not always 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 generally less predictable in the Czech Republic than in countries with more developed institutions. A lack of legal certainty and 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, financial condition, cash flows and prospects.

In addition, there may be fewer judges specialised and experienced in complex matters involving investments in securities when compared to judges in western European countries. Investors should therefore be aware that matters that must be brought before the relevant courts, such as insolvency matters, may be subject to delays and may not be conducted in a manner similar to more developed legal systems and may, as a result, lead to delays in proceedings or losses on the Notes.

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 the courts of the Czech Republic (the "**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.

The Group could incur unforeseen taxes, tax penalties and sanctions that could adversely affect its results of operations and financial condition.

Some provisions of the tax laws in the countries in which the Group operates are ambiguous and there is often no unanimous or uniform interpretation or practice of the law by the applicable tax authorities and the courts. In certain cases, tax authorities could have a high degree of discretion, for instance in relation

to transfer pricing tax legislation, and at times may exercise their powers arbitrarily and selectively enforce tax laws and regulations, which could be in a manner that is contrary to the law. The imposition of any new taxes in the countries in which the Group operates, or changing interpretations, possibly with retrospective effect, or application of tax regulations by the tax authorities, extensive time periods relating to overdue liabilities and the possible imposition of penalties and other sanctions due to unpaid tax liabilities may result in additional amounts being payable by the Group, which could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

The insolvency laws of the Czech Republic may not be as favourable to Noteholders as insolvency laws of jurisdictions with which the investors may be familiar and may preclude holders of the Notes from recovering payments due on the Notes.

The Czech Courts would have jurisdiction to commence insolvency proceedings in respect of a debtor whose centre of main interests within the meaning of the Regulation (EU) 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings, as amended, is situated in the Czech Republic. 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 debtors. 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 the Issuer.

Risk relating 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.

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.

In addition, the Conditions provide that the Notes are redeemable at the Issuer's option in certain other circumstances and accordingly the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes.

Taxation of Repurchase Price

In the case of a sale of the Notes by Noteholders (including in the case of the redemption at the option of the Issuer), the purchase price (including the Make Whole Redemption Amount) may be subject to taxation through a tax return to be filed in the Czech Republic.

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 or incorporated by reference 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 Citigroup Global Markets Europe AG as 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 EUR 100,000 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 EUR 100,000 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

The Notes have been assigned a rating of 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.

INFORMATION INCORPORATED BY REFERENCE

The following documents which have been previously published shall be deemed to be incorporated by reference in, and to form part of, this Prospectus **provided however that** any statement contained in any document incorporated by reference in, and forming part of, this Prospectus shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such statement.

- (a) the auditors' report and audited consolidated annual financial statements for the financial year ended 31 December 2018 of the Issuer (the "**2018 Financial Statements**"), including the information set out at the following pages of the 2018 Financial Statements in particular:

Auditor's report	Page 49 - 55
Consolidated statement of comprehensive income	Page 59
Consolidated statement of financial position	Page 60
Consolidated statement of changes in equity	Page 61
Consolidated statement of cash flows	Page 62 - 63
Accounting principles and notes	Page 64 - 137

- (b) the auditors' report and audited consolidated annual financial statements for the financial year ended 31 December 2017 of the Issuer (the "**2017 Financial Statements**"), including the information set out at the following pages of the 2017 Financial Statements in particular:

Auditor's report	Page 49 - 55
Consolidated statement of comprehensive income	Page 59
Consolidated statement of financial position	Page 60
Consolidated statement of changes in equity	Page 61
Consolidated statement of cash flows	Page 62
Accounting principles and notes	Page 64 - 131

Copies of documents incorporated by reference in this Prospectus will be made available, free of charge, during usual business hours at the specified offices of the Fiscal Agent and the Listing Agent in Luxembourg, unless such documents have been modified or superseded. Such documents will also be available to view on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus. References in the auditors' reports to "other information" are references to other information in the respective annual reports. Such other information is not incorporated by reference in this Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of the Notes.

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 500,000,000 1.500 per cent. Notes due 2026 (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 23 May 2019 (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 23 May 2019 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, Citigroup Global Markets Europe 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 23 May 2019 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 (j), 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 (i) above and that secures Indebtedness which, when aggregated with Indebtedness secured by all other Security Interests permitted under this sub-paragraph (j), 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) with respect to 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 the relevant Subsidiary; 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 23 May 2019 (the “**Issue Date**”), at the rate of 1.500 per cent. per annum, (the “**Rate of Interest**”) payable in arrear on 23 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 1,500.00 in respect of each Note of EUR 100,000 denomination and EUR 15.00 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 23 May 2026, 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 23 May 2019; 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 Issuer:* The Notes may be redeemed at the option of the Issuer in whole or in part on the Issuer’s giving not less than 30 nor more than 60 days’ notice to the Noteholders, (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the date fixed for redemption (the “**Optional Redemption Date**”)) at a redemption price equal to:
 - (i) if the Optional Redemption Date is before 3 months prior to maturity, the Make Whole Redemption Amount; or
 - (ii) if the Optional Redemption Date is on or after 3 months before maturity, 100 per cent. of the principal of the Notes to be redeemed,

plus, in each case, accrued and unpaid interest on the Notes to, but excluding, the Optional Redemption Date.

For the purposes of these Conditions:

“Calculation Agent” means an investment bank or financial institution of international standing selected by the Issuer for the purposes of calculating the Make Whole Redemption Amount;

“Calculation Business Day” means a day (other than a Saturday or a Sunday) on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the cities in which the Calculation Agent and the Fiscal Agent have their specified office;

“Make Whole Redemption Amount” means, in respect of Notes to be redeemed, an amount equal to the higher of (i) 100 per cent. of the principal amount outstanding of such Notes and (ii) the sum of the then present values (as determined by the Calculation Agent) of the remaining scheduled payments of principal and interest on the Notes to be redeemed (but not including any portion of such payments of interest accrued to the Optional Redemption Date) discounted to the Optional Redemption Date on an annual basis at the Reference Bond Rate plus 0.25 per cent. per annum;

“Reference Bond” means, in relation to any Make Whole Redemption Amount calculation, the German Bundesanleihe, or if such bond is no longer in issue, the government security or securities selected by the Calculation Agent (and notified in writing to the Issuer) as having a fixed maturity most nearly equal to the remaining term of the Notes to be redeemed being euro-denominated with a principal amount approximately equal to the then outstanding principal amount of the Notes to be redeemed, provided however, that, if the period from such redemption date to maturity of the Notes to be redeemed is less than one year, a fixed maturity of one year shall be used;

“Reference Bond Price” means, with respect to any Reference Date, (i) the arithmetic average of the Reference Market Maker Quotations for such date of redemption, after excluding the highest and lowest such Reference Market Maker Quotations, or (ii) if fewer than four such Reference Market Maker Quotations are received, the arithmetic average of all such quotations;

“Reference Bond Rate” means, with respect to any Reference Date, the rate per annum equal to the equivalent yield to maturity (on the relevant day count basis) of the Reference Bond, assuming a price for the Reference Bond (expressed as a percentage of its principal amount) equal to the Reference Bond Price for such Reference Date;

“Reference Date” means the fifth Calculation Business Day prior to the Optional Redemption Date;

“Reference Market Maker” means broker or market maker of the German Bundesanleihe (or the relevant other government securities) selected by the Calculation Agent or such other person operating in the market of the German Bundesanleihe (or the relevant other government securities) as are selected by the Calculation Agent in consultation with the Issuer; and

“Reference Market Maker Quotations” means, with respect to each Reference Market Maker and any Reference Date, the arithmetic average, as determined by the Calculation Agent, of the bid and offered prices for the Reference Bond (expressed in each case as a percentage of its principal amount) at 10:00 a.m. (Central European Time) on the Reference Date quoted in writing to the Calculation Agent by such Reference Market Maker.

- (d) *Partial redemption:* If the Notes are to be redeemed in part only on any date in accordance with Condition 7(c) (*Redemption at the option of the Issuer*) each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date bears to the aggregate principal amount of outstanding Notes on such date.

- (e) *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 within 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, railtrack, 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;
- (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(e), 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(e), 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(e) shall be construed accordingly.

- (f) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in sub-paragraphs (a) (*Scheduled Redemption*) to (c) (*Redemption at the option of the Issuer*) above.
- (g) *Purchase:* The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.
- (h) *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 (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9 (*Taxation*)) any law implementing an intergovernmental approach thereto. 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-acceleration 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 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 over-indebted (*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 to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer may specify by notice in writing to the Noteholders. 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 10 (*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 7(e) (*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 7(e) (*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 16 (*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 9 (*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 23 May 2019 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 net proceeds of the issue of the Notes will be used by the Issuer to repay certain financial indebtedness of the Group, to finance capital expenditures and for general corporate purposes.

SELECTED HISTORICAL FINANCIAL AND OPERATING INFORMATION

The following tables present selected historical consolidated financial information of the Group as of and for the years ended 31 December 2018 and 2017 which has been derived from the Financial Statements incorporated by reference into this Prospectus. The information below should be read in conjunction with the information contained in "Presentation of Financial and Other Information" and the Financial Statements incorporated by reference into this Prospectus.

Consolidated statements of profit or loss

	Year ended 31 December	
	2018	2017
	(CZK million)	
Revenue	39,097	33,969
Other operating income	1,423	4,589
Purchased consumables and services	(16,636)	(16,551)
Employee benefit costs	(14,380)	(13,224)
Depreciation and amortisation	(6,223)	(6,168)
Other operating expenses	(656)	(911)
Profit on operating activities	2,625	1,704
Financial expense	(1,488)	(1,346)
Financial income	318	887
Share of income of joint ventures and associates	17	18
Profit before tax	1,472	1,263
Income tax	(287)	(279)
Profit for the period from continuing operations	1,185	984
Profit for the period	1,185	984
Attributable to equity holders of the parent Group	1,166	964
Attributable to non-controlling interests	19	20

Consolidated statements of comprehensive income

	Year ended 31 December	
	2018	2017
	(CZK million)	
Profit for the period	1,185	984
Actuarial gains / losses on liabilities related to employee benefits	5	20
Remeasurement of financial assets at fair value through other comprehensive income	17	0
Other comprehensive income for the period (items that are not subsequently reclassified to profit or loss)	22	20
Exchange differences from foreign unit translation	(3)	0
Cash flow hedges	(170)	1,172
Hedge accounting expenses	36	0
Relating income tax	23	(13)
Other comprehensive income / loss for the period (items that may be reclassified to profit or loss)	(114)	1,159
Other comprehensive income / loss for the period after tax	(92)	1,179
Total of comprehensive income for the period	1,093	2,163
Attributable to equity holders of the parent Group	1,074	2,143
Attributable to non-controlling interests	19	20

Consolidated statement of financial position data

	As of 31 December	
	2018	2017
	(CZK million)	
Property, plant and equipment	70,509	69,720
Investment property	611	666
Goodwill	141	141
Intangible assets	989	917
Investments in joint ventures and associates	200	194
Deferred tax asset	29	26
Trade receivables	1	0

Other financial assets	633	945
Other assets	5	8
Total non-current assets	73,118	72,617
Inventories	1,657	1,538
Trade receivables	3,611	3,270
Prepaid income tax.....	2	17
Other financial assets	800	226
Other assets	2,206	899
Cash and cash equivalents.....	3,438	7,801
Total current assets.....	11,714	13,751
TOTAL ASSETS.....	84,832	86,368
Share capital.....	20,000	20,000
Reserve and other funds	17,241	17,200
Retained earnings.....	2,183	1,121
Equity attributable to equity holders	39,424	38,321
Non-controlling interests.....	613	664
Total equity.....	40,037	38,985
Loans and borrowings	22,418	29,672
Deferred tax liability	1,683	1,581
Provisions	607	660
Other financial liabilities.....	519	534
Other liabilities	116	395
Total non-current liabilities	25,343	32,842
Trade payables	5,886	4,835
Loans and borrowings	9,051	5,332
Income tax liabilities.....	34	27
Provisions	851	1,082
Other financial liabilities.....	278	433
Other liabilities and contract liabilities.....	3,352	2,832
Total current liabilities	19,452	14,541
TOTAL LIABILITIES	84,832	86,368

Selected unaudited key indicators

	As of 31 December	
	2018	2017
	<i>(CZK million, unless indicated otherwise)</i>	
EBIT ⁽¹⁾	2,625	1,704
EBITDA ⁽²⁾	8,848	7,872
EBITDA Margin ⁽³⁾	22.6%	23.2%
Leverage ⁽⁴⁾	52.8%	54.9%
Current Liquidity ⁽⁵⁾	60.2%	94.6%
Capital Expenditures ⁽⁶⁾	7,392	5,098
Return on Capital Employed ⁽⁷⁾	4.0%	2.4%
Total Net Debt ⁽⁸⁾	28,031	27,203
Total Net Debt/EBITDA ⁽⁹⁾	3.17	3.46
Average full-time equivalent employees	23,374	23,542

Notes:

- (1) Defined as profit on operating activities before tax.
- (2) Defined as profit on operating activities before tax plus depreciation and amortization.
- (3) Defined as EBITDA divided by revenue.
- (4) Defined as total non-current liabilities and total current liabilities divided by total assets.
- (5) Defined as total current assets divided by total current liabilities.
- (6) Defined as payments for property, plant and equipment, payments for investment property, payments for intangible assets and acquisition of subsidiaries and joint ventures.
- (7) Defined as EBIT divided by total assets minus total current liabilities.
- (8) Defined as current loans and borrowings and non-current loans and borrowings less cash and cash equivalents.
- (9) Defined as Total Net Debt divided by EBITDA.

Operating information

	Year ended 31 December	
	2018	2017
Passenger Transportation Business		
Number of passengers (millions).....	179.2	174.7
Traffic performance (million person-kilometres) ⁽¹⁾	8,225	7,778
Transport performance (million train-kilometres) ⁽²⁾	123.6	122.8
Average traffic distance (kilometres).....	46	45
Occupancy ratio (%).....	30	29
Freight Transportation Business		
Traffic volume (millions tonnes).....	68.4	66.1
Traffic performance (million tariff ton-kilometres) ⁽³⁾	12,928	11,819
Transport performance (billion gross train kilometres) ⁽²⁾	25.7	23.3
Average traffic distance (kilometres).....	189.0	178.8

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 a leading railway transport provider in the Czech Republic, accounting for approximately 82 per cent. and 84 per cent. of all passenger railway transport in terms of passenger kilometres (i.e., the measurement of transport of one passenger over a distance of one kilometre) and approximately 95 per cent. in terms of the number of passengers in 2018 and 2017, and 64 per cent. and 63.21 per cent. of all freight railway transport in the Czech Republic in terms of gross tonne-kilometres (i.e., the measurement of transport of one tonne of goods over a distance of one kilometre) in 2018 and 2017, respectively, according to preliminary data from SŽDC. The Group is also one of the largest employers in the Czech Republic, with an average number of full-time employees of 23,374 for the year ended 31 December 2018.

The Group operates through four principal business segments:

- **Passenger Transport Business**, which includes regional, domestic and international long-distance and commercial transport operated through ČD;
- **Freight Transport Business**, which includes the provision of comprehensive freight transport across Europe operated through ČD Cargo and its subsidiaries;
- **Asset Management Business**, which includes the management, leasing and operation of certain Group assets, primarily real estate, and is operated, among others, through ČD, SSD, ŽSD and MSD; and
- **Other Business**, which includes the provision of telecommunication services, predominantly to railway transport companies and railway infrastructure administrators, operated through ČD – Telematika a.s. (“**ČD Telematika**”), rolling stock repair services operated through DPOV, a.s. (“**DPOV**”), testing services, railway transport research and development operated through Výzkumný Ústav Železniční, a.s. (“**VUZ**”), and railway accommodation and catering services operated through JLV, a.s. (“**JLV**”).

Revenues of the Group’s Passenger Transport Business represented 56 per cent. and 65 per cent. of its total revenues (in each case before eliminations) for the years ended 31 December 2018 and 2017, respectively. In 2018, the Group had an overall passenger turnover of 8,225 million passenger-kilometres, a 5.7 per cent. increase compared to 7,778 million passenger-kilometres in 2017. Revenues of the Group’s Freight Transport Business represented 31 per cent. and 35 per cent. of its total revenues (in each case before eliminations) for the years ended 31 December 2018 and 2017, respectively. In 2018, the Group had an overall freight turnover of 12.93 billion tonne-kilometres, a 9.4 per cent. increase compared to an overall freight turnover of 11.82 billion tonne-kilometres in 2017. The Group’s other revenues represented 13 per cent. of its total revenues for the year ended 31 December 2018 (in each case before eliminations). The Group’s overall economic performance for the year ended 31 December 2018 resulted in a profit for the period of CZK 1.19 billion. This result was mainly due to an increase in the volume of transported goods, overall stabilisation of the Freight Transport Business, long-term stabilisation of the Passenger Transport Business and extraordinary real estate sales in development projects.

The Group primarily conducts its operations on the State-owned railway network. According to UIC statistics for the year 2017, the railway network in the Czech Republic had a total length of lines of 9,408 km, out of which 3,218 km was electrified, and it was the ninth largest railway network in the EU in terms of the length of operated lines. The Group provides a transport link between Eastern and Western Europe and, according to UIC’s statistics for the year 2017, is the seventh largest railway transport operator in the EU in terms of the number of passengers carried. The Group provides freight transport through its 100 per cent. owned subsidiary ČD Cargo, which, according to UIC’s statistics for the year 2017, is the second largest railway transporter in the EU in terms of tonnes of freight carried.

General Information about ČD

ČD is a joint stock company (*akciová společnost*) 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.

The founder and sole shareholder of ČD is the State, which exercises its shareholder rights through the Steering Committee. ČD was incorporated and registered in the Commercial Register on 1 January 2003 (the “**Date of Incorporation**”) after the passing of Act No. 77/2002 Coll., on the Joint Stock Company Czech Railways, as amended (the “**Act on Czech Railways**”).

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 75 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 275 million in 2018 and CZK 350 million in 2017.

Relationship with the State

The Government exercises its rights as the sole shareholder of ČD through the Steering Committee. The members of the Steering Committee are appointed by the Government (see “*Management – Steering Committee*”). In the past, the Government supported ČD’s purchases of rail vehicles through subsidies and by guaranteeing loans in the total amount of EUR 165 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. As of the date of this Prospectus, all of these loans have been repaid. In the years ended 31 December 2018 and 2017, 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 contracts for the 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, modernisation, 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 Act No. 266/1994 Coll., on Railways, as amended (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 České dráhy. As a result of the initial restructuring, ČD took possession of the assets used for the provision of railway transport services and for the servicing of railway routes. At the same time, SŽDC, representing the State as the owner of the railway infrastructure, took over the management of the railway infrastructure, i.e., railway construction and modernisation. The remaining assets relating to railway operation services, mainly consisting of railway operation buildings, were transferred from ČD to SŽDC in multiple stages in 2008, 2011 and 2016.

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 the operation of several minor railways, primarily spur tracks, branch line and side tracks in railway stations, which continue to be owned and operated by the Group. The final part of ČD’s assets necessary for the functioning of railway operation was transferred to SŽDC on 1 July 2016 for a purchase price of CZK 3.30 billion. The assets mainly consisted of 1,569 buildings, including the Prague Main Railway Station, related plots of land, and 316 employees. Excluded from this transfer were 87 assets, including the Prague Masaryk Station (see “—*Property— Sale of Prague Masaryk Station Property to Penta*” below for more information) and the Brno Main Station, due to third parties rights or

due to the loss of their original function in relation to railway operations. Since 1 July 2016, all railway infrastructure with the above-described exception has been owned, maintained and operated by SŽDC and the Group continues to focus on passenger and freight transport services. As of the date of this Prospectus, ČD is in talks with SŽDC over a sale of up to 40 million square metres of land plots surrounding railway stations, railway platforms and railway tracks (see “—Property— Expected Sale of Property to SŽDC” below for more information).

Key Strengths

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

- strong market share and a leading position in the Czech rail transport market;
- diversified operations with ČD Cargo’s Freight Transport Business correlating to the industrial activity of the Czech economy, and the Group’s Passenger Transport Business tending to be less dependent on the performance of the overall economy;
- long-term experience in managing regulated concessions;
- 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;
- the railway network on which the Group operates is one of the densest in Europe, enabling the Group to compete effectively with road transport;
- know-how and assets: ČD possesses important know-how and assets for the provision of complex rail transport services, for instance the train depots, maintenance facilities and other infrastructure necessary for the operation of rail transport, as well as staff experienced in the industry; and
- long-term contracts: ČD has strong recurring revenue streams from long-term contracts for the operation of passenger rail transport (see “—Material Contracts” for more information).

Passenger Rail Transport

ČD’s provision of passenger rail transport benefits from the long-term operating contracts entered into with the State and the Czech Regions (see “—Material Contracts” for more information).

In 2018, ČD dispatched on average 7,056 daily trains, out of which 561 were long-distance trains and 6,495 were regional trains. Since, according to the split of transport volume provided by IDOS, ČD transported over 80 per cent. of all train-kilometres in the Czech Republic in the year ended 31 December 2018, it had a leading position in passenger rail transport services in the Czech Republic.

Freight Rail Transport

ČD Cargo operates in a fully competitive freight transport market and faces strong competition in all of its segments, especially export, import and transit. Nevertheless, the Group believes that ČD Cargo enjoys a leading position 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 2018 was as follows:

Tonne km (without empty rolling stock of carriers)	Freight rail transport (without empty rolling stock of carriers)
	<i>Share of ČD Cargo (per cent.)</i>
Local	83
Import.....	42
Transit.....	43
Export.....	53
Total	59

Source: Ministry of Transport

Business Strategy

The Group aims to maintain its leading position in both its Passenger Transport Business and Freight Transport Business. In addition to specific steps being implemented by the passenger and freight units as outlined below, the management also continues to focus on the following strategic priorities:

- Renewal and modernisation of the rolling stock

The Group plans to continue with the modernisation of its rolling stock with the aim of enhancing its quality, implementing modern technologies that would enhance customer experience, and reducing the average age of its vehicles. For instance, the Group is in the process of gradually transitioning away from diesel vehicles towards hybrid vehicles. As of the date of this Prospectus, the Group expects to tender first hybrid vehicles, which would start replacing some of its current diesel vehicles used mainly in the regional transport, as soon as 2020.

- Cost reduction

The Group continues to implement cost reduction projects that are aimed at further enhancing the Group's efficiency, such as the introduction of a central sourcing system, the migration of service procurement into a new information system and the optimisation of the management of the stock of spare parts and materials. As of the date of this Prospectus, the Group is in the process of conducting an analysis of internal management processes with a particular focus on centralising and streamlining the Group's current management structure and reducing its overhead costs. Based on the conclusions of the analysis, the Group may decide to undertake certain changes in its internal management processes and other changes aimed at further optimisation of the Group's operations. For instance, the Group plans to implement changes to its tickets distribution strategy by bolstering its online distribution channels, mobile platforms and automatic vending machines at the expense of cash desks at railway stations.

- Optimisation of the Group

The Group aims to focus on further developing its repairs and maintenance business. In particular, the Group plans to expand its existing capacities and scope of operations and, as a result, offer its services both internally and to other operators in the Czech Republic and within CEE.

The Group also continues to streamline its asset base by selling some of its non-core assets (see "*— Property — Recent and Expected Sale of Property*" below for more information).

In addition, ČD's management is also evaluating future strategy with regards to ČD's subsidiaries. In line with the overall optimisation strategy, the management may from time to time decide to dispose of companies that no longer benefit the Group's core business and its long-term strategic priorities. For instance, ČD has entered into negotiations with the Government regarding a potential sale of ČD's share in ČD Telematika. As of the date of this Prospectus, the conditions under which such sale may occur, or whether it will occur at all, are not known.

- **Expansion**

As of the date of this Prospectus, the Group is considering exploring further opportunities in cross-border and near-border railway transport in neighbouring countries, either through cooperation with international or local operators or through strategic acquisitions.

The Group has maintained a conservative financing policy, which is based on the use of diverse funding resources, such as bonds, bank loans, leases, a promissory note programme, leasing and supplier credit. The Group puts emphasis on maintaining a balance between long-term financing, short-term overdraft loans and the promissory notes programme in order to manage its operational liquidity. The Group relies on a diversified portfolio of bank institutions on both the local and international markets. Under the loan facilities provided, the Group draws the necessary volumes of funding and leaves a sufficient reserve of undrawn committed credit lines. The Group's funding policy requires that sufficient liquidity is maintained to cover expenditures expected in the next 12 – 18 months and that a sufficient headroom under any financial covenants related to its indebtedness is maintained.

Passenger Transport Business

In the upcoming years, ČD's strategy in the Passenger Transport Business is to:

- maintain existing and acquire new passengers and generally improve performance in view of the increasing pressure of competing carriers, whether in rail or bus transport;
- increase the quality of travel by improving the quality of ČD's railway vehicles, adapting the portfolio of both on- and off-board complementary services to customers' needs and by creating a digital customer experience;
- continue with the acquisition and modernisation of the rolling stock; and
- continue to implement long-term contracts with foreign partners and focus on growth of international transport on key backbone lines.

Freight Transport Business

ČD Cargo's strategy in the Freight Transport Business is to maintain its leading position in the Czech freight rail transport market and to grow its European operations. In the upcoming years, 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 the productivity and competitiveness of ČD Cargo on the freight rail transport market;
- increasing operational efficiencies to achieve sustainable results of single wagon shipments and to maintain complete trains profitability;
- promotion of a customer friendly approach and strong sales support; and
- diversification of the portfolio of the transported commodities.

Investment Plan

In connection with the ongoing liberalisation of the railway market, the Group is seeking to increase the competitiveness of the services it offers (see "*Risk Factors – Risks related to the Group's business and industries generally – Industry risks – "The Group is exposed to competition from other providers of rail transport"*" for more information). In response to that, the Group is enhancing the quality of its trains and rolling stock and implementing modern technologies that aim to enhance customer comfort and experience. These include, among other things, a new infotainment system, audiovisual information system and improved Wi-Fi coverage that are available on some of ČD's refurbished trains.

The priority of the Group's investment plan for the period between 2019 and 2023 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 some of the acquisitions of the new rolling stock will be financed from EU's structural and investment funds during the second 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 468 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 other things, the proceeds of the issue of the Notes and the proceeds, if any, from the sale of the Group's non-core assets (see "*— Property — Recent and Expected Sale of Property*" below).

Passenger Transport Business

According to the current investment plan approved by the Board of Directors and the Supervisory Board, ČD has budgeted to invest approximately CZK 36.60 billion (EUR 1.42 billion equivalent) by 2023 not taking into account subsidies, the majority of which has been allocated to the purchase of new rolling stock, such as that described below in more detail. ČD plans to modernise its rolling stock with the aim of reducing the average age of its vehicles to below 21 years by 2023. The actual amount invested may materially differ from the budgeted amount.

Regional

During the period between 2011 and 2018, ČD put into operation more than 90 new electric and diesel multiple units 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 3.11 billion and the total cost of the projects amounted to CZK 7.68 billion.

For the second programming period between 2014 and 2020, ČD has launched 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 has, as of the date of this Prospectus, acquired 9 new train units for regional passenger transport and may acquire up to 18 additional units by 2021. In 2017, ČD announced a tender for ten diesel multiple units for the Praha – Kladno route, followed by a tender for a framework agreement for up to 50 electric multiple units with a capacity of about 160 seats for up to CZK 6.25 billion, a tender for a framework agreement for up to 60 electric multiple units with a capacity of about 240 seats for up to CZK 9.60 billion and a tender for a framework agreement for up to 60 additional diesel units with a capacity of about 120 seats for up to CZK 5.10 billion announced in 2018. ČD expects the total amount of subsidies available under the Operation Programme Transport for regional trains to reach CZK 3.27 billion during the period between 2014 and 2020.

Long-distance

Between 2011 and 2018, ČD put into operation more than 350 modernised long-distance passenger coaches. In 2016, ČD started to operate modernised passenger coaches with a speed of up to 200 km/h on the Praha – Berlin – Hamburg route in cooperation with Deutsche Bahn ("DB"), and took delivery of modernised passenger coaches of the Bdpee type, designed both for domestic and international long-distance routes. Between 2015 and 2016, ČD put into operation 14 electric trains for domestic fast train lines in the total cost of CZK 2.63 billion, partially funded by EU subsidies provided under the Operational Programme Transport with the total subsidy amounting to CZK 1.11 billion. In 2017 and 2018, ČD completed a revitalisation of its Pendolino 680-series premium high-speed trains. The total cost amounted to CZK 300 million.

Since 2014, new Railjet high-speed trains have been used on the Praha – Wien – Graz route in cooperation with Österreichische Bundesbahnen ("ÖBB"). Between 2017 and 2018, ČD invested primarily in the replacement of its passenger coaches. In 2017, ČD acquired 47 second-hand UIC Z1 long-distance passenger coaches from ÖBB for CZK 465 million, supplemented by additional 41 for CZK 354 million acquired in 2018. Furthermore, ČD signed a contract with a consortium Siemens-Škoda for the delivery of 50 modern passenger coaches for approximately CZK 3 billion with anticipated delivery in 2021. These units are expected to be deployed on ČD's long-distance international lines, such

as the Praha – Brno – Bratislava – Budapest route. ČD also launched a tender for 90 additional modern passenger coaches suitable for speeds of up to 200 km/h for up to CZK 5.40 billion.

Freight Transport Business

According to the current investment plan, ČD Cargo has budgeted to invest up to CZK 20 billion (EUR 777 million equivalent) by 2023. To increase the competitiveness of its services, ČD Cargo plans to invest in the acquisition of new railway vehicles, such as multi-system engines, freight carriages for the transport of a wide range of commodities and other modern technology for international freight rail transport. In addition, ČD Cargo's plans to invest in the renewal and modernisation of its rolling stock, such as the 742-series diesel engines, improvement of the technical equipment of its repair shops and in general working conditions. The actual amount invested may materially differ from the budgeted amount.

In 2018, ČD Cargo expanded its fleet of vehicles by acquiring three Vectron multi-system engines, supplemented by an additional three delivered in January 2019 for the total of 12 interoperable engines as of the date of this Prospectus. Since 2017, approximately 200 Sggrrs-series freight carriages were added to ČD Cargo's rolling stock. These carriers are primarily used with Innofreight interchangeable superstructures, enabling the transport of a wide range of commodities. Over the last two years, ČD Cargo has also invested in the overhaul repairs of electric traction vehicles and revision repairs of freight cars for the transport of solid fuels and bulk materials.

Other Business

As of the date of this Prospectus, ČD plans to further invest into rolling stock repair and maintenance services operated either directly by ČD, or through DPOV. In 2019, ČD commenced the development of a new maintenance and repair shop in Brno, which, as of the date of this Prospectus is to amount to CZK 220 million.

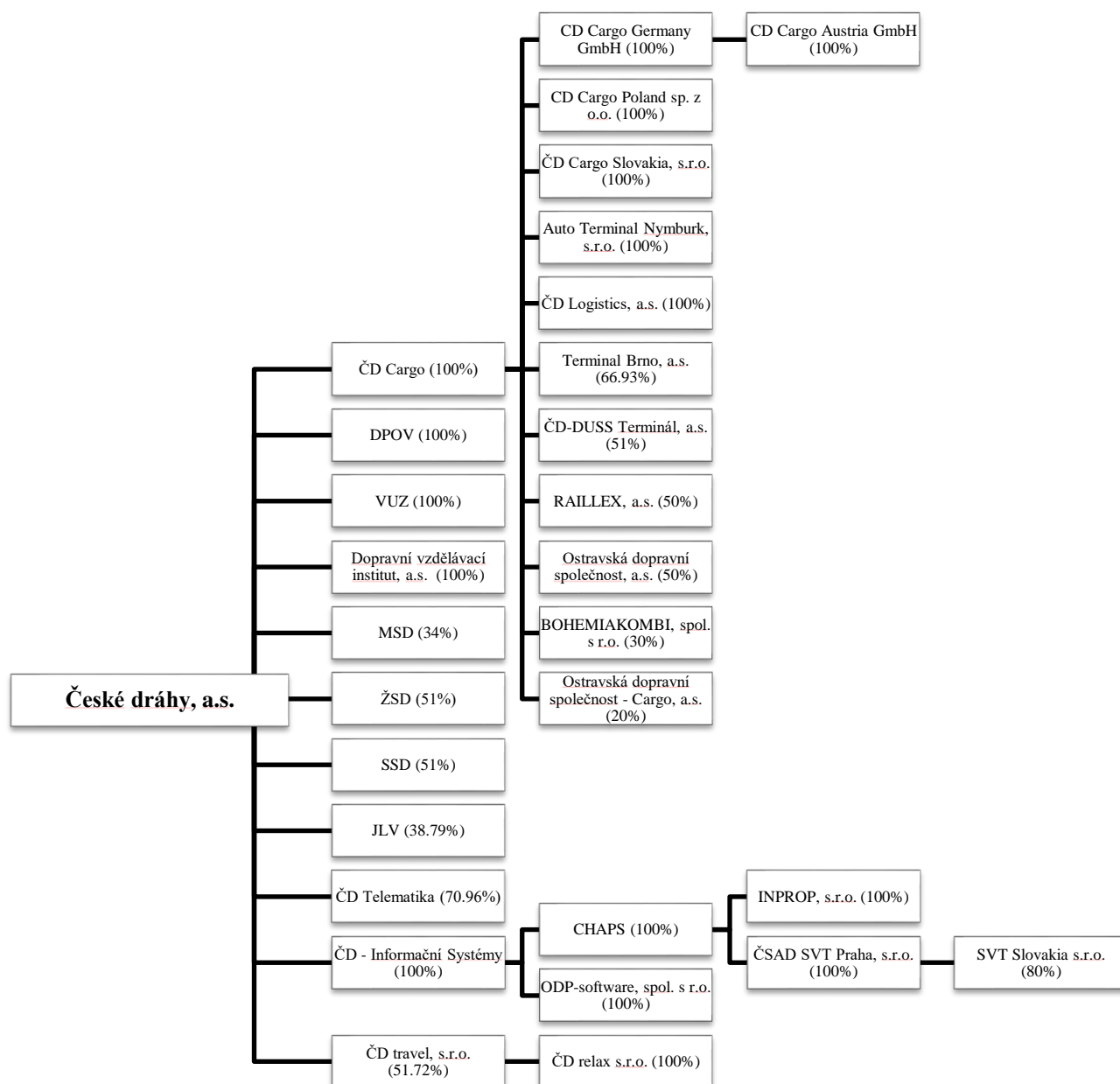
History

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, July 2015 and April 2018: ČD increased its ownership interest in ČD Telematika from 59.31 per cent. to 66.70 per cent., 69.18 per cent. and 70.96 per cent., respectively.
- July 2016: ČD transferred to SŽDC approximately 1,500 railway stations and other buildings and related assets, including 316 employees, for a purchase price of CZK 3.30 billion.
- October 2017: ČD – Informační Systémy, a.s. (“**ČD Informační systémy**”), a 100 per cent. subsidiary of ČD, acquired CHAPS, spol. s r. o. (“**CHAPS**”), a key provider of ICT services, mainly related to IT systems in passenger transport.
- December 2017: ČD disposed of its 51 per cent. stake in RAILREKLAM, spol. s r. o.

Group Structure

The Group comprises ČD and 29 subsidiaries. ČD holds majority interest in 25 of these subsidiaries. The following chart provides an overview of the simplified Group structure of companies that are consolidated in the Financial Statements as of and for the year ended 31 December 2018:



The other subsidiaries are not consolidated in the Financial Statements as of and for the year ended 31 December 2018 as they were determined by ČD not to be of material importance to the Group given the amount of their total assets, revenues and equity. No shares of any of the companies within the Group are publicly traded on any regulated market.

For further details and a complete overview of the Group structure as of 31 December 2018, please refer to Note 1.3 of the 2018 Financial Statements.

The following table provides an overview of the key direct and indirect subsidiaries of ČD as of 31 December 2018:

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 70.96 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. 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, s.r.o. ("ČD Travel") and its wholly-owned subsidiary ČD Relax	<p>ČD has 51.72 per cent. ownership interest in ČD Travel.</p> <p>ČD Travel and ČD Relax organise wellness/spa trips and holidays both in the Czech Republic and abroad, predominantly for employees of ČD. As part of</p>

s.r.o. (“ ČD Relax ”)		ČD’s employee benefit package, ČD subsidises such trips for its employees. Holidays abroad include transport service either by plane or bus, or, less often, by train. Most clients travel to Croatia, Greece and Turkey. The number of clients in 2018 amounted to 15,000, which ranks it among mid-sized travel agencies on the Czech market.
ČD systémy	Informační	ČD has 100 per cent. ownership interest. 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.
MSD		ČD has 34.0 per cent. ownership interest. MSD develops and services the Prague – Masaryk Station.
Dopravní institut, a.s. (“ DVI ”)	vzdělávací	ČD has 100 per cent. ownership interest. DVI provides training and education for workers in the railway sector.

Business Overview

The table below outlines key financial data for the Group's operational segments for the years ended 31 December 2018 and 2017:

	Year ended 31 December	
	2018	2017
	<i>(in CZK millions)</i>	
Passenger Transport Business		
Revenues	23,509	22,110
Purchased consumables and services	(9,580)	(9,783)
Staff costs	(8,901)	(8,240)
EBITDA from continuing operations	5,397	4,981
Depreciation/amortization	(4,635)	(4,674)
EBIT from continuing operations	762	307
Profit (loss) for the period	(230)	(27)
Freight Transport Business		
Revenues	13,076	11,923
Purchased consumables and services	(6,334)	(6,026)
Staff costs	(4,407)	(4,076)
EBITDA from continuing operations	2,254	2,285
Depreciation/amortization	(1,235)	(1,190)
EBIT from continuing operations	1,019	1,095
Profit (loss) for the period	663	743
Asset Management Business		
Revenues	384	-
Purchased consumables and services	(318)	(294)
Staff costs	(178)	(170)
EBITDA from continuing operations	330	162
Depreciation/amortization	(85)	(92)
EBIT from continuing operations	245	70
Profit (loss) for the period	262	98
Other Business		
Revenues	5,329	-
Purchased consumables and services	(3,225)	(2,637)
Staff costs	(1,253)	(1,023)
EBITDA from continuing operations	1,258	967
Depreciation/amortization	(366)	(303)
EBIT from continuing operations	892	664
Profit (loss) for the period	798	551
Elimination and reconciliation⁽¹⁾		
Revenues	(3,201)	(64)
Purchased consumables and services	2,821	2,189
Staff costs	359	285
EBITDA from continuing operations	(391)	(523)
Depreciation/amortization	98	91
EBIT from continuing operations	(293)	(432)
Profit (loss) for the period	(308)	(381)
Total		
Revenues	39,097	33,969
Purchased consumables and services	(16,636)	(16,551)
Staff costs	(14,380)	(13,224)
EBITDA from continuing operations	8,848	7,872
Depreciation/amortization	(6,223)	(6,168)
EBIT from continuing operations	2,625	1,704
Profit (loss) for the period	1,185	984

Notes:

(1) In 2018, the Group's management introduced certain changes in the presentation of the segmental information. In the 2017 Financial Statements, the Group disclosed its overhead costs in separate lines. In the 2018 Financial Statements, these costs are included in costs and revenues to which they relate. The relevant figures for the year ended 31 December 2017 were thus adjusted accordingly to reflect such changes. For the purposes of this Prospectus, financial information relating to operating segments was provided on a revised presentation basis. For details see Note 5 to the 2018 Financial Statements.

(2) The "Elimination and reconciliation" section provides an overview of eliminations of inter-group relations.

The table below outlines key operating data of the Group's Passenger Transport Business and Freight Transport Business for the years ended 31 December 2018 and 2017:

	Year ended 31 December	
	2018	2017
Passenger Transport Business⁽¹⁾		
Number of passengers (in millions).....	179.23	174.7
Traffic performance (in mil. person-kilometres) ⁽²⁾	8,225	7,778
Transport performance (in mil. train-kilometres) ⁽³⁾	123.6	122.8
Average traffic distance (in kilometres).....	46	45
Occupancy ratio (in %).....	30	29
Freight Transport Business⁽¹⁾		
Traffic volume (in millions tonnes).....	68.4	66.1
Traffic performance (in mil. tariff ton-kilometres) ⁽⁴⁾	12,928	11,819
Transport performance (in bn. gross ton-kilometres) ⁽³⁾	25.7	23.3
Average traffic distance (in kilometres).....	189.0	178.8

Notes:

- (1) Only data for the Group's core transport operational segments included.
- (2) In terms of the transport of one rail passenger by rail over a distance of one kilometre.
- (3) In terms of kilometres travelled by trains.
- (4) 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 services through ČD. The Passenger Transport Business consists of three divisions:

- **regional passenger transport**, which comprises transport of passengers over short distances on daily regional train routes and the main purpose of which is to serve local communities at regulated prices affordable for the passengers;
- **long-distance passenger transport**, which comprises (i) domestic long-distance transport that includes all long-distance train routes in the Czech Republic except for the Prague – Ostrava route (due to its non-regulated nature, this service is included in Commercial Passenger Transport section below), and (ii) international long-distance transport that offers services to various countries in Europe, including a daily service from the Czech Republic to Germany, Poland, Slovakia, Hungary and Austria (described in more detail below); and
- **commercial passenger transport**, which includes operation on the non-regulated Prague – Ostrava line.

Each of these activities varies in revenues and profitability and is therefore described separately in more detail below.

The Group's Passenger Transport Business generated total revenue of CZK 23.51 billion and EBITDA of CZK 5.40 billion in the year ended 31 December 2018, which represented 56 per cent. of its total revenues (in each case before eliminations).

With the exception of the commercial passenger transport and not taking into account compensation from the Czech Regions and the Ministry of Transport, the Group's Passenger Transport Business remains unprofitable, as the State has set tariffs below economically reasonable levels to keep prices 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 the Ministry of Transport. Compensation from the State budget totalled CZK 4.72 billion (EUR 183 million equivalent) and CZK 4.60 billion (EUR 179 million equivalent) in 2018 and 2017, respectively, and compensation from budgets of the 14 Czech Regions amounted to CZK 9.58 billion (EUR 372 million equivalent) and CZK 9.45 billion (EUR 367 million equivalent) in 2018 and 2017, respectively. In aggregate, the compensation from the State and the Czech Regions represented 62 per cent. of the Group's revenues from its Passenger Transport Business for 2018 (after eliminations). Revenues from ticket sales generated CZK 8.84 billion (EUR 344 million equivalent) in 2018, which represented 38 per cent. of the Group's revenues from its Passenger Transport Business (after eliminations). These calculations do not include the impact of IFRS 15 on the revenue of the Passenger Transport Business (see Note 3 to the 2018 Financial Statements for further details). The segment of long-distance transport has shown positive trends and higher levels of financial self-sustainability.

Regional Passenger Transport

In 2018, ČD's transport performance in the regional transport was 2.80 billion passenger-kilometres, which represented approximately 95.9 per cent. of the total regional transport volume in terms of passenger-kilometres in the Czech Republic according to the Issuer's data. This translated into approximately 34 per cent. of total passenger-kilometres services provided by ČD in 2018 and generated approximately 32.4 per cent. of total revenues 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). Based on the contracts as of the date of this Prospectus, ČD's total expected transport performance in the regional transport for 2019 is 85.70 million train-kilometres, which is an increase by 1.10 million train-kilometres compared to the 84.60 million train-kilometres performed in 2018. 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 from the Czech Regions.

Regional passenger transport is provided by ČD on the basis of long-term contracts concluded with the Czech Regions. These contracts specify the remuneration to be provided for the public service obligation carried out by ČD. A majority of these contracts expire in 2019. From 2020 onwards, the Czech Regions will have to enter into new contracts governing passenger transport (see “– Pricing, Compensation and Tariff Regulation – Passenger Transport Business – Regional – Overview” and “– Material Contracts” for more information).

As of the date of this Prospectus, ČD is the incumbent operator on the passenger rail transport market. As of the date of this Prospectus and based on the Issuer's data, other providers of regional passenger transport have public service obligation contracts for 4.1 per cent of the total transportation volume (in terms of passenger-kilometres) in the regional passenger transport. The other operators 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.

ČD strengthens its business mainly by modernising its rolling stock and by increasing the quality of its services. To that end, ČD continues to adapt the portfolio of both its on- and off-board complementary services and enhancing a digital customer experience with the aim of creating a complex transport product. Over the past several years, ČD has focused on the successful implementation of e-applications, e-shop platform and on the introduction of dynamic tariffs and revenue management principles.

Long-Distance Passenger Transport (domestic and international)

In 2018, ČD's transportation volume in the long-distance transport was approximately 4.40 billion passenger-kilometres, which represented approximately 54.0 per cent. of the total long-distance transport volume in terms of passenger-kilometres in the Czech Republic according to the Issuer's data. This

translates into 28.9 per cent. of total passenger-kilometres services provided by ČD and generated approximately 55.3 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 State acting through the Ministry of Transport, pursuant to which ČD secures both domestic and international routes on the basis of the public service obligation until December 2019. Revenues are generated from tickets sales and from compensation received from the Ministry of Transport due to the prices set by the State.

The below table provides an overview of the market share of individual providers of long-distance passenger rail transport in terms of train kilometres travelled in the year ended 31 December 2018:

Carrier	Train kilometres ⁽¹⁾ travelled	
	2018	
	<i>(per cent.)</i>	
ČD.....		81.9
RegioJet a.s.		10.9
Leo Express Global a.s.....		4.5
GW Train Regio a.s.....		1.9
Arriva.....		0.8

Source: Issuer data

Notes:

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

ČD's key international operations are based on the following long-term contracts:

- In December 2014, ČD deployed its Railjet units to service the Prague – Wien – Graz route under a ten-year contact entered into with its strategic partner ÖBB. Recently some improvements, such as catering, have been implemented to increase customer satisfaction on this line. Both cooperating partners are planning further improvements based mostly on additional capacity and further cuts of travel times. According to the Issuer's data for 2018, this line has enjoyed a 12 per cent. growth in the number of journeys compared to 2017.
- In May 2014, ČD entered into a five-year contract (with an option to extend for five more years) with DB to service the Prague – Berlin – Hamburg route as from December 2015. As of the date of this Prospectus, both partners are in the process of negotiating additional fleet renewal that aims to reflect infrastructure development plans in both countries. According to the Issuer's data for 2018, this line has enjoyed a 24 per cent. growth in the number of journeys compared to 2017.
- In June 2015, ČD entered into a five-year contract (with an option to extend for five more years) with Železničná spoločnosť Slovensko, a.s. ("ZSSK") for the international daily service between the Czech Republic, Slovakia and Hungary on the Prague – Bratislava – Budapest route. According to the Issuer's data for 2018, this line has enjoyed a 14 per cent. growth in the number of journeys compared to 2017.
- A new express segment on the Prague – Linz route commenced operation in 2017. As of the date of this Prospectus, the express segment covers four train pairs in a four-hour cycle of services. Once the modernisation works on the railway corridor Praha – České Budějovice are finished, ČD aims to further extend its service on the express segment and improve quality of its rolling-stock deployed on this route. According to the Issuer's data for 2018, this line has enjoyed a 12 per cent. growth in the number of journeys compared to 2017.
- Long-term cooperation with a German partner on the Prague – Munich route commenced operation in 2018 and as of the date of this Prospectus covers services based on two-hour intervals. Both partners are in the process of negotiating additional fleet renewal. The contract between the Ministry of Transport and ČD runs until 2024. According to the Issuer's data for 2018, this line has enjoyed a 17 per cent. growth in the number of journeys compared to 2017.

The Group's revenues from operations on these lines (including domestic trains operating on these lines) represent a substantial share of approximately 22.6 per cent. of revenues from the Group's Passenger Transport Business.

The cooperation is regulated by the Convention concerning International Carriage by Rail ("COTIF") between national passenger rail transport operators. Although proceeds from ticket sales are collected by the carrier in the country where the passenger embarks on the journey, revenues are shared between national carriers according to the distance travelled in the respective countries. Settlement of the revenues is undertaken by a clearing house once a month.

Commercial Passenger Transport

In 2018, ČD's transportation volume in the commercial passenger transport was approximately 0.90 billion passenger-kilometres, which represented approximately 11.5 per cent. of the total passenger transport volume in terms of passenger-kilometres in the Czech Republic according to the Issuer's data. This translated into approximately 3.9 per cent. of total passenger-kilometres services provided by ČD in 2018 and amounted to 12.3 per cent. of total revenues 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 2018, this also represented approximately 18 per cent. of the Group's revenues from the long-distance transport.

In the non-regulated commercial passenger transport market, the Praha-Ostrava-Košice (SK) line is 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, increasing 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). After the 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. In 2017 and 2018, ČD followed by commissioning modernisation and refurbishment of the interior of the SC Pendolino coaches.

In cooperation with other international operators, ČD operates several direct overnight connections from the Czech Republic to Slovakia, Austria, Hungary, Poland, France, Switzerland and Russia.

Freight Transport Business

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

The Group's Freight Transport Business generated total revenue of CZK 13.08 billion and EBITDA of CZK 2.25 billion in the year ended 31 December 2018, which represented 31 per cent. of its total revenues (in each case before eliminations).

ČD Cargo is one of the largest providers of freight rail transport in Europe in terms of in terms of tons carried 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 divisions: transport of whole trains and transport of individual wagon loads (i.e. single-wagon business). The Group's Freight Transport Business further offers certain ancillary services, such as renting of wagons and locomotives, forwarding services, storage and delivery of goods, operations of railway sidings, customs services, storage or maintenance and repairs of traction vehicles.

Transport of Whole Trains

The total volume transported by whole trains was 47.9 and 45.9 million tonnes in 2018 and 2017, respectively, which constituted approximately 70 and 69 per cent. of ČD Cargo's transport volume in 2018 and 2017, respectively, and approximately 57 per cent. of its transport revenues in 2018 and 2017.

The most important commodities moved by block trains are solid and liquid fuels, iron ore, containers and automotive. ČD Cargo's major competitors in this area are large domestic carriers (AWT, Metrans Rail, IDS Cargo, Unipetrol doprava) and former national carriers from neighbouring countries (PKP Cargo, Deutsche Bahn a RCA). To maintain its current market position, ČD Cargo continues to invest into new, universal freight wagons and to modernise its rolling stock. Together with improved transport management, new interoperable locomotives are expected to support ČD Cargo's aim to lengthen the distance of its existing international transportations and gain new transportation volumes abroad.

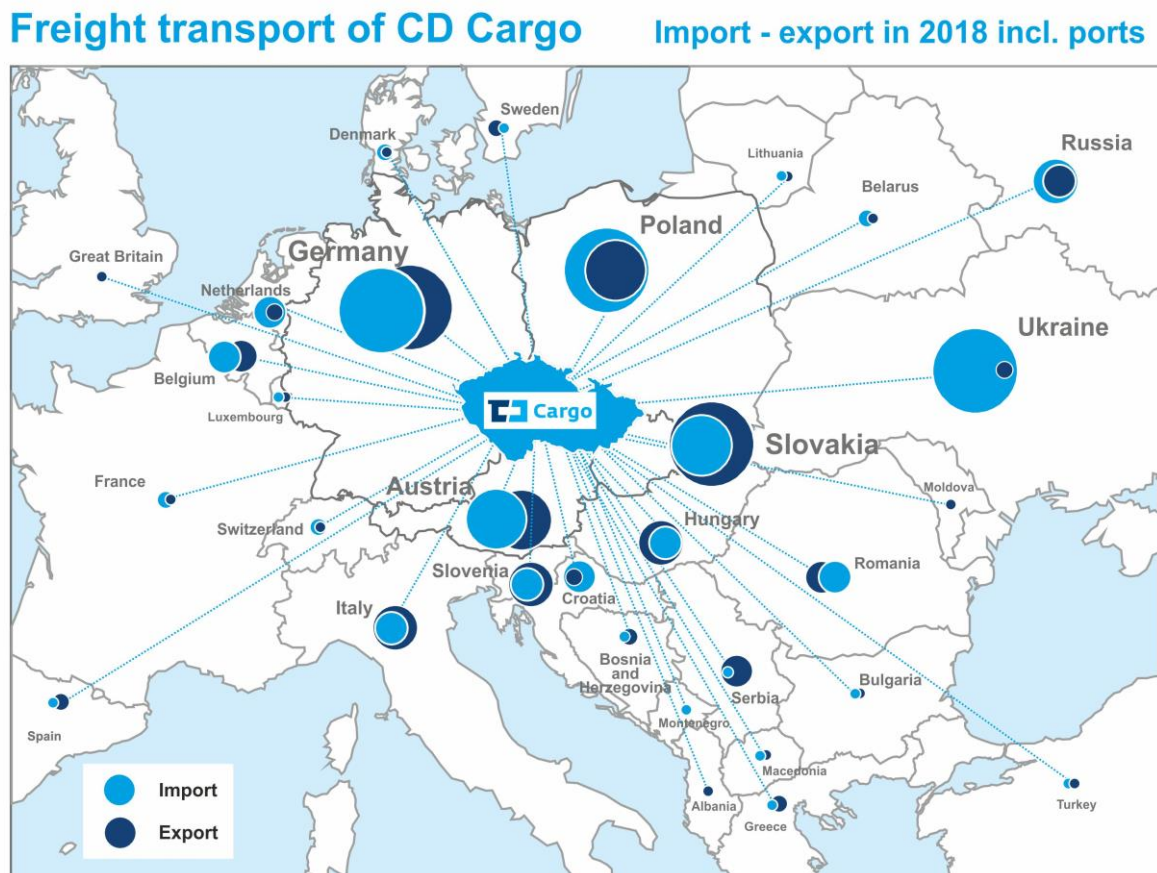
Transport of Individual Wagon Loads (i.e. Single-Wagon Business)

The total volume transported by individual-wagon loads was 20.5 and 20.2 million tonnes in 2018 and 2017, respectively, which constituted approximately 30 and 31 per cent. of ČD Cargo's transport volume in 2018 and 2017, respectively, and approximately 43 per cent. of its transport revenues in 2018 and 2017.

In the single-wagon business, ČD Cargo faces increased competition from road freight transport, mainly with regards to the transportation of wood, scrap iron and other individual deliveries. As a result, ČD Cargo is in the process of implementing a number of measures to improve the performance of its single-wagon business, such as, a simplified ordering process and a system for efficient planning and use of its capacities.

As of the date of this Prospectus, ČD Cargo is not a beneficiary of any direct compensation from the State as its services are provided solely on a commercial basis. However, ČD Cargo benefits from lower fees charged by the State for the use of railway infrastructure by single-wagon business as a way to promote environmentally sustainable means of transport.

The following map shows the import and export freight transport routes, including ports, operated by the Group's Freight Transport Business in the year 2018:



One of ČD Cargo's strategic priorities is to continue in its international expansion, either directly or through its local subsidiaries:

- **Poland:** ČD Cargo is present on the Polish market via its subsidiary CD Cargo Poland. The subsidiary continued to increase its transportation volumes (in 2018, CD Cargo Poland ranked eight most important freight operator on the Polish market, in terms of transportation volume according to ČD Cargo's data).
- **Austria:** ČD Cargo obtained a license to operate in Austria in June 2017 and realised its first carriage with its own license for the ÖBB Infrastruktura network in February 2018. In order to further strengthen its position on the Austrian market, a new branch was established in Austria in 2019 (ČD Cargo Niederlassung Wien). Services offered on the Austrian market include block train transport in Austria, transit through Austria from Hungary or Slovakia to Germany and back.
- **Slovakia and Hungary:** ČD Cargo owns a license for the Slovak and Hungarian network through its equity investments. ČD Cargo aims to begin its operations on these market under the ČD Cargo brand.
- **Germany:** On the German market, ČD Cargo's strategy includes expanding under the same business model as already implemented on the Austrian market and to obtain a license and all necessary documents required to operate on the German market.
- **Romania:** ČD Cargo plans to obtain a license for the Romanian network. Goods from Slovakia and Hungary are directed to Romania directly or in transit to Greek ports and Turkey.
- **Slovenia:** ČD Cargo plans to acquire licenses for the Slovenian territory. In particular, ČD Cargo intends to focus on access to the Slovenian port of Koper, which is an important transit point for transporting goods from Asia to Central Europe.

The table below outlines a geographic breakdown of ČD Cargo's revenues from foreign freight operations in the years ended 31 December 2018 and 2017:

	Year ended 31 December	
	2018	2017
	<i>(in CZK millions)</i>	
Poland.....	1,493	1,468
Slovakia.....	1,383	1,294
Germany.....	2,478	2,343
Austria.....	778	551
Other countries.....	1,603	1,635
Total.....	7,735	7,291

Source: ČD Cargo data

The table below sets forth the composition of freight transported by the Group's Freight Transport Business for the years ended 31 December 2018 and 2017:

	Year ended 31 December	
	2018	2017
	<i>(in millions of tonnes)</i>	
Solid fuels.....	17.8	17.1
Metal and mining.....	13.3	13.1
Large containers.....	7.0	7.1
Timber and paper products.....	5.4	5.0
Chemicals.....	4.8	4.7
Building materials.....	4.9	4.5
Automotive.....	1.6	1.5
Other.....	13.6	13.2
Total.....	68.4	66.1

Source: ČD Cargo data

In 2018, the Group had an overall freight turnover (including empty runs) of 12,928 million tonne-kilometres (i.e., the measurement of transport of one tonne of goods over a distance of one kilometre), a 9 per cent. increase as compared to an overall freight turnover of 11,819 million tonne-kilometres in 2017. This change was primarily due to increasing market share in domestic market and ongoing expansion to foreign transport markets.

The freight market can be divided into local, transit, export and import. Combined freight volumes of transit, export and import represented together approximately 59 per cent. and 61 per cent. of ČD Cargo's freight volumes in 2018 and 2017, respectively. The remaining part of the freight market is the local market (39 per cent. of total volumes in 2018) where ČD Cargo is the market leader and operates the largest railcar fleet.

The table below sets forth the composition of freight transported by the Group's Freight Transport Business for the years ended 31 December 2018 and 2017:

	Year ended 31 December			
	2018		2017	
	<i>(in million tonnes)</i>	<i>(%)</i>	<i>(in million tonnes)</i>	<i>(%)</i>
Local	26.5	39.0	25.2	38.0
Export	14.8	22.0	14.5	22.0
Import	20.4	30.0	19.8	30.0
Transit.....	5.5	8.0	5.8	9.0
Outside of the Czech Republic.....	1.2	2.0	0.6	1.0
Total.....	68.4	100.0	66.1	100.0

Source: ČD Cargo data

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 MORAVIA STEEL a.s., CARBOSPED, spol. s r.o., NH TRANS SE, Maersk Line A/S, Rail Cargo Group, ČEZ, a. s., METRANS, a.s., DB Cargo Group and LKW WALTER INTERNATIONAL.

As of 31 December 2018, 51 per cent. of ČD Cargo's customers were direct customers, 34 per cent. were forwarding companies and 15 per cent. were other operators, in each case calculated as a percentage of ČD Cargo's total revenues. As of 31 December 2018, 68 per cent. of ČD Cargo's contracts with customers have their expiration in 2019, 22 per cent. in 2020, and 10 per cent. have their expiration beyond 2020, in each case calculated as a percentage of ČD Cargo's total revenues.

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 2018, the Group administered 3,928 buildings, of which two were railway stations: the Prague Masaryk Station and the Brno Main Station.

The Group's Asset Management Business generated total revenue of CZK 384 million and EBITDA of CZK 330 million in the year ended 31 December 2018, which represented 1 per cent. of its total revenues (in each case before eliminations).

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. The restoration of the main building started in 2016 and is expected to be completed by 2025 along with the development of the surrounding Prague Central Business District project. Penta undertook to invest through the MSD up to CZK 136 million in the restoration. The initial part of the restoration included the renovation of the roofs and floors of the arrival hall, adjacent facades and toilets. The subsequent stages will introduce new retail space and a food court in the arrival hall, and ticket desks, waiting room and information centre in a new location thereby increasing passenger comfort and the amount of commercial space at the station

Following a public tender in 2008, ČD as lessor and a privately owned company Brno new station development a.s. ("BNSD") as lessee entered into a lease agreement regarding the Brno Main Station and the adjacent land plots (the "BNSD Lease Agreement"). The lease agreement is to expire in 2048. Pursuant to the agreement, BNSD undertook to invest at least CZK 130 million in the renovation of the main building. In 2018, ČD cooperated with BNSD to change the territorial plan on the land plots and entered into an amendment to the BNSD Lease Agreement. The amendment aims to clarify certain obligations and undertakings of BNSD under the BNSD Lease Agreement and sets a new binding schedule for the renovation of the main building and contractual penalties for BNSD's failure to adhere to it.

In 2018, ČD set to improve the premises in which its employees reside and premises leased to external entities. ČD thus invested in the reconstruction and modification of administrative buildings in Prague, Kolin and Plzeň. At the same time, ČD initiated the process of centralisation of management of its Asset Management Business to make it more effective in the following years.

Other Business

Other activities the Group undertakes include provision of information and communication services (“ICT”) to railway transport companies and railway infrastructure administrators through ČD Telematika, rolling stock repair services operated through DPOV, certain IT services operated through ČD Informační systémy, educational services operated through DVI, testing services, railway transport research and development operated through VUZ, travel services operated through ČD Travel, and railway accommodation and catering services operated through JLV.

The Group’s Other Business generated total revenue of CZK 5.33 billion and EBITDA of CZK 1.26 billion in the year ended 31 December 2018, which represented 13 per cent. of its total revenues (in each case before eliminations).

ČD Informační systémy provides the Group with comprehensive ICT services, such as the recent modernisation of information systems for passenger clearance. In 2017, ČD – Informační systémy completed the acquisition of CHAPS spol. s r.o., which has for a long time been providing the Group with its services and products for the development and operation of information systems and applications.

The Group also operates on the external market of ICT services through its subsidiary ČD Telematika, which focuses on the administration, maintenance and construction of telecommunication infrastructure. ČD Telematika owns the second largest optical infrastructure in the Czech Republic and provides housing services in highly secured data centres. ČD Telematika provides its services to clients from state administration, the railway transport segment, large corporations and local internet connectivity providers.

For further information see “—*Group Structure*”.

Pricing, Compensation and Tariff Regulation

Passenger Transport Business – Regional

Overview

Regional passenger transport is governed by long-term contracts entered into between individual railway transport providers and each of the Czech Regions.

In 2009, the Government signed a Memorandum which allocates funds from the State budget in the amount of CZK 2.65 billion per year 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.). The funds are allocated to each of the Czech Regions according to the volume of transport undertaken and the amount allocated is indexed every year according to the average annual consumer price index.

According to the Memorandum, approximately 98.0 per cent. of the total compensation for the Czech Regions was to be 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 two 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. The pre-agreed compensations can be adjusted in case of higher energy costs of more than ten 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 2.65 billion to CZK 2.05 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 for the rest of 2019.

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. The total amount of funding to be provided by the State in 2020 will be CZK 2.86 billion.

In its resolution No. 206 dated 27 March 2018, the Government has approved the introduction of a subsidised fare tariff on trains and buses for the elderly, children, pupils and students. Based on this resolution, pupils and students up to 26 years of age and elderly over 65 are provided with a 75 per cent. discount on the standard fare. The subsidised fare is applicable on all national long-distance and regional bus and rail lines, integrated transport systems as well as urban public transport links that cross city borders. On trains, the subsidy applies only in second class (Economy Class) carriages. Service providers, including ČD, receive a compensation for the discounted fares from the state budget up to the commercial price of the tickets. The Ministry of Transport originally predicted that the compensation for the subsidised fare would amount up to CZK 5.83 billion a year beginning in 2019. However, the subsidised fare has led to a higher demand for public transport, and so in the first two months (i.e. September and October 2018), transport service providers already claimed CZK 975.4 million, of which CZK 450.1 million was claimed by ČD.

At the end of 2018, the Czech Parliament passed Act No. 6/2019 Coll., on amendment of the VAT Act, which as of 1 February 2019 lowered the VAT for public passenger transport fares from the original 15 per cent. to ten per cent. According to the legislative proposal, the lower VAT aims to lower fares for the customers or provide transport service providers with more money for development of public transport.

Liberalisation of the regulated regional passenger transport in the Czech Republic

As most of the current long-term contracts governing regional passenger transport expire on 14 December 2019, the Czech Regions have to enter into new contracts beginning as from 15 December 2019. In line with applicable EU legislation (see “*The Regulatory Framework — Railway transport laws in the EU*” for more information), some Czech Regions are selecting new passenger transport providers in a public tender, whereas some have indicated their intention to grant the relevant contract directly to a selected operator.

As of the date of this Prospectus, ČD has signed contracts with certain Czech Regions beginning as from 15 December 2019 for an average period of eight years. Negotiations with several other Czech Regions are still ongoing. Based on the status of the ongoing negotiations as of the date of this Prospectus, ČD expects to secure in total 83.4 per cent. of its 2019 transport volume in the regional transport and obtain a total output of up to 82.86 million train-kilometres. This would represent a decrease by approximately 3.3 per cent. compared to ČD’s total expected output in the regional transport in 2019 (see “*Risk Factors – Risks related to the Group’s business and industries generally – Industry risks — “The Group is exposed to competition from other providers of rail transport.”*” for more information).

ČD’s main 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 and LEO Express, as well as significant passenger rail operators from neighbouring countries, such as Arriva, a subsidiary of DB (see “*Risk Factors – Risks related to the Group’s business and industries generally – Industry risks — “The Group is exposed to competition from other providers of rail transport.”*” and “*— Business Overview — Regional Passenger Transport*” for more information). As of the date of this Prospectus, seven contracts for a total transportation volume of 5.3 million train-kilometres have been concluded between the Czech Regions and the other operators.

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

Overview

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

The compensation provided by the State 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 ten per cent., higher profit of more than five 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 five per cent. from the actual volumes from the previous year.

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

From 2020 onwards, the Ministry of Transport has to conclude new contracts with railway transport operators on a competitive basis. Since private operators showed an interest in taking part in long-distance passenger transport even before regular tenders are to be launched after 2020, in 2018 the Ministry of Transport announced a modified form of “tendering” based on direct award principles.

ČD’s main 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*” for more information).

As of the date of this Prospectus, in direct award tendering by the Ministry of Transport, ČD managed to secure operation on the following lines beyond 2020:

- R13: Brno – Břeclav – Olomouc;
- R14: Pardubice – Liberec;
- R18: Praha – Olomouc – Staré Město – Luhačovice; and
- Ex2: Praha – Olomouc – Vsetín – Slovakia.

The above long-distance lines combined represent 6,684 out of the total 37,556 million train kilometres, i.e. 17.8 per cent. of the total transport volume expected for the period 2020 onwards. Contracts for 11.1 per cent. of the transport volume expected have been assigned to other railway transport operators, such as Arriva, RegioJet and GW Train. For the remaining 71.8 per cent. negotiations with the Ministry of Transport have not been concluded. Out of that volume, for 27.5 per cent. the Ministry of Transport received proposals from multiple operators, while for 43.6 per cent. ČD was the only contender. In December 2018, the Ministry of Transport discontinued the direct tendering award process and declared that with regards to the remaining 71.8 per cent., it will be negotiating only with ČD. On 7 March 2019, the Ministry of Transport announced its intention to award all remaining 19 long-distance lines, including the international lines Praha – Berlin, Praha – Vienna, Praha – Bratislava – Budapest, directly to ČD. Operation on these main international lines would be covered by the public service obligation contract that is, as of the date of this Prospectus, expected to be concluded between ČD and the Ministry of Transport for a period of 10 years until 2030. If this is the case, ČD’s overall expected loss of the total transport volume on the long distance market for the period 2020 onwards would reach 7.8 per cent as compared to 2019 (see “*Risk Factors – Risks related to the Group’s business and industries generally – Industry risks – “The Group is exposed to competition from other providers of rail transport.”*” 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 the 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 its subsidiaries 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 or its subsidiaries are licensed to provide freight transport in Poland, Slovakia and Austria.

The Railway Network

According to UIC, the Czech railway network is currently among the densest railway networks in the EU in terms of surface area of the country per kilometre of railway route, exceeding that of both Germany and France. According to data compiled by SŽDC as of 31 December 2018, the Czech railway network consisted of 9,459 kilometres of railway routes, of which 3,216 kilometres were electrified, and the related infrastructure included 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 104 transport providers operated on the Czech railway network in 2018, according to preliminary data provided by SŽDC.

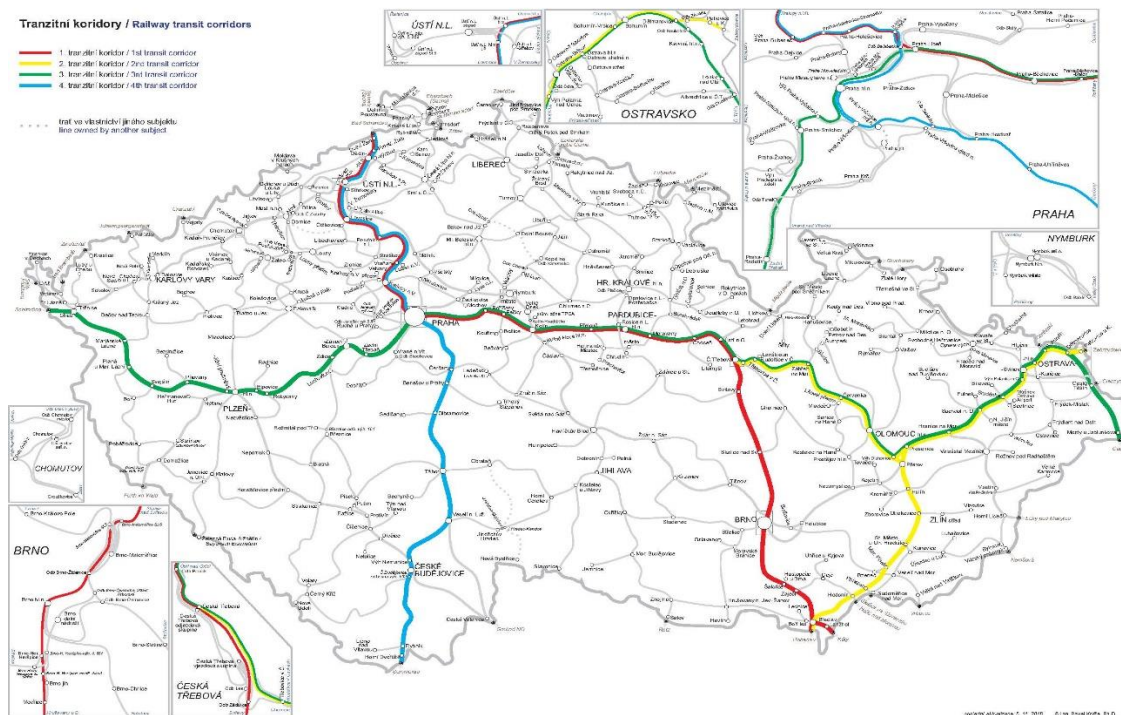
The Group originally also operated and serviced the national railway network, but it gradually transferred these activities to SŽDC (see "*— Relationship with SŽDC*" above). The Group now only operates the railway tracks it owns. These are primarily minor railway spur tracks, branch lines and side tracks at 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 are no new railway tracks under construction in the Czech Republic. However, SŽDC is investing in the modernisation of the existing railway system. The whole Czech railway system uses the same gauge (1,435 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 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 5 November 2018:



Source: SŽDC, as of 5 November 2018.

Property

Overview of Group Property

As of 31 December 2018, the Group owned 3,928 buildings, of which two were railway station buildings, 724 were rolling stock depot buildings, and the remaining buildings included, among others, blocks of flats, stores, buildings for employees, garages and hostels.

Recent and 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.

Sale of the 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 acquired 10,300 square metres of land at Na Florenci Street in the centre of Prague, where it has started a construction of a shopping and office centre. In addition, the agreements give way to future development of other land plots surrounding the Prague Masaryk Station that are to be leased by ČD to MSD in part until 2036 and in part until 2056. In 2016, Penta acquired a land plot at Na Florenci Street, followed by the acquisition of a land plot at Hybernská Street in 2018. The next set of purchases is expected to happen in the next few years.

The total purchase price under the agreement was 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 was due by the end of June 2016. CZK 103 million in respect of the land plot at Hybernská Street was due by the end of January 2018. The agreement was 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 continues to be in 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 primarily aims to sell smaller buildings and land plots to individuals, companies and municipalities.

In 2018, 2017, 2016 and 2015 ČD has realized sales of non-core assets amounting to CZK 650 million, CZK 287 million, CZK 788 million and CZK 398 million, respectively.

As of the date of this Prospectus, ČD is negotiating further sales of its non-core assets. The two major sales in negotiation as of the date of this Prospectus are the sale of a set of real property in Pardubice and a set of real property in Praha Holešovice. The Group cannot guarantee that any of the sales will take place in 2019, at all or for the estimated market value (see “*Risk factors – Risks related to the Group’s business and industries generally – Business risks – The Group may not be successful in selling any or all of its non-core assets*” for more information).

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.

Expected Sale of Property to SŽDC

ČD is in talks with SŽDC over a sale of up to 40 million square metres of land plots surrounding railway stations, railway platforms and railway tracks. This transaction would continue the transfer of railway infrastructure and the related assets from ČD to SŽDC in several subsequent stages concluded in 2008, 2011 and 2016. As of the date of this Prospectus, the sale is expected to take place in the second half of 2019 or the first half of 2020 and the consideration is expected to be paid in instalments over the following 5-6 years. However, the Group cannot guarantee that this sale will take place in the anticipated timeframe or at all (see “*Risk factors – Risks related to the Group’s business and industries generally – Business risks – The Group may not be successful in selling any or all of its non-core assets*” for more information).

Rolling Stock

Passenger Transport Business

As of 31 December 2018, ČD owned 2,050 traction vehicles with the average age of the traction vehicles being 29.7 years since the date of production and 19.47 years since the date of last modernisation.

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 2019, ČD plans to purchase 67 traction vehicles (mainly coaches).

The below table provides an overview of the traction vehicles owned by the Group and their age as of 31 December 2018:

Traction vehicles	Number of traction vehicles for passenger transport				
	Inventory count by age				
	Total	0-10 years	11-20 years	21-30 years	older
Electric and diesel units ⁽¹⁾	1,142	772	248	0	122
Electric locomotives.....	292	30	0	112	150
Electric train units ⁽¹⁾	172	105	40	0	25
Diesel locomotives.....	214	29	10	90	85
Diesel railcars	402	58	53	46	245
Control units ⁽¹⁾	267	221	46	0	0
Total traction vehicles.....	2,050	889	311	248	602

Note:

(1) Unit is reported as a single piece.

As of 31 December 2018, ČD owned 2,210 passenger train units with the average age of 35.05 years since the date of production and 22.98 years since the date of last modernisation.

The below table provides an overview of the passenger train units owned by the Group and their age as of 31 December 2018:

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 coaches.....	78	31	27	7	13
International transport coaches.....	962	515	73	2	372
Four-axle local coaches.....	684	76	34	333	241
Four-axle coaches for diesel coaches	181	84	22	32	43
Two-axle coaches for diesel coaches	198	0	0	0	198
Driving coaches	87	66	10	11	0
Other coaches ⁽¹⁾	20	2	0	0	18
Total passenger units.....	2,210	774	166	385	885

Note:

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

In the year ended 31 December 2018, the cost of maintenance of the passenger rolling stock was CZK 1.36 billion.

Freight Transport Business

As of 31 December 2018, ČD Cargo's fleet consisted of 865 traction vehicles. The average age of ČD Cargo's fleet was 35 years (39 years for electric locomotives and 32 years for diesel locomotives). In the year ended 31 December 2018, ČD Cargo's cost of maintenance of the rolling stock was CZK 263 million.

The table below provides an overview age of traction vehicles owned by ČD Cargo as of 31 December 2018:

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.....	448	40	0	27	381
Diesel locomotives.....	417	27	9	73	308
Total traction vehicles.....	865	67	9	100	689

As of 31 December 2018, ČD Cargo possessed 22,578 freight train units. The average age of ČD Cargo's freight train units was 36 years. On top of the cost of maintenance of the rolling stock, in the year ended 31 December 2018, the cost of maintenance of the freight train units was CZK 202 million (excluding components).

The table below provides an overview of the age of towed freight train units owned by ČD Cargo as of 31 December 2018:

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.....	22,578	236	1,161	3,768	17,413

Other Financial Indebtedness of the Group

This section provides an overview of the financial indebtedness of the Group comprised of bonds issues, other debt instruments, bank debt and a promissory note programme (representing principal amount and disregarding, among other things, unamortised fees, discounts and accrued interest).

As of 31 December 2018, the Total Net Debt of the Group was CZK 28.03 billion, of which CZK 24.76 billion, or 88.3 per cent., was the Total Net Debt of the Issuer. As of 31 December 2018, 11.7 per cent of the Group's financial indebtedness is owed by the subsidiaries of the Issuer and, consequently, is structurally senior to the financial indebtedness of the Issuer under the Notes (see "Risk Factors – Risks related to the Group's financial profile — "A part of the Group's financial indebtedness is structurally senior to the financial indebtedness of the Issuer under the Notes." for more information). In the ordinary

course of its business, the Group has applied for certain bank guarantees, performance bonds or irrevocable letters of credit. These require the issuing banks to make payments to third parties in the event that the Group does not perform what is expected of it under the terms of any relevant contract and, as such, are considered contingent liabilities on the Group's balance sheet. For further information on such guarantees as of 31 December 2018, please see Note 35 to the 2018 Financial Statements.

Overview

The following table provides a basic overview of outstanding bonds and other debt instruments (other than promissory notes) issued by the Group as of the date of this Prospectus.

Group Member	Publicly traded	Nominal value (in millions)	Maturity	Coupon (in per cent.)
Issuer.....	Yes	EUR 300	23 July 2019	4.125
Issuer.....	No	EUR 30	5 November 2024	2.875
Issuer.....	No	EUR 150	5 November 2029	3.50
Issuer.....	No	EUR 37.7	3 June 2022	1.89
Issuer.....	No	EUR 77.5	3 June 2035	3.00
Issuer.....	Yes	EUR 400	25 May 2023	1.875
ČD Cargo ⁽¹⁾	No	CZK 1,000	26 November 2020	1.40
ČD Cargo ⁽¹⁾	No	CZK 500	17 June 2021	1.28
ČD Cargo ⁽¹⁾	Yes	CZK 500	29 December 2023	1.26
ČD Cargo ⁽¹⁾	Yes	CZK 1,000	20 July 2025	2.55
Total		CZK 28,601.5⁽²⁾		

Notes:

- (1) The bonds are structurally senior to the indebtedness of the Issuer under the Notes.
- (2) Converted using the CZK/EUR exchange rate as of 31 December 2018 at CZK 25.725 = EUR 1.00.

The following table provides a basic overview of the Group's promissory notes programme and revolving loan facilities as of 31 March 2019.

Group Member	Counterparty	Type	Outstanding amount (in CZK millions)	Unused amount (in CZK millions)
Issuer.....	ČSOB	Promissory Note Programme	1,700	1,700
Issuer.....	ING bank	Promissory Note Programme	3,000	3,000
Issuer.....	Komerční banka	Promissory Note Programme	950	950
Issuer.....	Česká spořitelna	Promissory Note Programme	2,250	2,250
ČD Cargo.....	Komerční banka	Promissory Note Programme	100	100
Issuer.....	Citigroup	Committed facility in the form of revolving credit	2,000	2,000
Total			10,000	10,000

The following table provides a basic overview of the Group's overdraft loan facilities as of 31 March 2019.

Group Member	Counterparty	Type	Amount available (in CZK millions)	Unused amount (in CZK millions)
Issuer.....	ČSOB	Overdraft	700	700
Issuer.....	Komerční banka	Overdraft	1,500	1,500
ČD Cargo.....	ČSOB	Overdraft	400	100
ČD Cargo.....	Citibank	Overdraft	200	100
ČD Cargo.....	ING bank	Overdraft	200	25
ČD Cargo.....	VUB banka	Overdraft	700	58
Total			3,700	2,483

The terms of certain of the Group's financial indebtedness contain change of control and other restrictive provisions that, among other things, limit the ability of the Issuer, and in certain matters also its subsidiaries, to consolidate, merge or engage in certain other similar transactions; create security or quasi-security on assets; transfer, lease or sell assets; pay any dividend, charge, fee or other distribution; be a creditor in respect of financial indebtedness; and incur financial indebtedness, guarantees or indemnities. These undertakings are subject to a number of important limitations and exceptions.

In addition, the terms of certain of the Group's financial indebtedness contain customary events of default, such as, non-payment, breach of other obligations, misrepresentation, cross default, insolvency, and material adverse change.

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 and its subsidiaries 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 – Risks related to governmental regulations and laws – The Group can incur limitations on procurement due to the Public Procurement Act”* 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. However, as a result of the gradual liberalisation of the railway market driven mostly by applicable EU regulation, by December 2023, all public railway transport contracts will have to be awarded in a public tender (see *“The Regulatory Framework – Railway transport laws in the EU”* and *“Risk factors – Risks Related to the Group's Business and Industries Generally – Industry risks – The Group is exposed to competition from other providers of rail transport”* 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 – As of the date of this Prospectus, ČD is a party to several long-term contracts for the provision of regional passenger transport under the public service obligation with certain Czech Regions effective as from 15 December 2019, such as a 10 – year contract with the city of Prague and a 10-year contract with the Central Bohemian region.
- 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. The current agreement expires in December 2019. In 2018 and 2017, ČD provided pursuant to this contract approximately 33.80 and 32.50 million train-kilometres, respectively. On top of that, ČD concluded separate contracts for the lines R13 Brno – Břeclav – Olomouc and R14A Pardubice – Liberec. In 2018 and 2017, ČD provided pursuant to these contracts 2.30 and 2.30 million train-kilometres respectively.
- Agreement on the operation of railway transportation services on the state-owned and regional railways, entered into between ČD and SŽDC on 18 December 2018 for an indefinite period. The agreement governs the capacity allotment, usage of railway infrastructure and other services, such as rail schedules.
- Electricity supply agreement – On 3 December 2018, ČD and SŽDC entered into a contract for the provision of traction electricity by SŽDC to ČD for the year 2019. The contract specifies the conditions of traction electricity delivery. As of the date of this Prospectus, ČD aims to extend the agreement beyond 2019.
- Sourcing of diesel – ČD is a party to a contract for the supply of diesel fuel with UNIPETROL RPA, s.r.o., entered into on 1 July 2017. 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 the rent of diesel fuel storage facilities to UNIPETROL RPA, s.r.o. Both contracts expire on 30 June 2020.

- Supply of rolling stock – ČD is a party to a number of contracts concerning the supply of new or modernised 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., ŽOS Trnava, 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 22 December 2016, as amended, pursuant to which DPOV provides ČD with rolling stock repair services. In addition, ČD is also a party to contracts with Pars nova a.s., CZ LOKO, a.s. and ŽOS Vrútky a.s., pursuant to which the suppliers provide 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 (the “**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. Each party has a right to terminate the agreement with a three-month termination period.
- Electricity supply agreement – on 17 December 2018, ČD Cargo and SŽDC entered into a contract for the provision of traction electricity by SŽDC to ČD Cargo for the year 2019. The contract specifies the conditions of traction electricity delivery. The agreement will terminate in case and at the same time as the Capacity Allocation Agreement. As of the date of this Prospectus, ČD Cargo aims to extend the agreement beyond 2019.
- Diesel engine oil supply agreement - this agreement between ČD Cargo and ČD was entered into in 2018 for an indefinite period. The agreement stipulates the conditions of diesel engine oil supplies. Each party has a right to terminate the agreement with a three-month termination period.
- Framework agreement on the supply of material – this agreement between ČD Cargo and ČD was entered into in 2018 for an indefinite period. The framework agreement stipulates the conditions of supply of replacement parts.

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 2018 Financial Statements.

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 2018 include provisions created in relation to certain proceedings in the amount of CZK 450 million. As of 14 February 2019, the Group was involved in seven material actions as defendant. An action is considered material when the amount in dispute exceeds CZK 50 million. As of 14 February 2019, 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 10.55 billion. The most relevant pending or potential material disputes and actions against the Group or related to the Group’s business activities are as follows:

Alleged unlawful state aid claim

In April 2015, RegioJet filed a 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). Student Agency k.s., Regio Jet’s parent company, later joined the legal action as a second claimant. On 6 February 2019 the court of first instance dismissed RegioJet’s and Student Agency’s claim in its entirety. As of the date of this Prospectus, RegioJet and Student Agency have appealed the decision of the court of first instance and the appellate court has not yet decided on the appeal.

Alleged abuse of Dominant Position on the Prague-Ostrava Route

In January 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 line by alleged setting of low temporary prices for the passenger rail transport services in an attempt to eliminate competition. 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 line. ČD has filed a legal action with the Court of Justice of the EU against the inspection at the seat of ČD. The action was partially upheld and ČD appealed against this decision. In November 2016, a formal investigation was initiated by the European Commission, in response to which the Czech Competition Office suspended its investigation. The matter has not been decided yet. 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 on the Group any sanctions or penalties in these proceedings. These may include, among other things, fines, further regulatory obligations or limits on the Group’s future operation or on cooperation with third parties.

Claim for damages by RegioJet

On 1 June 2015, RegioJet commenced proceedings against ČD for damages in the amount of CZK 717.0 million with accessories. The claimed damages were allegedly caused to RegioJet by ČD’s alleged predatory pricing practices on the Prague – Ostrava route. As of the date of this Prospectus, the case has been suspended until the European Commission renders its decision in the above-mentioned case of alleged predatory pricing on the Prague-Ostrava line.

Proceedings in the matter of a possible abuse of the dominant position on the routes Pardubice – Liberec and Plzeň – Most

In April 2016, the Czech Competition Office initiated administrative proceedings against ČD for alleged violation of competition rules. In 2005, during a public tender for the railway transport and provision of public services on the routes Pardubice-Liberec and Plzeň-Most in 2006 and 2007, ČD allegedly made a

bid with a price offer that did not cover the costs of service provision on the routes in question. On 14 December 2017, the Czech Competition Office imposed a fine on ČD in the amount of CZK 368 million. As of the date of this Prospectus, the decision is not binding as it has been appealed by ČD. The appeal is still pending.

Claims 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 plus accessories. 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 partially withdrew its legal action while filing an appeal against the Municipal Court in Prague's dismissal of the application to the extent of which there had been no withdrawal. In December 2016, LEO Express filed a new legal action against ČD for the amount of approximately CZK 434 million plus accessories for similar reasons. The second legal action mostly overlaps with the part of the legal action that had been withdrawn by LEO Express after its failure in the court of first instance. In March 2018, the High Court in Prague accepted the appeal from LEO Express for procedural reasons, set aside the first instance decision and returned the case to the Municipal Court. As of the date of this Prospectus, both claims (claim for approximately CZK 34 million and claim for approximately CZK 434 million) are ongoing at the Municipal Court in Prague as the court of first instance.

Legal Action by Grandi Stazioni Česká republika, s.r.o. against SŽDC and ČD for the transfer of the Prague Main Railway Station to SŽDC and pre-contractual liability

Grandi Stazioni Česká republika, s.r.o. ("**Grandi Stazioni**") filed four legal actions against SŽDC and ČD. In the first legal action, Grandi Stazioni claimed CZK 776 million plus contractual penalty for delayed payment and default interests from either ČD or SŽDC (depending on whom the court finds to be the owner of the Prague Main Railway Station passenger hall and the Fanta's building) as compensation for Grandi Stazioni's partial reconstruction of the building. SŽDC commissioned an expert opinion to assess whether the amounts claimed by Grandi Stazioni are substantiated and, based on the expert opinion, SŽDC paid to Grandi Stazioni the amount of CZK 566 million. Thereafter, Grandi Stazioni reduced its claim to the remaining CZK 211 million (EUR 8.2 million equivalent), plus an additional CZK 134 million (EUR 5.2 million equivalent) as contractual penalty. On 5 April 2019, the court of first instance dismissed Grandi Stazioni's claim. As of the date of this Prospectus, it is not clear whether Grandi Stazioni intends to appeal against the decision of the court of first instance.

In the second and third legal action, Grandi Stazioni claims that the transfer of ownership of the Prague Main Railway Station from ČD to SŽDC was invalid. In the second legal action, in which Grandi Stazioni disputes the transfer of ownership of the Fanta's building, Grandi Stazioni's action was dismissed in the court of first instance. After Grandi Stazioni filed an appeal, the appellate court confirmed the decision of the court of first instance. On 8 February 2019, Grandi Stazioni lodged an appeal with the Supreme Court. In the third legal action, in which Grandi Stazioni disputes the transfer of ownership of the passenger terminal, the proceedings are still ongoing as of the date of this Prospectus.

In the fourth legal action, Grandi Stazioni is claiming CZK 1.26 billion from SŽDC and ČD as compensation for the early termination of the lease agreement and as a pre-contractual liability. The alleged damage was caused by a failure of both parties to enter into an amendment of the lease agreement regarding the lease and revitalization of the Prague Main Railway Station. As of the date of this Prospectus, the proceedings are still ongoing.

Alleged cartel agreement between ČD, ZSSK and OBB for the sale of disposed railway vehicles

In June 2016, the European Commission carried out a local inspection at the headquarters of ČD. The inspection was part of the European Commission's investigation into whether between 2010 and 2011, ČD, ZSSK and OBB concluded a cartel agreement with regards to the sale and purchase of railway vehicles for the purpose of restricting the entrance of new train operators to the market. ČD filed a complaint against the local inspection with the Court of Justice of the EU. ČD denies that it had entered into the alleged cartel agreement and finds the local inspection unreasonable. As of the date of this Prospectus, no official proceedings have been initiated by the European Commission against ČD and the case is still in the phase of investigation and information gathering.

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 a subsidy in the collective amount of approximately CZK 549 million. ČD disagreed with the audit conclusions, refused to pay the claimed amounts and pursued relevant procedural defence, having lodged an appeal with the Ministry of Finance. In June 2018, the Ministry of Finance reduced one of the claimed refunds from CZK 272 million to CZK 68 million. ČD subsequently filed an administrative action against this decision with the court. The remaining appeal proceedings are still ongoing. As of the date of this Prospectus, none of the orders to repay the relevant part of the subsidy have become binding.

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. In May 2018, six individuals and one company were formally charged with a crime, including ČD’s subsidiary VÚŽ’s then manager. As of the date of this Prospectus, the investigation is still ongoing and the date of the trial has not been set. Although any cooperation between the Group and the VÚŽ’s then manager has been terminated, the Group can give no assurance that his criminal prosecution will not have a negative reputational effect on VÚŽ and, consequently, on the Group.

Licences and Insurance

Licences

Pursuant to the Railway Act, a valid national licence must be obtained for the provision of railway transport. 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 based 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 on 27 February 2023.

ČD also holds a European licence that, subject to compliance with other conditions set by the legislation of the respective member state of the EU, allows for the 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 is to 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 as is the current certification.

To be eligible to provide freight transport outside of the Czech Republic, ČD Cargo needs to be awarded all licences and certifications as requested by the respective countries. These may include, among other things, the requirement that ČD Cargo’s drivers have passed all prerequisite exams. As of the date of this Prospectus, ČD Cargo can provide freight transport, based either on its own license or through its subsidiaries, in Poland, Slovakia 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 it believes to be common 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 a common business practise among other European rail transport operators.

ČD maintains 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 maintains the following insurance cover:

- 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 for Germany) (up to a liability cap of CZK 250 million);
- third party liability insurance of a holder of railway vehicles in Germany (up to a liability cap of EUR 20 million);
- third party liability insurance arising from the operation of railway transport in Austria;
- car insurance coverage of selected engine vehicles for the Czech Republic and selected European states; and
- other insurance coverage, such as property insurance and other operational activities.

The Group has not made any material insurance claims under any of these policies.

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 ČD's organisational units and members of the Group are informed about any relevant changes in the area of environmental protection without undue delay so that internal regulations can be updated and relevant training provided as soon as practicable. ČD's internal policies aim to ensure compliance with applicable environmental legislation and the Group's executive management is updated regularly on any relevant 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 holds 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.

ČD holds management system certificates under ISO 9001:2015, OHSAS 18001:2007 and ISO 50001:2011. As of the date of this Prospectus, the certification authority has certified that ČD's management system is in accordance with the requirements of the above ISO management system standards. Annual re-certification and oversight audits evaluate whether the system is being maintained and continually improved. The current compliance certificates are valid until 2019 (quality management, occupational health and safety management are going to be re-certified in June 2019), and until 2021 (energy management).

Freight Transport Business

On 27 May 2008, ČD and ČD Cargo entered into a cooperation agreement with respect to certain environmental matters regarding the repairs of the rolling stock units by ČD Cargo. The issues outlined in the agreement include, among other things, reduction of waste production, enhancing of building insulation, prevention of diesel leakages in the soil and mitigation of 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. As a result of a re-certification audit in May 2018, ČD Cargo received certification under ISO 9001:2015, ISO 14001:2015 OHSAS 18001:2007 and ISO 50001:2011. The current compliance certificates are valid until 2021.

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 influence its financial results and cash flows. Significant market risks represent risks that 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.

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. (see "*Risk Factors – Risk Factors Related to the Group's Business and Industry – Business Risks – The Group is exposed to liquidity risks*" 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*" 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 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"* 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. 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) is 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"* 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 17 per cent. of the total price of diesel which is expected to be purchased in 2019 whilst ČD Cargo has hedging contracts covering 50 per cent. of the total price of diesel which is expected to be purchased in 2019. ČD has agreed on a fixed price for which it purchases electricity for 2019 (see *"Risk Factors – Risk Factors Related to the Group's Business and Industry – Business Risks – The Group is exposed to commodity risks"* 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 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.

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 leaflets.

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 the 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 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 members of the Steering Committee is at the registered office of ČD.

Pursuant to the Act on Czech Railways, the Steering Committee has seven members: three representatives of the Ministry of Transport and one representative of each of 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
Ing. Ladislav Němec	Vice-Chairman	Deputy Minister of Transport
Ing. Luděk Sosna, Ph.D.	Member	Director of the Department of strategy of the Ministry of Transport
Ing. Eduard Muřický	Member	Deputy Minister of Industry and Trade
Bc. Václav Nebeský	Member	Deputy Minister 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 Chairman, who is the Chief Executive Officer of ČD and also the 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:

<u>Name</u>	<u>Background</u>
<p>Ing. Miroslav Kupec <i>Chairman and Chief Executive Officer</i></p>	<p>Mr. Kupec has been the Chairman of the Board of Directors since 11 September 2018 and a member of the Board of Directors since 7 December 2016.</p> <p>In 1983, Mr. Kupec joined Poldi Kladno and after two years was promoted to operations manager. In 1990, Mr. Kupec became CEO of ČKD Slaný, and subsequently held the position of managing director and executive director at F.X. Meiler Slaný. In 2001, Mr. Kupec became chairman of the board and CEO of ŠKODA MACHINE TOOL a.s. and ŠKODA VAGONKA a.s. In 2013, Mr. Kupec became director of repairs at ČD Cargo and from 2014 to 2016, worked as the head of Depo kolejových vozidel Praha. In 2016, Mr. Kupec became member of the board of directors of ČD and in 2018 became its chairman.</p> <p>Mr. Kupec holds a degree from the Faculty of Mechanical Engineering of the Czech Technical University in Prague.</p>
<p>Ing. Radek Dvořák <i>Member</i></p>	<p>Mr. Dvořák has been a member of the Board of Directors since 18 September 2018.</p> <p>Mr. Dvořák started his career in 2006 in the automotive industry at Toyota Peugeot Citroen Automotive. In 2007, however, he moved to ČD. Since then he has held different positions at ČD – e.g. project manager of EU projects, project manager in project office, office director of the board member for passenger transport. Before becoming a member of the Board of Directors, Mr. Dvořák was appointed to the position of director of passenger transport development and strategy.</p> <p>Mr. Dvořák is currently responsible for financial tasks as well as for passenger transport. As deputy for economics, he is primarily responsible for ČD's annual and medium-term plans, financing, the Group's investments, public contracts and controlling. As deputy for passenger transport, he is responsible for the development of regional and long-distance passenger transport and related strategies.</p> <p>Mr. Dvořák holds a degree from the Faculty of Transport Engineering of the University Pardubice.</p>
<p>Ing. Michal Vereš, MBA <i>Member</i></p>	<p>Mr. Vereš has been a member of the Board of Directors since 1 March 2019.</p> <p>Mr. Vereš started his career in 1994 when he joined the Slovak national railway company ZSSK as a train operator. Mr. Vereš gradually made his way up to various managerial positions, including that of a member of the board of directors responsible for strategy and investments as well as for public railway transport operations in Slovakia. Prior to joining ČD, Mr. Vereš held the position of director of operations at ZSSK.</p>

Mr. Kupec is also acting as chairman of the Supervisory Board of ČD Cargo.

On 13 March 2019, Mr. Patrik Horný has been elected and appointed as a member of the Board of Directors of ČD effective as of 1 June 2019.

Dipl. Ing. Patrik Horný *Member* Mr. Horný is a senior executive leader with long-term experience from multi-national companies in CEE. Before joining the Board of Directors of ČD as its CFO and CIO, Mr. Horný held the position of vice-chairman of the board of directors and director of economy and information management at ZSSK.

During his career, Mr. Horný also held several executive positions in management consultancy and global IT companies, e.g. as a partner of PriceWaterhouseCoopers Česká republika, s.r.o., as country managing director of Capgemini (Ernst & Young) Czech Republic and as principal and member of steering board of Capgemini Austria/CEE.

He is an expert in the field of corporate transformation related to introduction of a new culture, organizational models, innovations and new technologies. He studied at the Technical University in Dresden, worked and lived in Germany, Austria, Slovakia and the Czech Republic.

The Supervisory Board

The Supervisory Board is an independent body of ČD with the power to: (i) elect the members of the Board of Directors, (ii) supervise the Board of Directors in its management of ČD and its 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 the report on ČD's business activity and its assets and submit its opinion to the Steering Committee regarding the same; and (vi) approve the annual business plan, including the business strategy, and budgets of railway transport operations of ČD.

Pursuant to the Articles of Association, the Supervisory Board has nine members. Six members are elected by 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:

Name and position with the relevant institutions	Position within the Supervisory Board and appointment date	Organisation and business address
Prof. Ing. Karel Pospíšil	Chairman of the Supervisory Board since 30 April 2019 Member of the Supervisory Board since 13 July 2018	Transport research centre, Líšeňská 33a, 636 00 Brno
Bc. Jaroslav Pejša,	Member since 5 May 2011 re-elected on 5 May 2016	Byrksova 736/46, 198 00 Prague 9
Vladislav Vokoun, First Vice-Chairman of the Confederation of Railroad Unions	Member since 1 January 2009, re-elected on 5 May 2016	Confederation of Railroad Unions, Dům Bohemika, Na Břehu 579/3, 190 00 Prague 9
Antonín Leitgeb, Secretary of the ČD Committee of the	Member since 1 January 2009, re-	Confederation of Railroad Unions, Dům Bohemika, Na Břehu 579/3,

Name and position with the relevant institutions	Position within the Supervisory Board and appointment date	Organisation and business address
Confederation of Railroad Unions	elected on 5 May 2016	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
Prof. Ing. Tatiana Molková, Ph.D.	Member since 15 April 2019	Faculty of Transport Engineering, Studentská 95, 532 10 Pardubice
Doc. Ing. Libor Švadlenka, Ph.D.	Member since 13 February 2019	Faculty of Transport Engineering, Studentská 95, 532 10 Pardubice
Doc. Ing. Josef Kolář	Member since 13 July 2018	Faculty of Mechanical Engineering, Technická 4, 166 07 Prague 6

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 for a five-year term and recalled by the Steering Committee. 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
Ing. Otakar Hora, CSc.	Vice-Chairman
Ing. Lenka Hlubučková	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:

Ing. Miroslav Kupec	-
Ing. Radek Dvořák	-

Ing. Michal Vereš, MBA	-
Dipl. Ing. Patrik Horný	-
<i>Supervisory Board Members:</i>	
Prof. Ing. Karel Pospíšil, Ph.D., LL.M.	Member of the supervisory board and director of research and development of Centrum dopravního výzkumu, v. v. i. Vice-chairman of the board of directors and deputy director general of Technická správa komunikací hl.m. Prahy, a.s.
Bc. Jaroslav Pejša	-
Vladislav Vokoun	-
Antonín Leitgeb	-
Ing. Vojtěch Kocourek, Ph.D.	Member of the board of Centrum dopravního výzkumu, v. v. i.
Prof. Ing. Tatiana Molková, Ph.D.	Lecturer at the Faculty of Transport Engineering of the University of Pardubice
Doc. Ing. Libor Švadlenka, Ph.D.	Lecturer at the Faculty of Transport Engineering of the University of Pardubice
Doc. Ing. Josef Kolář	Lecturer at the Faculty of Mechanical Engineering of the Czech Technical University in Prague
<i>Steering Committee Members:</i>	
Ing. Tomáš Čoček, Ph.D.	Member of the administrative board of SŽDC; member of the board of Centrum dopravního výzkumu, v. v. i.
Ing. Ladislav Němec	-
Ing. Luděk Sosna, Ph.D.	-
Ing. Eduard Muřický	-
Bc. Václav Nebeský	-
PhDr. Mgr. Jakub Landovský, Ph.D.	Lecturer at the Faculty of Social Sciences of Charles University
Ing. Pavel Kouřil	-
<i>Audit Committee Members:</i>	
PhDr. Tomáš Vyhnánek	Deputy Minister of Finance
Ing. Otakar Hora, CSc.	-
Ing. Lenka Hlubučková	-

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 2018, the average number of pro-rated to full-time employees at ČD was 14,592; at ČD Cargo it was 6,958 and at the entire Group it was 23,374. 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 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 2017 and 2018, 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 2019.

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 2018 to 2015:

Annual average number of employees (pro-rated to full-time employees)	2018	2017	2016	2015
The Group.....	23,374	23,542	23,664	23,947
ČD.....	14,592	14,801	15,061	15,183
ČD Cargo.....	6,958	7,110	7,065	7,335

Passenger Transport Business

Pursuant to the collective agreement for 2019, 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 209, or 1.4 per cent., to 14,592 for the year ended 31 December 2018 as compared to 14,801 employees for the year ended 31 December 2017, 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 2018 amounted to CZK 774 million and included severance payments to employees, benefits resulting from the collective agreement in force and other employee benefits. As of 31 December 2018, severance payments made by the Group (excluding ČD Cargo) pursuant to the collective agreement for 2018, which go beyond the requirements of the Labour Code, totalled CZK 53 million and were made primarily to 172 employees of ČD and to 9 employees of ČD's subsidiaries (other than ČD Cargo). As of 31 December 2018, severance payments made by ČD Cargo totalled CZK 39 million and were set off against its reserves for restructuring. As a result, it did not impact the presentation of financial information in the statement of profit and loss for the year ended 31 December 2018.

The average monthly salary of ČD employees increased by CZK 2,445, or 7.4 per cent., to CZK 35,488 in 2018 as compared to CZK 33,043 in 2017. When taking into account the average consumer price index of 2.1 per cent. in 2018, the average salary at ČD increased by 7.4 per cent. in nominal terms and increased by 5.2 per cent. in real terms in 2018 as compared to 2017.

Freight Transport Business

The average headcount pro-rated to full-time employees at ČD Cargo increased by three, to 7,113 for the year ended 31 December 2018 as compared to 7,110 employees for the year ended 31 December 2017. The increase of staff is a result of ČD Cargo's improved transportation performance outside of the Czech Republic.

According to ČD Cargo's IFRS financial statements, employee benefit costs for the year ended 31 December 2018 were CZK 4.4 billion as compared to CZK 4.1 billion for the same period in 2017.

The average monthly salary of ČD Cargo employees increased by CZK 2,864 or 8.5 per cent., to CZK 36,549 in 2018 as compared to CZK 33,685 in 2017.

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 2019, 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 721 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 the Czech Republic-based companies RegioJet and LEO Express, 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, i.e. the tracks and overhead lines and related equipment, is owned by the Czech Republic through the state organization SŽDC. SŽDC charges fees 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 decreased by approximately 20 per cent. year-on-year (2017 compared to 2016) but when compared with 2015, the investment costs were less than a half, returning to the 2010 level, according to the Transport Yearbook 2017 published by the Ministry of Transport (the “**Transport Yearbook 2017**”). 2017 and 2016 recorded declining railway infrastructure investments compared to 2015, which represented an investment high compared to previous years. 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 Trans-European Transport Network (TEN-T), a European Commission policy directed towards the implementation and development of a Europe-wide network of roads, railway lines, inland waterways, maritime shipping routes, ports, airports and rail-road terminals.

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 Poland, Romania, the Netherlands, France, Hungary, Luxembourg and Slovakia. 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 2017. 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
	<i>(km)</i>	<i>(km per 1,000km²)</i>
Czech Republic	9,408	119.2
Germany	33,488	93.6
Hungary	7,246	77.9
Slovakia	3,626	74.0
Poland	18,513	59.2
France	28,422	51.7
Bulgaria	4,030	36.3

Source: UIC 2017

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 2017:

Country	Carrier	Train-kilometres (thousands)
Germany	DB AG	776,980
UK	ATOC	528,580
France	SNCF	414,910
Italy	FS SpA	274,010
Spain	RENFE	184,970
Czech Republic	ČD	145,420
Netherlands	NS	137,000
Austria	ÖBB	131,020
Hungary	MAV	88,220

Source: UIC 2017

The below table provides an overview of the number of carriers in the Czech Republic in the years ended 31 December 2011 to 2017:

Year	2017	2016	2015	2014	2013	2012	2011
No. of carriers	99	96	94	89	84	79	75

Source: SŽDC Annual Report 2017

The number of carriers utilizing the railway infrastructure in the Czech Republic has increased from 75 in 2011 to 99 in 2017.

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 2017, 2016, 2015 and 2007 in the Czech Republic:

	Year			
	2017	2016	2015	2007
	<i>(in millions of passengers)</i>			
Rail transport.....	183.0	179.2	176.6	184.2
Bus transport	329.7	332.8	350.9	375.0
Air transport	6.7	6.0	5.4	7.0
Inland waterway transport ⁽¹⁾	0.8	0.8	0.9	1.1
Urban public transport ⁽²⁾	2,317.3	2,280.3	2,160.8	2,258.4
Passenger car transport ⁽³⁾	2,368.8	2,273.3	2,175.4	2,220.0

Source: Transport Yearbook 2017 published by the Ministry of Transport
Notes:

- (1) Mainly holiday and weekend passenger transport
- (2) Urban public transport refers to public transport in intra-city transport
- (3) Expert estimate

The number of passengers transported on railways in the Czech Republic decreased by 0.7 per cent. from 184.2 million in the year ended 31 December 2007 to 183.0 million in the year ended 31 December 2017. The number of passengers transported by bus transport in the Czech Republic decreased by 12.1 per cent. from 375.0 million to 329.7 million over the same period. Air travel in the Czech Republic also decreased by 4.3 per cent. from 7.0 million to 6.7 million over the same period, despite decreasing air travel fares and in spite of market penetration by low cost carriers. Volume of passenger car transport increased from the year ended 31 December 2007 to the year ended 31 December 2017, but as the numbers are statistical estimates only, no trend can be extrapolated from the numerical difference. The overall trends of the different kinds of transport are very similar, although they suggest a positive shift in customer preference for passenger car transport since 2007.

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 2017, 2016, 2015 and 2007:

	Year			
	2017	2016	2015	2007
	<i>(in millions of passenger-kilometres)⁽¹⁾</i>			
Rail transport.....	9,497.6	8,843.4	8,298.1	6,898.0
Bus transport	11,177.8	10,257.1	9,995.9	9,518.8
Air transport	11,326.1	10,202.6	9,701.0	10,477.3
Inland waterway transport ⁽²⁾	12.5	12.2	13.5	18.6
Urban public transport ⁽³⁾	17,824.2	17,387.1	16,100.0	14,352.5
Passenger car transport ⁽⁴⁾	74,327.0	72,255.0	69,705.0	71,540.0

Source: Transport Yearbook 2017 published by the 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) Mainly holiday and weekend passenger transport
- (3) Urban public transport refers to public transport in intra-city transport.
- (4) Expert estimate

Passenger Rail Transport Usage

The below table provides an overview of the volume of passenger rail transport in a number of EU countries in terms of distance run per inhabitant and number of railway journeys in the year ended 31 December 2017:

Carrier	Country	Passenger-kilometres per Inhabitant	Number of Passengers Carried per Inhabitant
ČD	Czech Republic	735.7	16.5
SNCF	France.....	1,355.2	19.0
DB	Germany.....	1,000.4	25.2
MAV	Hungary.....	557.8	11.3
ZSSK	Slovakia.....	692.6	13.3
PKP	Poland	-	-
BDZ	Bulgaria.....	201.7	3.0

Source: UIC 2017

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 2017 and 2016:

Carrier	Gross ton-kilometres ⁽¹⁾		Train kilometres ⁽²⁾ travelled	
	2017	2016	2017	2016
	(per cent.)			
ČD.....	90.04	91.22	93.73	94.43
RegioJet a.s.	8.07	6.77	3.06	2.49
Leo Express Global a.s.....	1.29	1.61	1.50	1.90
GW Train Regio a.s.....	0.22	0.08	0.67	0.36
Die Länderbahn GmbH DLB	0.15	0.15	0.37	0.38
Other carriers.....	0.23	0.17	0.67	0.44

Source: SŽDC Annual Report 2017

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 93.73 per cent. of all passenger rail transport in the Czech Republic in terms of train kilometres, or 90.04 per cent. of all passenger rail transport in the Czech Republic in terms of gross ton kilometres in the year ended 31 December 2017. Despite liberalization of the passenger transport sector, ČD remains a leading provider of the passenger rail transport service in the Czech Republic.

Freight Transport

Due to its geographical position, the Czech Republic serves as one of the key transport corridors in Central and Eastern Europe (“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 second largest freight carrier in Europe in terms of tons carried in 2017. According to 2017 SŽDC statistics, ČD Cargo is a leading domestic transporter with a market share of 63.2 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 2017, 2016, 2015 and 2007:

	2017	2016	2015	2007
	<i>(in thousands of tons of goods)</i>			
Total	570,976	539,063	549,085	565,708
Rail transport.....	96,516	98,034	97,280	99,777
Road transport.....	459,433	431,889	438,906	453,537
Air transport.....	6	6	6	22
Inland waterway transport.....	1,568	1,779	1,853	2,242
Oil pipelines.....	13,453	7,356	11,040	10,131

Source: Transport Yearbook 2017 published by the Ministry of Transport

	2017	2016	2015	2007
	<i>(in millions of tons-kilometres)</i>			
Total	62,936	68,172	76,613	67,463
Rail transport.....	15,843	15,619	15,261	16,304
Road transport.....	44,274	50,315	58,714	48,141
Air transport.....	32	31	31	41
Inland waterway transport.....	623	620	585	898
Oil pipelines.....	2,165	1,588	2,023	2,079

Source: Transport Yearbook 2017 published by the Ministry of Transport

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 2018:

	Transport by freight type of ČD Cargo
	<i>(per cent.)</i>
Iron and iron products	19
Brown coal	15
Bituminous coal and coke	11
Combined transport	10
Timber and paper products	8
Building materials	7
Chemicals	7
Automotive	2
Food and agricultural products	2
Other	18
Total	100

Source: ČD Cargo Data 2018

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 60.0 per cent. of ČD Cargo's freight volumes in the year ended 31 December 2018. The below table provides an overview of the allocation of the freight traffic by destination in the year ended 31 December 2018.

	Freight traffic
	(per cent.)
Local	40
Import	30
Export	22
Transit	8
Total.....	100

Source: ČD Cargo Data 2018

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 2017 and 2016.

Carrier	Transport of Freight by Rail			
	2017	2016	2017	2016
	Gross ton-km⁽¹⁾	Gross ton-km⁽¹⁾	Train km⁽²⁾	Train km⁽²⁾
	(per cent.)			
ČD Cargo	63.2	64.8	63.0	64.0
Advanced World Transport	7.9	9.0	6.8	7.7
METRANS Rail s.r.o.	7.2	7.0	4.8	4.7
Unipetrol Doprava	4.1	3.7	3.4	3.4
IDS CARGO a.s.	3.4	3.4	3.1	3.4
Rail Cargo Austria Aktiengesellschaft	3.0	2.2	2.0	1.6
PKP CARGO SPÓŁKA AKCYJNA	2.0	1.1	1.7	0.9
SD – Kolejová doprava a.s.	1.8	2.1	1.3	1.5
LTE Logistik a Transport Czechia s.r.o.	1.4	1.3	1.0	0.9
BF Logistics s.r.o.	1.2	1.1	0.9	0.9
Other carriers.....	4.9	4.4	12.0	11.1

Source: SŽDC Annual Report 2017

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 10 per cent. of the total freight volumes in the EU in the year ended 31 December 2017, is fully liberalized and deregulated. ČD Cargo has a leading position on the domestic market with a 63.2 per cent. market share in terms of gross ton kilometres in the year ended 31 December 2017. As of 31 December 2017, the other key players in the freight market were Advanced World Transport with a 7.9 per cent., METRANS Rail with 7.2 per cent., Unipetrol Doprava with 4.1 per cent. and IDS Cargo with a 3.4 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 leading 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 2017 and 2016:

Country	Carrier	Wagonload Freight Traffic Overall		
		2017	2016	(percentage change)
		(thousand tonnes carried)		
Germany	DB Schenker Rail AG (Deutsche Bahn).....	271,010	277,447	(2.3)
Poland	PKP Cargo SA	119,147	111,495	6.9
Czech Republic	ČD Cargo	66,100	65,900	0.31
Switzerland	SBB CFF FFS	53,210	53,510	(0.6)
Lithuania	LG	52,640	47,650	10.5
Latvia	LDZ.....	43,790	47,820	(8.2)
Finland	VR.....	38,410	36,150	6.3
Slovakia	ZSSK Cargo	35,665	35,637	0.1
Turkey	TCDD.....	27,390	23,580	16.2
Spain	RENFE.....	19,630	18,300	7.3

Source: UIC 2017

According to the UIC, ČD Cargo ranked the third largest freight carrier in Europe in terms of tons carried in 2017 and 2016. Only Deutsche Bahn and Polske Koleje Państwowe S.A (PKP) 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 Decree of the Ministry of Transport No. 352/2004 Coll., on Operational and Technical interconnection of the European Railway System, as amended, the Government Regulation No. 133/2005 Coll., on Technical Requirements for Operational and Technical Interconnection of the European Railway System, as amended, and related Technical Specifications of Interoperability.

The basic principles of modernisation 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 Decree of the Ministry of Transport No. 177/1995 Coll. and Decree of the Ministry of Regional Development No. 398/2009 (i.e. ensuring that the length, width, high and other technical parameters will be in compliance with the standards set by these decrees 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 modernisation 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 four projects under the CEF Transport program.

Within the first programming period ČD received funding from the Operational Programme Transport (50 per cent. of the project value) for two projects to install the GSM-R system to 600 and 355, respectively, locomotives owned by ČD. The total budget of the project is CZK 282 million.

For the second programming period ČD (as well as ČD Cargo) is selecting the vendor for the installation of the ETCS equipment to rail vehicles as part of the ERTMS under the CEF Transport programme.

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 10.6 million inhabitants.

The Czech Republic became a member of the North Atlantic Treaty Organisation 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 was A1 with positive outlook (Moody's), AA- with stable outlook (S&P) and AA- 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 2017 to 2012:

Indicator	2017	2016	2015	2014	2013	2012
	(per cent.)					
GDP ⁽¹⁾	4.4	2.5	5.3	2.7	(0.5)	(0.8)
Final consumption expenditure ⁽¹⁾	3.4	3.4	3.2	1.6	1.1	(1.4)
Gross capital formation expenditure ⁽¹⁾	4.0	(4.3)	13.0	8.6	(5.1)	(3.9)
Gross fixed capital formation expenditure ⁽¹⁾	3.7	(3.1)	10.2	3.9	(2.5)	(3.1)
Exports of goods and services ⁽¹⁾	6.8	4.3	6.1	8.6	0.3	4.2
Imports of goods and services ⁽¹⁾	6.0	2.8	6.9	10.0	0.2	2.6
Industrial output ⁽²⁾	7.2	1.2	2.0	8.9	1.5	1.7
Construction output ⁽¹⁾	3.3	(5.6)	6.8	4.3	(6.7)	(7.6)
Services - sales ⁽¹⁾	3.9	1.1	2.8	1.0	(0.2)	(0.4)
Agriculture - sales ⁽¹⁾	(1.1)	3.4	6.2	11.0	(2.1)	3.1
CPI ⁽³⁾	2.5	0.7	0.3	0.4	1.4	3.3
General rate of unemployment	2.9	4.0	5.0	6.1	7.0	7.0
State budget balance/GDP	(0.1)	1.3	(1.4)	(1.8)	(2.0)	(2.5)
General government debt/GDP	34.7	36.8	40.0	42.2	44.9	44.5
State debt/GDP	32.2	33.8	36.4	38.6	41.1	41.1
CZK/EUR exchange rate ⁽⁴⁾	26.330	27.033	27.283	27.533	25.974	25.143

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 2017, the Czech GDP increased by 4.3 per cent. year-on-year and gross value added rose by 5.6 per cent. The growth was driven by both domestic and foreign demand. In the year ended 31 December 2017, the economic growth was recorded in the fifteen preceding calendar quarters. The dynamic growth in 2017 was also supported by record-breaking low unemployment rate and an unprecedented high level of the participation rate of the population.

The economic growth enhanced the labour market. Employment rose by 1.1 percentage point in 2017 compared to 2016. The general unemployment rate decreased during 2017 and achieved the 2.9 per cent. floor in December 2017. The average wages also increased by 3.6 per cent. year-on-year in the year ended 31 December 2017 compared to 2016.

The Czech Republic had a budget deficit of 1.5 and 0.7 per cent. of GDP in 2017 and 2016, respectively. The general government debt equalled 34.7 and 36.8 per cent. of GDP in 2017 and 2016, 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 2017 to 2015:

	2017	2016	2015
	(per cent.)		
Czech Republic.....	89	88	87
Poland.....	70	68	69
Hungary.....	68	67	68
Slovakia.....	76	77	77
Slovenia.....	85	83	82
EA19.....	106	106	106

Source: Eurostat

Note: Indexed to EU28 (100 per cent.).

The Czech Republic has a GDP per capita which is among the highest of the non-Eurozone EU members in CEE 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 2017 and 2016:

	2017	2016
	<i>(per cent.)</i>	
Czech Republic	1.5	0.7
Poland	(1.4)	(2.2)
Hungary	(2.2)	(1.6)
Slovakia	(0.8)	(2.2)
Slovenia	0.1	(1.9)
Euro area (19 countries)	(1.0)	(1.6)

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 2017 and 2016:

	2017	2016
	<i>(per cent.)</i>	
Czech Republic	34.7	36.8
Poland	50.6	54.2
Hungary	73.3	75.9
Slovakia	50.9	51.8
Slovenia	74.1	78.7
Euro area (19 countries)	86.8	89.1

Source: Eurostat

The Czech Republic maintains a low budget deficit relative to certain other CEE countries and the Eurozone average for 2017 and 2016. In 2017, the general government debt of the Czech Republic was lower than in most Eurozone countries (at EUR 46,065 million which is approximately 34.7 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 2017 and 2016.

THE REGULATORY FRAMEWORK

Railway transport laws in the EU

The industry is regulated by a series of directives and regulations, commonly referred to as ‘railway packages’. The main legal framework of the EU railway market is established by the first railway package of 2001 (the “**First Railway Package**”), which was recast by Directive 2012/34/EU of the European Parliament and of the Council of 21 November 2012 establishing a single European railway area (the “**Directive 2012/34/EU**”). It provides the framework for open access to operations on railways in the EU, the licensing of railway undertakings, the allocation of railway infrastructure capacity, the levying of charges for the use of railway infrastructure, and safety certification.

The second railway package, adopted in 2004 (the “**Second Railway Package**”), has accelerated the liberalisation of rail freight services by fully opening the rail freight market to competition as from 1 January 2007. For the purpose of operating rail freight services, the Second Railway Package imposed an obligation on the Member States to provide access to the entire rail network and infrastructure on equitable conditions. The Second Railway Package also created the European Railway Agency situated in Valenciennes (France), introduced common procedures for accident investigation and established Safety Authorities in each Member State. 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, aims to ensure the development and improvement of safety on the railways in the EU and improved access to the market for rail transport services.

The third railway package of 2007 (the “**Third Railway Package**”) 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, as later amended by Regulation (EU) 2016/2338 of the European Parliament and of the Council of 14 December 2016 (the “**Regulation 1370/2007**”), provides 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 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 compensation. 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 general rules contained in the Regulation 1370/2007, 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.

The Regulation 1370/2007 provides for mandatory content of public service contracts, such as 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 an 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 the Regulation 1370/2007. Article 4 provides that the term of public service contracts with regard to the railway industry may not exceed 15 years. In case the public service contract is related to several modes of transport, its duration may be 15 years as long as transport by rail or other track-based modes represents more than 50 per cent. of the value of the services in question, otherwise it is limited to ten years. This period may be extended by a maximum of 50 per cent. of the duration of the contract 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. The 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 the Regulation 1370/2007, i.e. on the basis of a competitive tender procedure except in specified cases. Under the amended Article 5, the Regulation 1370/2007 allows for the competent authority to decide to award public service contracts for public passenger transport services by rail directly, i.e. outside the procedure for fair competitive tendering. For example, the Regulation 1370/2007 permits the competent authority to award public service contracts for public passenger transport services by rail directly where such service would not exceed a certain threshold of annual value, or where emergency measures need to be taken in order to avoid disruption of services. Such exceptional contracts must not, however, exceed the limits stipulated in the Regulation 1370/2007, e.g. two years for the contract awarded by emergency measures.

The key provisions of such contracts must be made public by the authority which awarded them. The above rules of awarding public service contracts are binding from 3 December 2019. Until that date, transition measures are to be taken by the Member States. The 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 24 December 2017 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 the Regulation 1370/2007. Public service contracts for public passenger transport services by rail directly awarded on the basis of a procedure other than a fair competitive procedure from 24 December 2017 to 2 December 2019 may continue until their expiry date, however, no longer than ten years, or, under some exceptions provided under Article 4(4), may be extended by a maximum of 50 per cent. of their duration.

An annex to the 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 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.

In 2016, the fourth railway package (the “**Fourth Railway Package**”) was introduced in order to revitalise the rail sector and make it more competitive in comparison to other modes of transport. It comprises two ‘pillars’. The ‘technical pillar’ includes Regulation (EU) 2016/796 of the European Parliament and of the Council of 11 May 2016 on the European Union Agency for Railways and repealing Regulation (EC) No 881/2004, Directive (EU) 2016/797 of the European Parliament and of the Council of 11 May 2016 on the interoperability of the rail system within the European Union, and Directive (EU) 2016/798 of the European Parliament and of the Council of 11 May 2016 on railway safety (Recast of Directive 2004/49/EC). It aims to boost competitiveness of the rail sector by significantly reducing costs and administrative burden for railway undertakings wishing to operate across Europe. Specifically, it introduces vehicle authorizations for placing on the market and safety certificates for railway undertakings issued by the European Railway Agency and valid for the whole of EU, eliminating the need for multiple applications in each Member State. All such applications may be lodged through a single entry point. The ‘technical pillar’ also ensures the interoperability of the European Rail Traffic Management System (ERTMS) equipment. Furthermore, it reduces the large number of remaining national rules to promote transparency and avoid discrimination of new operators.

The ‘market pillar’ aims to deliver a broader choice of service providers and better quality by improving competitiveness of the railway market. It comprises Regulation (EU) 2016/2338 of the European Parliament and of the Council of 14 December 2016 amending Regulation (EC) No 1370/2007 concerning the opening of the market for domestic passenger transport services by rail, which deals with the award of public service contracts for domestic passenger transport services by rail (the “**PSO**

Regulation”), Directive (EU) 2016/2370 of the European Parliament and of the Council of 14 December 2016 amending Directive 2012/34/EU as regards the opening of the market for domestic passenger transport services by rail and the governance of the railway infrastructure, which deals with the opening of the market of domestic passenger transport services by rail and the governance of the railway infrastructure (the “**Governance Directive**”), and Regulation (EU) 2016/2337 of the European Parliament and of the Council of 14 December 2016 repealing Regulation (EEC) No 1192/69 of the Council on common rules for the normalisation of the accounts of railway undertakings. The goal of the ‘market pillar’ is to complete the process of gradual market opening that started with the First Railway Package. The ‘market pillar’ establishes the general right for railway undertakings from one Member State to operate across the whole EU with regard to all passenger services. The ‘market pillar’ also encourages impartiality in the governance of railway infrastructure and the prevention of discrimination in order to provide for a competitive environment, which should result in improved quality and better cost-effectiveness. Furthermore, effective as of 23 December 2023, a general principle requiring mandatory tendering for public service contracts in rail will be introduced.

According to Article 11 of the Governance Directive of the Fourth Railway Package, the Member States may limit passenger services where a public service contract covers the same route. However, this applies only where the economic equilibrium of the public service contract would be compromised. This is to be determined by the relevant regulatory body after performing the Economic Equilibrium Test, which aims to determine whether and to what extent a prospective open access service may be detrimental to a public service contract in place. In such cases, the regulatory body is tasked with issuing a decision that may limit the rights of access of the open access operator. A new EU Implementing Regulation (the Commission Implementing Regulation (EU) 2018/1795 of 20 November 2018 laying down the procedure and criteria for the application of the economic equilibrium test pursuant to Article 11 of Directive 2012/34/EU (as amended)) which applies from 1 January 2019, sets out how the Economic Equilibrium Test should be approached by the regulators.

Railway transport laws in the Czech Republic

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

The legal position of ČD is regulated by the Act on Czech Railways, which regulates the management and activities of ČD, including voting rights of the State as the shareholder of ČD, business activities carried out by ČD and the establishment and activities of SŽDC, as the legal successors of the state organization České dráhy.

Regulation 1370/2007 is reflected in the Public Services Transport Act and on the amendment of other laws, as amended, which regulates the procedure of the State, the Czech 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.

Implementing the Directive 2012/34/EU, Act No. 320/2016 Coll., on access to transport infrastructure, as amended, has established the Transport Infrastructure Access Authority, as a regulatory body, an independent supervisory authority and a conciliation body pursuant to the provisions of the Railway Act. The Railway Act and the Act on Czech Railways have been amended to implement the above-mentioned EU legislation, except for the Fourth Railway Package, which is yet to be implemented.

Anti-Trust Regulations

The activities of ČD and that Group that 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 Act No. 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 the 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 that 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 its subsidiary) 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 Act No. 134/2016 Coll., on Public Procurement, as amended, entered 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 aims to lower the administrative burden imposed on contracting authorities and simplify the process of awarding public contracts in the Czech Republic. It has introduced additional types of proceedings, as well as tools to evaluate offers on the basis of different quality criteria.

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 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.

Moreover, Act No. 340/2015 Coll., on the Register of Contracts, as amended (the “**Act on the Register of Contracts**”), requires certain legal entities, such as the State, municipalities and entities owned by the State to publish in the Register of Contracts (*Registr smluv*) most private contracts they enter into, subject to a number of exceptions. Under one of these exceptions, a joint stock company in which the State, or one or more regional or local authorities (*územní samosprávný celek*) together hold a majority

shareholding and which has its securities admitted to trading on a regulated market or a European regulated market, such as ČD, is exempt from the obligation to publish and otherwise register its contracts in the Register of Contracts. As of the date of this Prospectus, however, the Czech Parliament is discussing an amendment to the Act on the Register of Contracts that, if adopted, would discontinue this exemption.

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. Act No. 198/2009 Coll., on Antidiscrimination, 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 Act No. 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 Act No. 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 tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of the Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Czech Republic of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes.

This summary is based upon the law, administrative practice and prevailing interpretations as in effect on the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to the holders of the Notes.

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

In this discussion, the term “Note” also includes an interest in the Global Note assuming that a recipient of income derived from this interest (e.g., interest income or capital gain) is viewed as a beneficial owner of the income in the same way as if it was to hold the Note directly.

Issuance of the notes outside of the Czech Republic and their tax treatment as bonds

Interest on bonds issued outside of the Czech Republic by Czech-resident issuers has a special treatment under Czech tax laws. While the matter is not entirely free from doubt, we believe that (i) the Notes should be treated as issued outside of the Czech Republic under Czech tax principles because (among other factors) the Notes will be initially issued in global-certificated form abroad and held through clearing systems based outside the Czech Republic, each of which will register and maintain records of the interests in the Notes in book-entry form in its foreign-based system, and (ii) the Notes should be considered as bonds for the purposes of application of Czech tax laws because they meet the qualification criteria of a bond under Section 2(1) of Act No. 191/2004 Coll., on Bonds, as amended, save for the fact that they are not issued under Czech law. However, there is no guarantee that Czech tax authorities will agree with this position.

The remainder of this discussion assumes that the Notes will be treated as bonds issued outside of the Czech Republic.

Non-Czech holders, holding and sale

General

A Czech tax non-resident does not become and is not deemed to become a Czech tax resident solely by reason of holding of the Notes or the execution, performance, delivery and/or enforcement of the Notes.

Holding

Following the assumption that the Notes are regarded as bonds having been issued outside of the Czech Republic, interest income received by a Czech tax non-resident is exempt from taxation in the Czech Republic.

Sale

In the case of a repurchase of the Notes by the Issuer from a Czech tax non-resident individual before maturity, including in case of a redemption at the option of the Issuer, the amount, if any, by which the repurchase price of the Notes exceeds their issue price (defined for these purposes as the monetary

consideration for which each Note is acquired in a manner set forth by law into the ownership of its first acquirer) may generally be subject to Czech withholding tax at the rate of 15 per cent. In certain situations, taxation of the above mentioned difference can be reduced or eliminated by an applicable double taxation treaty. To the extent that the amount of the above mentioned difference is constituted by interest accrued up to such repurchase or redemption, it can be argued that the tax exemption mentioned in the preceding paragraph should be extended to such amounts. However, any premium in excess of that should be subject to the general regime as per the first sentence of this paragraph.

Income from the sale of the Notes by a Czech tax non-resident not holding the Notes through a permanent establishment in the Czech Republic, to another Czech tax non-resident not purchasing the Notes through a permanent establishment in the Czech Republic, is not subject to taxation in the Czech Republic.

Income realized by a Czech tax non-resident from the sale of the Notes to a Czech tax resident or a Czech permanent establishment of a Czech tax non-resident is subject to taxation in the Czech Republic, unless:

- the Czech tax non-resident realizing that income is resident in a country within the meaning of an applicable 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 country where the recipient of the income is resident and the Czech tax non-resident realizing that income is the beneficial owner of that income, is entitled to enjoy the benefits of that double taxation treaty and does not have a permanent establishment in the Czech Republic to which the income would be attributable;
- the Czech tax non-resident realizing that income is an individual (i) having held the Notes for more than three years prior to their sale and the Notes have never been held in connection with the business activities of that Czech tax non-resident or, if so, (ii) the Notes are sold at least three years after the termination of such business activities, at the earliest; or
- the Czech tax non-resident realizing that income is an individual, and the annual (worldwide) gross income (i.e. not the gain) of that individual from the sale of securities (including the Notes) does not exceed the amount of CZK 100,000, assuming the Notes have never been held in connection with the business activities of that individual.

If the capital gain is subject to Czech taxation under the foregoing paragraph, the capital gain is included in the general tax base of the Czech tax non-resident seller (subject to 15 per cent. tax for individuals and 19 per cent. for taxpayers other than individuals) in its tax return.

If income of a Czech tax non-resident from the sale of the Notes, other than where the first paragraph of this *Sale* section applies, is subject to taxation in the Czech Republic, as discussed in the foregoing paragraphs, and that Czech tax non-resident is not a tax resident of a member country of the EU or the European Economic Area, the purchasing Czech tax resident or the Czech permanent establishment of a Czech tax non-resident, as the case may be, is obliged to withhold an amount of 1 per cent. of such income on a gross basis representing tax security, unless the obligation to withhold is waived by a tax authority decision. The amount so withheld as tax security is treated as a tax advance and is subject to final settlement (credit against the actual income tax liability) provided that the seller files a regular income tax return in the Czech Republic. Otherwise, the amount of the tax security may be considered as final tax liability by the Czech tax authorities. For the portion of such income that is constituted by interest accrued up to such sale, it can be argued that the tax exemption on interest mentioned above under *Holding* should be extended to this portion. However, any premium in excess of that should be subject to the general regime in the first three sentences of this paragraph.

Permanent establishment

Capital gain realized from the sale of the Notes which form a part of the business property of a Czech permanent establishment of a Czech tax non-resident is, regardless of the status of the buyer, subject to tax at 15 per cent. for individuals (and, potentially, a solidarity tax surcharge of additional 7 per cent. of the excess of such individual's total employment and self-employment income over 48-times the average wage (CZK 1,569,552 for 2019) as well as social security and health insurance contributions) and 19 per cent. for taxpayers other than individuals. This income should be included in the tax base of the Czech

permanent establishment as a result of its business activities performed in the Czech Republic and taxed in its income tax return.

Czech holders, holding and sale

Taxpayers of corporate income tax

A corporation or other taxpayer of corporate income tax with unlimited corporate income tax liability in the Czech Republic is subject to corporate income tax on income received on the Notes and on capital gains (i.e., the difference between the sale price and the accounting value of the Notes) realized from the sale of the Notes. Czech residents that are subject to Czech accounting standards for entrepreneurs (i.e. most companies other than financial or insurance institutions and certain individuals engaged in active business) or to Czech accounting standards for financial institutions (including, in particular, banks) will be required to recognize the interest income on an accrual basis.

In general, the income should be included in the tax base of such taxpayer and contribute to the overall result of its business activities and be taxed at a rate of 19 per cent.

A 5 per cent. tax rate may apply to certain taxpayers (including some mutual and investment funds). A 0 per cent. tax rate may apply to certain other taxpayers (including some pension funds).

Taxpayers of individual income tax

Interest payments on the Notes to individuals with unlimited income tax liability in the Czech Republic are subject to taxation in the Czech Republic.

Following the assumption that the Notes are regarded as bonds having been issued outside the Czech Republic, interest income realized by such individual Czech tax resident shall be included in his/her tax base subject to the general 15 per cent. tax and taxed in his/her personal income tax return.

In the case of a repurchase of the Notes by the Issuer before maturity, including in case of a redemption at the option of the Issuer, a tax at the rate of 15 per cent. withheld at source applies to the amount, if any, by which the repurchase price of the Notes exceeds their issue price (as defined above). To the extent that the amount of the above mentioned difference is constituted by interest accrued up to such repurchase or redemption, it can be argued that the tax treatment described above in the immediately preceding paragraph should be extended to such amounts (in lieu of withholding).

Capital gain (i.e., the difference between the sale price and the acquisition price of the Notes, increased by related fees for trading in the capital market and costs connected with the sale) realized by an individual upon the sale of the Notes, other than where the immediately preceding paragraph applies, is subject to personal income tax at the general 15 per cent. tax rate and taxed in his/her personal income tax return. Any gain derived from the sale of the Notes is exempt from Czech personal income tax if the holding period of the Notes exceeds three years and the Notes have never been held in connection with the business activities of the individual Czech tax resident or, if so, the Notes are sold at least three years after the termination of these business activities. Further, any gain derived from the sale of the Notes is exempt from Czech personal income tax if the annual (worldwide) gross income (i.e. not the gain) of that individual from the sale of securities (including the Notes) does not exceed the amount of CZK 100,000, assuming the Notes have never been held in connection with the business activities of that individual.

Any loss realized by individual Czech tax residents is generally tax non-deductible, except for cases where losses are compensated by taxable capital gains derived by an individual from the sale of other securities in the given tax period (provided that these other securities do not constitute the individual Czech tax resident's business property on the date of the sale, and no exemption from personal income tax applies).

Capital gain (i.e., the difference between the sale price and the acquisition costs of the Notes) realized by an individual-entrepreneur upon the sale of the Notes held as business property is subject to personal income tax at the general rate of 15 per cent. and may be further subject to a solidarity tax surcharge of additional 7 per cent. of the excess of such individual's total employment and self-employment income over 48-times the average wage (CZK 1,569,552 for 2019) and taxed in his/her personal income tax

return, as well as generally subject to social security and health insurance contributions. For an individual holding the Notes as business property, and who is not treated as an accounting unit (as defined below), any capital loss incurred in the sale of the Notes would be tax non-deductible. If an individual is treated as an accounting unit, keeps double-entry accounting and holds the Notes as business property, any loss upon the sale of the Notes is generally treated as tax deductible, as the Notes are considered to qualify as bonds.

Other comments

Czech tax residents that are subject to Czech accounting standards (“accounting units”) are required to recognize interest income on an accrual basis for accounting purposes and, accordingly, include this income in their general tax base for Czech income tax purposes in the given period.

The Czech accounting units holding the Notes may be, under certain conditions, required to revalue the Notes to fair market value for accounting purposes, whereby the unrealized gains or losses would be accounted for as revenues or expenses, respectively. These revenues are generally taxable and the corresponding expenses are generally tax deductible for Czech tax purposes.

Reporting Obligation

A holder of the Notes (Czech resident and non-residents) who is an individual is obliged to report to the Czech tax authorities income earned in connection with the Notes (including interest income or income from sale) if such income is exempt from taxation in the Czech Republic and exceeds, in each individual case, CZK 5 million. Non-compliance with that reporting obligation may be penalized by a sanction of up to 15% of the gross amount of that income.

Value added tax

There is no Czech value added tax payable in respect of payments in consideration for the issue of the Notes, in respect of the payment of interest or principal under the Notes, or in respect of the transfer of the Notes.

Other taxes or duties

No registration tax, capital tax, customs duty, transfer tax, stamp duty or any other similar tax or duty is payable in the Czech Republic by a Czech tax non-resident or a Czech tax resident in respect of or in connection with the purchase, holding or disposition of the Notes, except for disposition in certain cases upon donation.

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. 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 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 as regards Luxembourg resident individuals of the Luxembourg law of 23 December 2005, as amended, (the “**Law**”) which applies a 20 per cent. final withholding tax on savings income paid by a paying agent established in Luxembourg such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth;

Responsibility for the withholding of tax in application of the law is assumed by the Luxembourg paying agent within the meaning of these laws and not by the Issuer.

In addition, pursuant to the Law, Luxembourg resident individuals can opt to self-declare and pay a 20 per cent. tax on payment of interest or similar incomes made or ascribed by paying agents located outside Luxembourg, in a Member State of either the European Union or the European Economic Area. The 20 per cent. tax is final when Luxembourg resident individuals are acting in the context of the management of their private wealth.

The proposed financial transactions tax (“FTT”)

On 14 February 2013, the European Commission published a proposal (the “**Commission’s proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “participating Member States”). However, Estonia has ceased to participate.

The Commission’s proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission’s proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

U.S. Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” (as defined by FATCA) may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the Czech Republic) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply (a) to payments made prior to the date that is two years after the date final regulations defining “**foreign passthru payment**” are filed with the U.S. Federal Register and (b) to Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register. Notes defined in the immediately preceding Clause (b) generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, Erste Group Bank AG and ING Bank N.V., London Branch (the “**Joint Bookrunners**”) have, in a subscription agreement dated 21 May 2019 (the “**Subscription Agreement**”) and made between the Issuer and the Joint Bookrunners upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 98.619 per cent. of their principal amount less a combined management and underwriting commission. The Issuer has also agreed to reimburse the Joint Bookrunners for certain of their expenses incurred in connection with the management of the issue of the Notes. The Joint Bookrunners 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.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision the expression “retail investor” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); and/or
- (b) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each Joint Lead Manager has 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 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 except pursuant to an exemption from, or in a transaction not subject to, 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 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.

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

The 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, 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 the 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 €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 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 Bookrunners 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 creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 26 November 2018, a resolution of the Supervisory Board of the Issuer dated 5 December 2018, and resolution of the Steering Committee of the Issuer dated 12 December 2018.

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 6,000.

Legal and Arbitration Proceedings

3. Save as disclosed in "*Description of the Issuer – Disputes*", 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 2018 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 for the years ended 31 December 2018 and 2017 prepared by the Issuer in accordance with IFRS have been audited by PricewaterhouseCoopers Audit, s.r.o., with its registered seat at Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, an audit company registered with the Czech Chamber of Auditors.

Documents on Display

6. 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 Financial Statements prepared in accordance with the International Financial Reporting Standards as adopted by the EU;
 - (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

7. On the basis of the issue price of the Notes of 98.619 per cent. of their principal amount, the gross real yield of the Notes is 1.711 per cent. on an annual basis.

ISIN and Common Code

8. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS1991190361 and the common code is 199119036.
9. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking SA, 42 Avenue J.F. Kennedy, L-1855 Luxembourg.

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