



Správa železniční dopravní cesty

011  
12  
013  
14  
015

Annual report  
2013

# 10 years OF THE ESTABLISHMENT OF SPRÁVA ŽELEZNIČNÍ DOPRAVNÍ CESTY

In 2013, Správa železniční dopravní cesty celebrated the ten-year anniversary of its establishment. It has come a long way ever since. From a small company with only several dozen employees, it has grown into one of the biggest employers in the Czech Republic. Today it makes decisions on investments worth billions of crowns and manages train operations throughout the whole country. Thanks to the funds it spends it is shaping our railways, having an impact on what they will look like in the future.

04



Civil Engineering Administration

1 January / The organisation's activities were expanded to include investment and engineering projects.

04

Path capacity

1 May / SŽDC started allocating path capacity to rail carriers.

03



Act No. 77/2002 Coll.

1 January / Správa železniční dopravní cesty, a state organisation, was established.

# 2013

Ten years after its establishment, SŽDC is one of the largest employers in the Czech Republic. It ensures the development of a fully operational, modern and safe rail network that is an integral part of the European rail system.

## 12



### Regional Directorates

1 April / Regional Traffic Centres and Regional Infrastructure Administrations merged to form seven Regional Directorates.

## 08



### Timetables

Acting as a rail operator, SŽDC prepares and issues timetables.

## 11

### Live railway infrastructure

1 September / SŽDC took over operational staff and started providing railway traffic control services.



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9,459 km

Total length of tracks

3,626,795

Number of applications for path capacity allocation

17,200

Number of employees

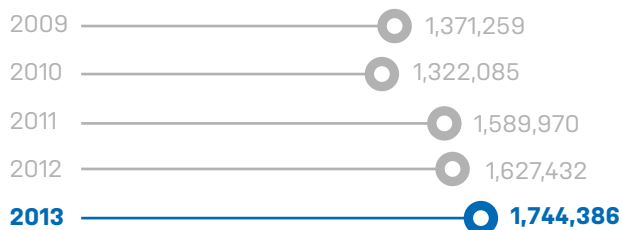
18

Number of organisational units

## SELECTED INDICATORS

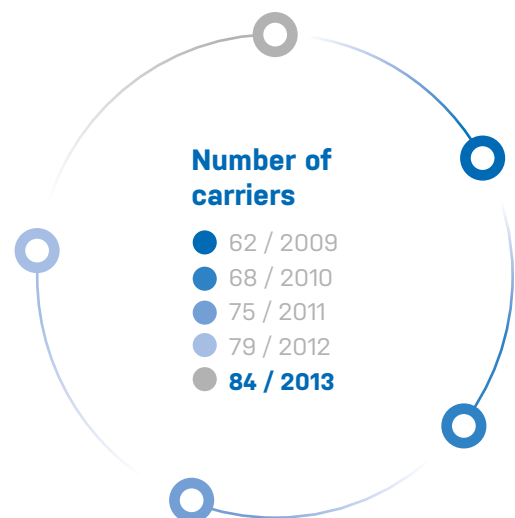
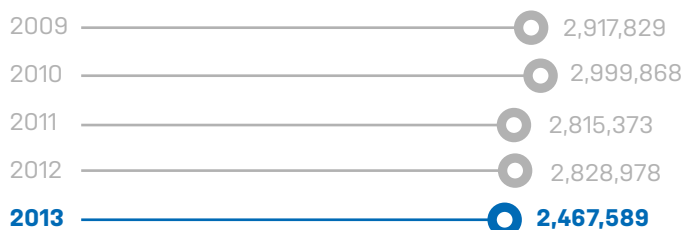
Revenues from use of railway infrastructure (in TCZK)

### Passenger transport



Revenues from use of railway infrastructure (in TCZK)

### Freight transport



The closing date of this annual report was 28 May 2014.

The photographs used in this annual report come from SŽDC's 2013 photography competition and depict the railway as seen by the public. A list of authors is stated on page 103.

# OPENING STATEMENT



## SŽDC: 10 YEARS AT YOUR SIDE

In 2013, the Railway Infrastructure Administration (Správa železniční dopravní cesty, "SŽDC") celebrated the 10-year anniversary of its establishment. It has come a long way ever since. From a small organisation with only several dozen employees, it grew to become one of the biggest employers in the Czech Republic. Today it makes decisions on investments worth billions of crowns and manages train operations throughout the whole country. Thanks to the funds it spends it is shaping our railways, having an impact on what they will look like in the future. That is why we asked the CEO at SŽDC Jiří Kolář to give us a general overview of SŽDC's activities and to disclose some facts about the future plans.

### **How many employees does SŽDC currently have and what is the structure of the staff?**

On 1 January 2003, SŽDC launched its operation with just 61 employees. Today, we have 17,200 employees working in seven Regional Directorates, two Civil Engineering Administrations, two Central Traffic Controls and a Technical Centre of Infrastructure. Besides that we have geodesists, firemen and power engineers. We also have a management and specialised departments at the General Directorate in Prague. With respect to the planned purchase of part of the establishment (railway stations and land on which tracks lie) from the joint-stock company Czech Railways, we are about to grow even more, both in terms of the scope of our business activities and the number of employees.

It is the very area of HR development and management that is a prerequisite for the reliable and safe operation of our rail network. New technologies and management systems require the targeted search for and involvement of young professionals, be they people with apprenticeship certificates, secondary school certificates or university diplomas; the key is the ability to quickly master demanding rail transport systems. This, however, does not resonate with the average age of our staff. To put it bluntly, we are an organisation of elderly men. On average, we are over 46 years of age. A total of 73% of all our employees are men; that means we are one of the male-dominated sectors. The good news, however, is that the number of women in our Organisation has been rising year-on-year. Simultaneously, we have been able to recruit graduates, which helps us lower the average age. Nonetheless, a challenge that lies ahead of us for the years to come is to actively work with the new generation of future employees.



**Jiří Kolář**  
Director General



### **What are the plans that lie ahead of the Organisation in the years to come?**

Our goal can be no less than to be a modern infrastructure organisation that will efficiently manage the rail network in the Czech Republic. Though it may sound like a cliché, it says everything. Our imminent goals are linked to the completion of the construction of the main corridor rail lines. Then it's the never ending story of rail line construction, refurbishing and maintenance works. The progress is going forward and we cannot stop for a single moment if we want to keep pace with modern Europe.

To be more specific on short-term and mid-term outlooks, it goes without saying that our utmost priority is finishing the construction of 3rd and 4th railway transit corridors. We are doing our best to have all corridor rail lines in the Czech Republic completed between 2018 and 2020, which will allow us to get busy with other follow-up steps, be it the high-speed lines or rail freight corridors. There are a number of other activities running parallel to the key spine rail line projects. We are literally going through a construction boom; we managed to launch a range of other minor projects. These "substitute" projects run with the aim of fully exhausting the EU funds granted under the Operational Programme Transport. Last but not least, we are modernising junctions such as the ones in Olomouc, Ústí nad Orlicí and in Prague (Běchovice–Úvaly and Holešovice–Bubeneč). Adding to this our projects for the modernisation of security technology, the refurbishing of transformation centres and the construction of remote control at selected rail lines, you can see that quite a lot has been on the track. The outcome, however, will be worth it.

### **The year 2013 was not only marked by the ten-year anniversary but also by devastating floods. How did this affect the rail network? Did you manage to restore the damaged tracks?**

The floods had a reciprocal impact on the rail network. On one hand, during such extraordinary and tense situations we could see how elaborate and high-quality a railway our ancestors had built in the past. Except for three tracks that were completely destroyed by the floods, all the remaining lines were running until the very last moment. On the other hand, there were, needless to say, some outages or minor damage to the infrastructure; but taking into account the disaster, we managed to prove our position of an irreplaceable transport system.

On a number of places, the railway tracks were the last possible way how to get out from the flooded areas. They provided rescue and allowed transportation regardless of constant rain, impassable roads and rising river levels. In northern Bohemia, we were literally the last hope for the people, as the railway bridges remained the only connection between otherwise isolated parts of towns. We used them to evacuate families with children, to bring essential food and transport the ill and the rescue staff... All that, of course, with the utmost effort and strain of our people. They gave it their all when trying to maintain all the necessary equipment functional. I hold them in very high esteem and I thank everyone, both the operating staff and our firemen.

Although the damage on the rail infrastructure amounted to hundreds of millions of Czech crowns, the railways made it possible to prevent even greater disaster. With the water level falling a crucial debate was sparked on the possibility to protect vital spine lines just as big towns protect their riverbanks. The purpose of such protection would be to protect the railway infrastructure during critical moments and ensure basic services in the given territory. For me, this is a personal challenge for the months and years to come.

# 2003



## PAVEL KOUCKÝ

### **Human Resources Department Manager**

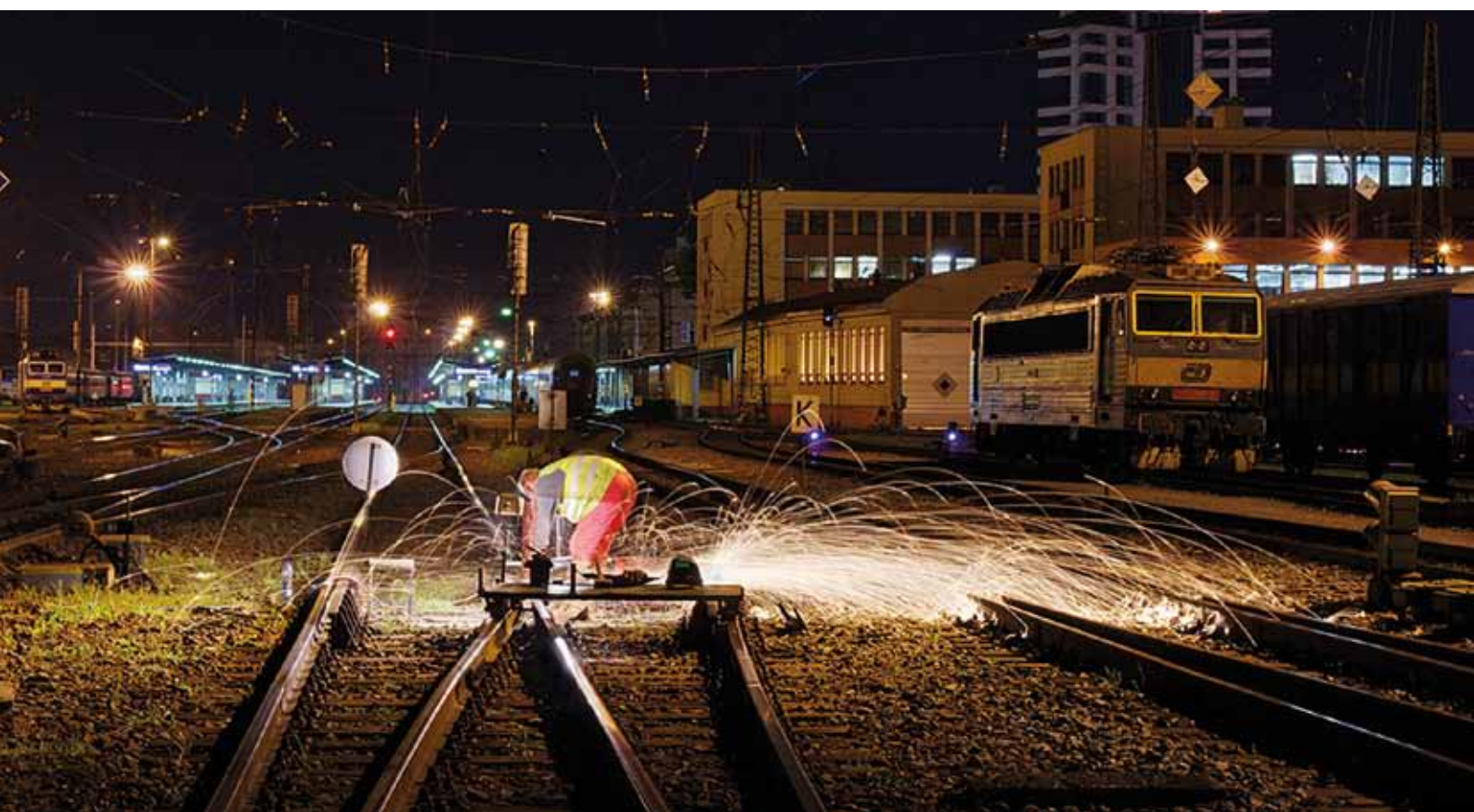
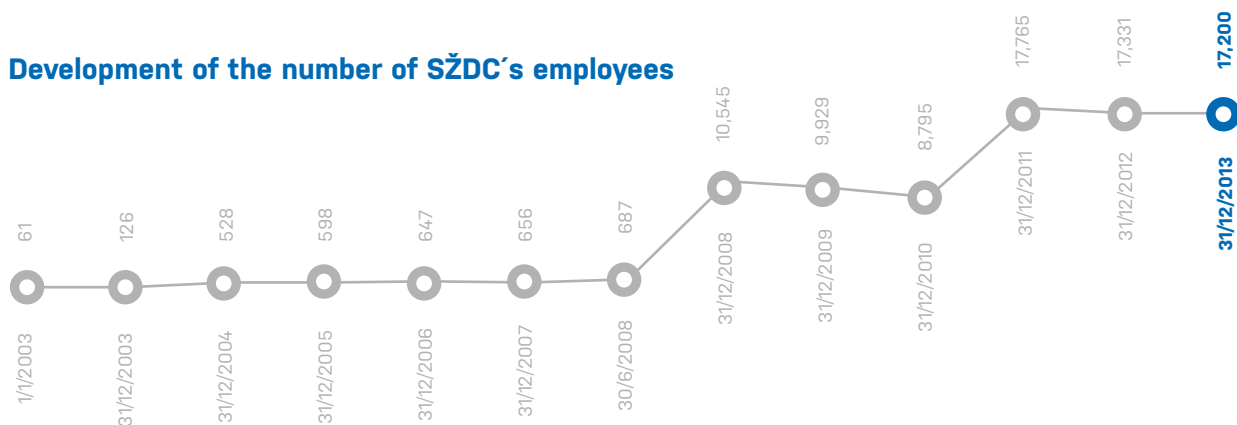
Our organisation is the fundamental pillar of the Czech railway transformation and a major employer in terms of rail transport. Our employees and their expertise are our main value. Our employees ensure the control of railway traffic, and the operability and modernisation of railway infrastructure by performing tens of various work activities.





Správa železniční dopravní cesty, a state organisation, was incorporated on 1 January 2003 in accordance with Act No. 77/2002 Coll. as one of the legal successors of Czech Railways, a state organisation.

Development of the number of SŽDC's employees



# ORGANISATION PROFILE



## BASIC INFORMATION

### WHO WE ARE

Pursuant to applicable legal regulations, Správa železniční dopravní cesty, státní organizace ("SŽDC"), acts as a rail owner and operator.

### OUR LEGAL STATUS

The state organisation was incorporated on 1 January 2003 pursuant to Act No. 77/2002 Coll., on Czech Railways, a joint-stock company, the Railway Infrastructure Administration, a state organisation, and on the Amendment to Railway Act No. 266/1994 Coll., as amended (the "Railway Act"), and Act No. 77/1997 Coll., on State Enterprises, as amended (the "Transformation Act"), as one of the legal successors of Czech Railways, a state organisation. The state organisation was incorporated without being founded; the Ministry of Transport of the Czech Republic is the establishing entity on behalf of the Czech Republic.

### BUSINESS ACTIVITY

- Operation of the railway infrastructure
- Ensuring the operability of the railway infrastructure
- Maintenance and repairs of the railway infrastructure
- Development and modernisation of the railway infrastructure
- Preparation of documents to fulfil public service obligations
- Supervision over the use of the railway infrastructure, rail operation and its operability

### SŽDC MANAGES:

- the rail infrastructure as a state-owned asset
- assets listed in the Annex to the Transformation Act
- specified payables and receivables of Czech Railways, a state organisation, that existed as at 31 December 2002.

### LEGAL GROUNDS OF BUSINESS ACTIVITY

SŽDC carries out its business activities in accordance with the Trades Licensing Act.

### OUR VISION

We are a modern, flexible, customer-oriented organisation ensuring the development of a rapid, high-quality and high-capacity rail network as an integral part of the European rail system. We create opportunities to strengthen the market position of the rail transport both on national and the international level.

### OUR STRATEGIC GOALS ARE:

- reliable, safe, smooth and environmentally friendly operation of the rail transport,
- steady increase in the speed and capacity of the rail infrastructure
- greater efficiency of the rail infrastructure administration, supervision, maintenance and repairs
- interoperability – introducing modern interoperable systems and technologies
- strengthening of the pro-client focus and active communication
- increase in our market share in rail transport
- strengthening of the position of SŽDC as a significant and attractive employer.





# MANAGEMENT

## STATUTORY BODY (AS AT 28 MAY 2014)

### 1 **Director General** **Jiří Kolář**

in office from 19 April 2012 (aged 51, graduated from the Faculty of Operation and Economy of Transport and Communications at the University of Transport and Operations in Žilina, received his PhD at Jan Perner Transport Faculty at the University of Pardubice)

### **Deputy Director General** **Bohuslav Navrátil**

representing the Director General in his absence since 11 February 2004 (aged 56, graduated from the Faculty of Operation and Economy of Transport and Communications at the University of Transport and Operations in Žilina)



## SŽDC MANAGEMENT (AS AT 28 MAY 2014)

**First Assistant Director General**  
the position is vacant

### 2 **Assistant Director General for Finance** **Aleš Krejčí**

holding the post since 1 June 2012 (aged 54, graduated from the Faculty of Production and Economy of the University of Economics, Prague)

### 3 **Assistant Director General for Rail Modernisation** **Mojmír Nejezchleb**

holding the post since 1 July 2013 (aged 51, graduated from the Faculty of Civil Engineering at the Brno University of Technology)

### 4 **Assistant Director General for Rail Operability** **Bohuslav Navrátil**

holding the post since 1 June 2012 (aged 56, graduated from the University of Transport and Operations in Žilina)

### 5 **Assistant Director General for Traffic Control** the position is vacant **Tomáš Nachtman**

assigned to run the division since 11 September 2013 (aged 50 let, graduated from the Faculty of Production and Economy of the University of Economics, Prague)



## CORPORATE GOVERNANCE

### STATUTORY BODY (AS AT 31 DECEMBER 2013)

The organisation's statutory body manages its activities and acts on its behalf. It makes decisions on all corporate matters unless they have been entrusted to the competence of the Management Board or the Ministry of Transport of the Czech Republic.

#### Director General

Jiří Kolář

#### Deputy Director General

Bohuslav Navrátil

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#### Changes in 2014

until 31 May 2014 Jiří Kolář  
from 1 June 2014 Pavel Surý

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### SŽDC MANAGEMENT AS AT 31 DECEMBER 2013

#### First Assistant Director General

Jan Blecha

#### Assistant Director General for Finance

Aleš Krejčí

#### Assistant Director General for Rail Modernisation

Mojmír Nejezchleb

#### Assistant Director General for Rail Operability

Bohuslav Navrátil

#### Assistant Director General for Traffic Control

assigned to run the division  
Tomáš Nachtman

### SŽDC MANAGEMENT AS AT 28 MAY 2014

#### First Assistant Director General

vacant position

#### Assistant Director General for Finance

Aleš Krejčí

#### Assistant Director General for Rail Modernisation

Mojmír Nejezchleb

#### Assistant Director General for Rail Operability

Bohuslav Navrátil

#### Assistant Director General for Traffic Control

assigned to run the division  
Tomáš Nachtman

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#### Changes in 2013

until 30 June 2013 Petr Šlegř  
from 1 July 2013 Mojmír Nejezchleb

until 10 September 2013 Jiří Špička  
since 11 September 2013 – Tomáš Nachtman has been  
assigned to run the Traffic Control division

#### Changes in 2014

until 30 April 2014 Jan Blecha

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## MANAGEMENT BOARD

The Management Board supervises the execution of the powers of the Director General, the performance of the organisation's activities and the compliance of its activities with legal regulations. The Management Board, upon proposals submitted by the Director General, approves key organisation's policies. It also debates the annual report, the financial performance and approves the annual budget.

### AS AT 31 DECEMBER 2013

#### Chairman:

Adolf Jílek

#### Members:

Jaroslav Deml  
Lukáš Hampl  
František Kopecký  
Jiří Matolín (CANTAB)  
Milán Matoušek  
Zdeněk Votruba

### AS AT 28 MAY 2014

#### Chairman:

Vladimír Novotný

#### Vice-chairman:

Milan Feranec

#### Members:

Tomáš Drmola, MBA  
Jaroslav Foldyna  
Václav Horák  
Karel Korytář  
Jan Volný

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### Changes in 2013

until 27 March 2013:

Roman Jurečko (Vice-chairman)  
Ivan Adamec  
Libor Joukl  
Jakub Hodinář  
Radim Vysloužil

from 28 March 2013:

Jaroslav Deml  
Jiří Žák

until 4 December 2013:

Jiří Žák

from 4 December 2013:

František Kopecký  
Jiří Matolín (CANTAB)  
Milán Matoušek  
Zdeněk Votruba

### Changes in 2014

until 24 March 2014

Adolf Jílek  
Jaroslav Deml  
Lukáš Hampl  
František Kopecký  
Jiří Matolín (CANTAB)  
Milán Matoušek  
Zdeněk Votruba

from 25 March 2014

Vladimír Novotný (Chairman)  
Tomáš Drmola  
Milan Feranec  
Jaroslav Foldyna  
Václav Horák  
Karel Korytář  
Jan Volný

from 30 April 2014

Milan Feranec (Vice-chairman)

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## AUDIT COMMITTEE

### AS AT 31 DECEMBER 2013

Hana Březinová  
Lukáš Hampl

### AS AT 28 MAY 2014

Hana Březinová

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#### Changes in 2013

until 27 March 2013  
Jakub Hodinář

#### Changes in 2014

from 10 January 2014  
Jiří Matolín (CANTAB)

until 24 March 2014  
Lukáš Hampl  
Jiří Matolín (CANTAB)

until 31 May 2014  
Hana Březinová

from 1 June 2014  
Tomáš Drmola (chairman)  
Václav Horák  
Vladimír Novotný

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The Audit Committee monitors the process of preparation of the financial statements, assesses the efficiency of organisation's internal control, internal audit and risk management systems, monitors the process of statutory audit of financial statements, assesses the independence of the statutory auditor and the auditing company, and namely provision of additional services to the organisation, and recommends an auditor to audit the organisation's financial statements. The Audit Committee is, at the same time, entitled to inspect the accounting books or other document and check the data contained in these records.



# ORGANISATIONAL STRUCTURE

## SŽDC'S ORGANISATIONAL UNITS

SŽDC is organised into the Directorate General and 17 organisational units: Regional Directorates (7), Civil Engineering Administrations (2), Railway Geodesy Administrations (2), Railway Energy Administration (1), Technical Centre of Infrastructure (1), Fire Department (1), Central Traffic Control (2) and Shared Service Centre (1).

The Directorate General is divided into departments according to individual divisions. The professional departments of the Directorate General carry out direct managing, strategic and methodological activities for other organisational units and also provide professional assistance and opinions.

## SPECIFICATION OF THE ORGANISATIONAL UNITS' ACTIVITIES

### Regional Directorates

The Regional Directorates are responsible for the direct supervision, administration, control and maintenance of the railway infrastructure; the management of movable and immovable assets and rail traffic control.

### Civil Engineering Administration

The Civil Engineering Administration is responsible for the modernisation of the rail network in the Czech Republic. To carry out its role, i.e. civil engineering administration (as a direct investor), it prepares supporting documentation for SFTI budgets, budgetary measures, finances the preparation and implementation of construction projects, provides supporting documentation for the settlement of property rights before and after construction, provides documentation necessary to initiate construction, supervises constructions and hands over completed projects to the administrator for use.

### Railway Geodesy Administration

The Railway Geodesy Administration administers, inspects, supervises and carries out activities in the field of geodesy. For instance, this involves making sure that construction of

state railways is carried out by licensed surveyors, together with administration of the railway geodetic grid, administration of a unified railway map, inspection of track layout, administration of data on track stationing, cadastral administration of rail property and geodetic data administration.

### Railway Energy Administration

The Railway Energy Administration ensures central purchasing of electricity and distribution services for supplies to external customers using SŽDC's distribution network, and for SŽDC's own electrical and energy equipment needs nationwide, is responsible for contracts with superior distribution system operators and electricity traders and also measurement, clearance and billing of electrical energy consumption at all points of supply/delivery of SŽDC's distribution network.

### Technical Centre of Infrastructure

The Technical Centre of Infrastructure carries out technical diagnostics and measurement across the entire railway network, as well as other technical services for railway infrastructure at all stages of development, construction and operation. Operating across the network, the Technical Centre of Infrastructure administers all railway telecommunication assets.

### Central Traffic Control

Central Traffic Control manages train transport in a particular territory. Using the required technical equipment, CTC controllers directly control traffic on lines and remotely operate signalling installations. Traffic in Moravia is controlled by CTC Přerov, and traffic in Bohemia is controlled by CTC Prague.

### Shared Services Centre

The Shared Services Centre renders HR and payroll services, and provides professional psychological evaluations and activities aimed at risk prevention (occupational safety and health).

## BRANCHES ABROAD

SŽDC has no branches abroad.

## RESEARCH AND DEVELOPMENT ACTIVITIES

SŽDC does not carry out any research and development activities.

# 2004



## VÁCLAV ŠŤASTNÝ

### **Vice-manager of Civil Engineering Administration West**

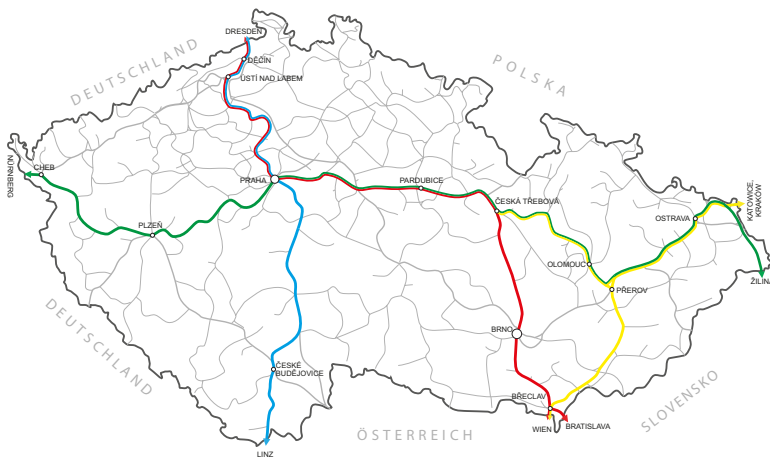
Four railway transit corridors connected to major international railway lines go through the Czech Republic. The complicated process of their modernisation has reached its final phase. We have also been working on the reconstruction of important railway junctions. Station buildings will thus get the look of 21st-century station buildings, also thanks to co-funding from the EU funds.





At the beginning of the year, SŽDC took complete control of all railway investment and engineering projects.

As a result, it took over the three civil engineering administration units of ČD, among other things.



### Transit corridors

- 1st transit corridor
- 2nd transit corridor
- 3rd transit corridor
- 4th transit corridor





The development and modernisation of the railway infrastructure is a strategic and vital objective of SŽDC. Our priority is to ensure the reliable, safe, smooth and environmentally friendly operation of the entire rail network. To ensure its operability, we actively administer, inspect, maintain and repair the railway infrastructure.

We take an active part in EU programmes and projects and cooperate with our partner organisations, EU institutions and international organisations, jointly forming a single European railway corridor. We are one of the leaders in implementing new technologies, innovations and trends in our business. We strive to ensure the rail is viewed as a system of strategic importance on which key fields of the Czech Republic's national economy depend.

## **INCREASE OF THE MARKET SHARE OF THE RAIL TRANSPORT**

One of the EU's objectives is to increase the market share of rail transport, namely to spread risks and ensure energy security. Our goal is the comprehensive development of the rail infrastructure, focusing on a gradual increase of capacity and speed by efficiently using EU funds available. We continue enhancing our positive customer approach and approach all carriers equally. Our duty is to build a modern transport network that will be able to face the challenges of the 21st century and will contribute to the sustainable growth of our society.

## **TRANSPORT POLICY OF THE CZECH REPUBLIC AND MODERNISATION OF RAIL NETWORK**

In line with the ultimate strategic document Transport policy of the Czech Republic in the 2014–2020 period, SŽDC will focus on the accelerated completion of railway transit corridors and will continue modernising railways on the main TEN-T network for passenger and freight transport, and namely railways that are part of the freight railway corridors. We will put great emphasis on projects ensuring the interoperability and sufficient capacity for freight transport. The nearest future plans include connecting the Václav Havel Airport Prague to the railway, with possible stages of construction from Kladno towards the centre of Prague. The modernisation of the rail infrastructure also comprises technological construction arising from the context of European standards. These include in particular the construction of GSM-R and ETCS (European Train Control System) in compliance with the amendment to the ERTMS (European Rail Traffic Management System) National implementation plan.



### **SUPPORT TO REGIONS**

Besides enhancing the quality of the infrastructure through larger projects, we will still be involved in minor projects in individual regions which will be funded primarily by national funding. These include the lifting of speed limits and also increasing the speed limits in the current path. An important step is the rationalisation of the operation on selected regional railways while respecting the transport requirements of regional authorities. We are planning to identify tracks with transport potential and to focus on their revitalisation. A great challenge will be the fulfilment of the requirements of regional as well as suburban transport clients, both in terms of capacity and speed.

### **HIGH-SPEED CONNECTIONS**

Currently, the objective is to prepare a High-Speed Connections network ("HC"), which includes new high-speed tracks as well as modernised and new conventional tracks. With this concept it is possible to fulfil the vision of quickly interconnecting regional capitals and other key economic centres in the Czech Republic. Thanks to HC suburban sections, it will be possible to introduce very quick suburban transport, which will enable passengers to regularly commute also from more distant locations. Currently, it is necessary to insert the new HC lines to the planning documentation and define the functional parameters and standards of this comprehensive network. The HC network will be prepared based on close cooperation between SŽDC, the Ministry of Transport of the Czech Republic and relevant regions.

### **OPTIMISATION OF PROCESSES**

We focus on internal process optimisation using modern management tools and are strengthening external and internal pro-client communication; we introduce new trends to the HR management concept. We are involved in a number of projects which address development issues of the organisation and which will increase the efficiency of activities, the productivity of labour and in particular customer and employee satisfaction. We would like SŽDC to be viewed as a reliable partner and an important and attractive employer having a unique know-how.

# 2004



## HANA HONZÁKOVÁ

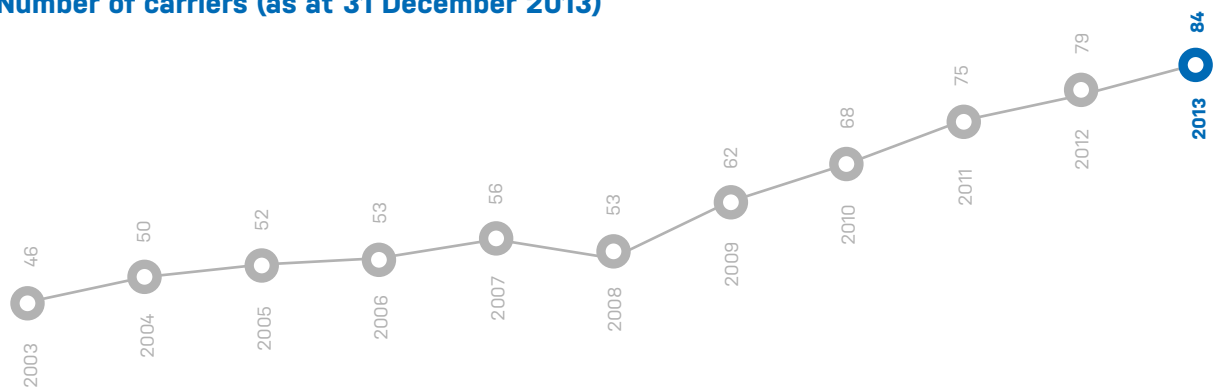
### **Contractual Relations Department Manager**

Effective from 1 January 1995, a standard licensing system for rail transport operation was introduced in the Czech Republic, and, effective from 1 May 2004, licences for rail transport operation awarded by an authority of a European Community member state are also valid in the Czech Republic. The number of carriers which use the railway infrastructure operated by Správa železniční dopravní cesty continues to grow. New carriers include both Czech and international companies.



Pursuant to an amendment to the transformational Act No. 77/2002 Coll. and pursuant to Act No. 266/1994 Coll., the Railway Act, SŽDC has been allocating path capacity to individual carriers since 1 May. The Czech Republic guarantees equal treatment in terms of access to the state-owned railway infrastructure for all carriers which meet the conditions stipulated in the Railway Act.

**Number of carriers (as at 31 December 2013)**



# OUR ORGANISATION'S ACTIVITIES



## 2013 HIGHLIGHTS

### **JANUARY**

A system for the defrosting of traction lines on the single-track line Ostrava – Svinov – Opava-východ was successfully tested.

Trees and higher greenery alongside tracks were extensively pruned.

### **FEBRUARY**

The speed limit on the Žďár nad Sázavou – Nové Město na Moravě track section was increased.

The Prague-Bubeneč – Prague-Holešovice track optimisation was launched.

### **MARCH**

The refurbished SŽDC building was opened in Sušická street in Pilsen.

The construction of a thoroughfare through the Ústí nad Orlicí railway junction was launched.

### **APRIL**

The IDOS timetable system was expanded to include up-to-date information on train departures.

### **MAY**

Key possession works of the Modernisation of České Budějovice – Nemanice track project were finished.

### **JUNE**

Vast floods at the beginning of the month disrupted the operation on 83 tracks in the Elbe and Vltava river basins. Major operation problems occur particularly in the Ústí nad Labem Region, where the regional traffic control had to be temporarily transferred as the operations building had been flooded.



The new train station Třinec centrum was opened, the refurbishment of the Stará Paka train station was completed, and the modernised Fourth Railway Transit Corridor in the Votice – Benešov u Prahy track section was put into use.

### **JULY**

Amended SŽDC regulations D1 (transport and signalling regulation) and D3 (regulation for simplified rail transport control) came into effect.

The most extensive track possessions since the 1960s took place at the Brno junction.

Landslide reconstruction works on the Bylnice – Horní Lideč line were completed.

### **AUGUST**

The renovation works on switches at the Křižanov train station were launched.

### **SEPTEMBER**

A pilot project of signalisation at level crossings in the Rumburk – Dolní Poustevna track section was launched.

The first annual Student Cup was organised and aimed at introducing railway professions and increasing the interest of elementary school pupils in technical rail vocations.

### **OCTOBER**

A modernised electronic fire monitoring system was put into use in the new two-track tunnel in Mosty u Jablunkova.

The renovation of the Olomouc rail junction started.

### **NOVEMBER**

The modernisation of Rokycany – Pilsen line started and included the construction of the longest railway tunnels in the Czech Republic.

A GSM-R radio system was launched on the line from Děčín to Kolín, via Ústí nad Labem, Mělník and Všetaty.

### **DECEMBER**

An extended underpass to Šumavská street at Pilsen main train station was opened.

The new 2013/2014 timetable came into effect.

## OPERABILITY OF THE RAILWAY INFRASTRUCTURE

One of the main duties of the rail operator is to ensure the operability of the railway infrastructure. That means a technical condition of the railway infrastructure that guarantees safe and smooth operation.

SŽDC ensures the operability of the state-owned national and regional rail network, ensures the timely removal of defects in the operability of the railway infrastructure managed by SŽDC, records restricting parameters of the railway infrastructure and ensures environmental protection as an integral and irreplaceable part of SŽDC's day-to-day activities. It also lays down principles to ensure the due technical condition, development and adjustments of railway infrastructure facilities and to approve the use of new products and equipment in the fields of track economy, automation and electrical engineering.

The managing activities of the technical administration centres within the individual regional headquarters, which through their operating centres ensure the diagnostics of the technical condition of the operated railway infrastructure, are essential for ensuring the operability of the railway infrastructure. Based on an analysis of outputs, they prepare repair and maintenance plans to fulfil all rail operator duties in this area. Subsequently, repairs and maintenance works are carried out internally or outsourced to sub-contractors doing business on the respective markets. The sub-contractors are selected by tender.

One of the indicators of the operability of the railway infrastructure is the number of limited speed sections, the "slow rides". For 2013, the limit for assessed slow rides in the whole network was set at 8 km as at 31 December 2013. The real length of assessed slow rides as at this day was 4,243 km. Assessed slow rides are those that were introduced based on the unsuitable technical conditions of the infrastructure and due to insufficient views from level crossings.

The floods which started on 2 June 2013 affected the railway infrastructure primarily in the Elbe and Vltava river basins. A total of 83 tracks were affected and the cost of damage amounted to CZK 805 million. The track section Chotiměř – Radejčín was the most severely damaged, as it was, just like the nearby construction of the D8 motorway, a victim of a vast landslide. At the moment, it is still impossible to estimate when it will be possible to start the repair works.

As at 31 December 2013, the following track sections remained inoperative: Kouřim – Radim, Křižany – Rynoltice and the first Tršnice – Kynšperk nad Ohří track line. There, it was necessary to assign the preparation of project documentation. The track sections are expected to become operative by June 2014.

### Overview of selected activities

Activities	Units	2013
Modification of GP tracks	km	1,511
Modification of GP switches	s.u.	937
Maintenance of railway bed – tracks	km	122
Maintenance of railway bed – switches	s.u.	231
Contact-free tracks, welding – tracks	km	233
Contact-free tracks, welding – switches	s.u.	221
Replacement of rails	km	254
Replacement of railroad ties	quantity	234,299

### Basic characteristics of the railway network

Indicator	Units	2013
Total length of tracks	km	9,459
Length of electrified tracks	km	3,216
Length of standard-gauge tracks	km	9,436
Length of narrow-gauge tracks	km	23
Length of single-track lines	km	7,534
Length of double- and multiple-track lines	km	1,925
Total construction length of tracks	km	15,493
Number of switch units	s.u.	24,046
Bridges	quantity	6,784
Tunnels	quantity	163
Total length of bridges	m	152,198
Total length of tunnels	m	45,762
Rail crossings	quantity	8,041



# OPERATING THE RAILWAY INFRASTRUCTURE

In line with the Railway Act, SŽDC is obliged to ensure the operation of state-owned national and regional rail networks. Operating the railway infrastructure means ensuring and servicing the rail and organising rail transport.

The rules and procedures concerning these activities are laid down in internal SŽDC regulations. Again in 2013, we put emphasis on as obliging and willing approach to carriers as possible when organising possession activities, be it due to the restoration and maintenance of the railway infrastructure, or modernisation.

The scope of rail networks operated by SŽDC is currently stable and comprises 9 402 km. Changing the categorisation of rail network from national to regional does not have an impact on their operation.

Based on lease contracts, several regional rail networks are operated by other entities. These include the Trutnov hl. n. – Svoboda nad Úpou and Sokolov – Kraslice lines (a total of 37 km) with PDV RAILWAY a.s. as the operator and the Milotice nad Opavou – Vrbno pod Pradědem line (a total of 20 km) with Advanced World Transport a.s. as the operator.

SŽDC recorded interest from other entities in the lease of certain regional rail networks, primarily lines on which rail transport is not provided to ensure transport service.

SŽDC also operates on state-owned sidings – sidings owned by the Administration of State Material Reserves and also on siding that were under the operation of České dráhy, a.s. until 31 August 2011.

According to a precontract, SŽDC will operate the newly built Sedlnice – Mošnov, Airport Ostrava line, which will be in the possession of the Moravia-Silesia Regional Authority.

## CENTRAL TRAFFIC CONTROLS (CTP)

Remote operation control, which is currently exercised from Central Traffic Control Přerov and in the future will also be exercised from Prague Central Traffic Control, generates major synergies for the centralisation of servicing staff. With the support of modern technologies and large-format displays, it is a key prerequisite for the enhancement of rail traffic control. The benefit is also seen in the close link between internal traffic control and operative control, which enables the prompt solution of irregularities and extraordinary events in railway transport. The introduction of remote control creates conditions for higher quality of services provided by SŽDC to its customers, and is a prerequisite for the enhancement of supplies from the railway system as a whole.

Přerov operates the first central traffic control which currently controls traffic at the Second Railway Transit Corridor and on the Přerov – Česká Třebová branch. The control of all corridor tracks in Moravia will gradually be transferred to this control centre. The second central traffic control which will control the traffic on corridor tracks in Bohemia will be established in Prague. Its preparation stage is over and construction works will start in Balabenka in 2014. The first track sections with remotely controlled signalling installations are expected to be connected immediately after the central traffic control building is constructed, i.e. in late 2015/early 2016.

## RUNNING APPLICATIONS SUPPORT

Recent years saw an unprecedented boost of information technologies. SŽDC does not want to lag behind in its traffic operation. A whole lot of new information systems and operating applications have been developed to support traffic control. Data interconnectedness has been growing, which puts a greater demand on the quality of IS service provided by operating employees.

## MODERNISATION AND DEVELOPMENT OF THE RAILWAY INFRASTRUCTURE

In terms of modernising and developing the railway infrastructure, SŽDC's long-term objective is to prepare and implement investment projects focusing on the following priorities:

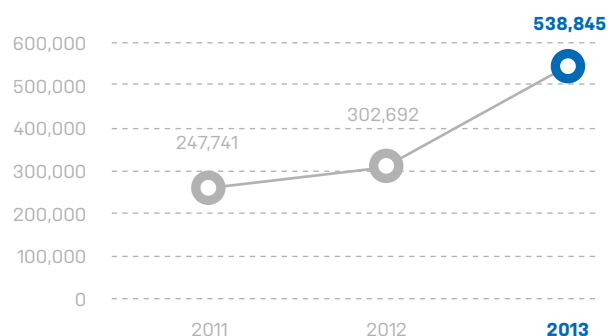
- modernisation of railway transit corridors,
- modernisation of railway junctions,
- modernisation of other lines integrated into the European railway system,
- ensuring the interoperability of selected lines,
- investment in the railway infrastructure to support the development of suburban transport and integrated transport systems,
- gradual preparation for the construction of high-speed connections
- progressive modernisation and renovation of other selected national and regional lines with a view to ensuring high-quality transport services,
- electrification of selected railway lines,
- enhanced safety of railway transport, in particular at level crossings.

### MAJOR PROGRESS IN CONSTRUCTION PROJECT PREPARATION

In 2013, SŽDC increased the volume of funding used for construction preparation (see chart). Thanks to preparatory works, it achieved a higher degree of preparedness of structures that were mostly scheduled for the existing EU programming period and also of structures for the new 2014-2020 EU programming period. The vast majority of projects are expected to be co-financed from EU funds (Operational Programme Transport 1, CEF, and Operational Programme Transport 2). The positive development in preparedness of structures was marked already in 2013 by a significant increase in tenders for construction works, compared to previous years.

### Preparation of SŽDC constructions

(total invested volume according to 2011–2013 payments)



### MODERNISATION OF RAILWAY TRANSIT CORRIDORS

In the territory of the Czech Republic, there are four national railway corridors. The strategic aim of their modernisation is to ensure high quality international connections between the Czech Republic and its neighbours and to ensure high-speed and high quality connections between individual Czech regions. The modernisation of railway transit corridors means higher quality railway transport in the Czech Republic and a significant reduction of travel periods on key lines, especially Prague – Ostrava and Prague – Brno. The completed modernisation of the First Railway Transit Corridor on the Děčín – Prague – Česká Třebová – Brno – Břeclav line and of the Second Railway Transit Corridor on the Břeclav – Přerov – Petrovice u Karviné line was followed by the modernisation of the Third and Fourth Railway Transit Corridors.

The Third Railway Transit Corridor passes via Mosty u Jablunkova, the Slovak/Czech state border – Dětmarovice, Přerov – Česká Třebová and Prague – Pilsen – Cheb, at the Czech/German state border. The Prague – Česká Třebová track section was modernised as part of the First Railway Transit Corridor and the Přerov – Dětmarovice track section as part of the Second Railway Transit Corridor. For the modernisation works of the Third Railway Transit Corridor, see the overview in the tables:

## Works at the Third Railway Transit Corridor (Czech part)

Project	Length	Stage	Modernisation period	
	km		from	until
Optimisation of the Planá u Mariánských Lázní – Cheb track section	39.8	completed	11/2007	12/2011
Optimisation of the Stříbro – Planá u Mariánských Lázní track section	32.0	completed	5/2008	11/2011
Optimisation of the Beroun – Zbiroh track section	24.4	completed	10/2008	4/2012
Optimisation of the Zbiroh – Rokycany track section	20.9	ongoing	07/2009	6/2014
Passage through the Pilsen junction in the direction of the Third Railway Transit Corridor	3.7	ongoing	11/2011	5/2014
Modernisation of the Rokycany – Pilsen track section	20.2	ongoing	7/2013	7/2016
Optimisation of the Cheb – state border track section	9.6	in preparation	6/2014	10/2015
Optimisation of the Beroun (included) – Králův Dvůr track section	4.9	in preparation	10/2015	8/2017
Optimisation of the Prague Smíchov (excluded) – Černošice (excluded) track section	10.9	in preparation	10/2015	8/2018
Optimisation of the Černošice (included) – Beroun (excluded) track section	24.9	in preparation	7/2017	9/2019
Prague – Beroun, new railway line		Study examining the new line		

## Works at the Third Railway Transit Corridor (Moravian-Silesian part)

Project	Length	Stage	Modernisation period	
	km		from	until
Modernisation of the Olomouc – Červenka track section, part 2	8.8	completed	12/2003	6/2005
Optimisation of the Krasíkov – Česká Třebová track section, part 2	7.9	completed	5/2004	6/2005
Modernisation of the Přerov – Olomouc track section, part 2	12.0	completed	4/2005	8/2008
Modernisation of the Červenka – Zábřeh na Moravě track section, part 2	24.4	completed	8/2005	3/2009
Optimisation of the Slovak state border – Mosty u Jablunkova – Bystřice n. Olší track section	19.3	completed	10/2007	12/2013
Optimisation of the Bystřice nad Olší – Český Těšín track section	11.5	completed	6/2009	11/2013
Optimisation of the Bystřice nad Olší – Český Těšín track section, second construction of the Český Těšín railway station	3.1	ongoing	1/2014	10/2016
Optimisation of the Český Těšín – Dětmorovice track section	20.9	in preparation	5/2015	12/2017

The modernisation works at the Fourth Railway Transit Corridor, which spans the Horní Dvořiště – České Budějovice – Prague track section, should be completed in 2019 (see the table below).

## Works at the Fourth Railway Transit Corridor

Project	Length	Stage	Modernisation period	
	km		from	until
Optimisation of the Strančice – Prague–Hostivař track section	18.2	completed	9/2005	10/2008
Optimisation of the Benešov u Prahy – Strančice track section	24.0	completed	10/2006	5/2010
Modernisation of the Veselí nad Lužnicí – Tábor track section – part I, Doubí u Tábora – Tábor track section	11.8	completed	12/2006	7/2009
Optimisation of the Horní Dvořiště state border – České Budějovice track section	25.4	completed	11/2007	6/2009
Modernisation of the Votice – Benešov u Prahy track section	18.5	completed	5/2009	5/2013
Modernisation of the České Budějovice – Nemanice I track section	2.6	completed	3/2011	1/2014
Modernisation of the Tábor – Sudoměřice track section	11.4	ongoing	3/2013	4/2016
Modernisation of the Ševětín – Veselí nad Lužnicí track section, part 2, Horusice – Veselí	5.0	ongoing	4/2013	1/2016
Modernisation of the Ševětín – Veselí nad Lužnicí track section, part 1, Ševětín – Horusice	4.4	ongoing	3/2014	4/2016
Modernisation of the Veselí nad Lužnicí – Tábor track section, part II, Veselí n. L. – Doubí u Tábora track section, stage1 Veselí n. L. – Soběslav	6.5	ongoing	3/2014	7/2015
Modernisation of the Veselí n. L. – Tábor track section, part II, Veselí nad Lužnicí – Doubí u Tábora track section, stage 2 Soběslav – Doubí	8.6	in preparation	2015	2017
Modernisation of the Sudoměřice – Votice track section	17.0	in preparation	2015	2018
Modernisation of the Nemanice I – Ševětín track section	22.1	in preparation	2016	2019

## MODERNISATION OF RAILWAY JUNCTIONS

In order to ensure smooth transit on corridor lines, significant railway junctions are being modernised as a follow-up to the modernisation of corridors. Thoroughfares through the railway junctions of Děčín, Ústí nad Labem, Kolín, Choceň, Břeclav (first construction project) and Bohumín have been completed. The projects related to the construction of thoroughfares through the junctions of Přerov, Ústí nad Orlicí and Břeclav (second construction project), Pilsen and Olomouc are ongoing. The projects "Modernisation of the western part of Prague Main Station", "the New Link" (connecting Prague Main Station and Prague Masaryk's Station with Libeň, Holešovice and Vysočany Stations) and "Modernisation of the track section Prague-Libeň – Prague-Běchovice" have been completed at the Prague junction. The project "Optimisation of the Prague-Holešovice – Prague-Bubeneč track section" is underway, with completion expected in 2015 and so is the project "Modernisation of the Prague-Běchovice – Úvaly track section" with completion expected in 2016. This will complete the First Railway Transit Corridor's thoroughfare through the Prague junction. Preparatory work continues on construction projects in the track sections Prague-Hostivař – Prague Main Station (the first part of the project will be launched in 2014) and Prague Main Station – Prague-Smíchov, which

will connect the third and fourth corridors to the Prague junction. Preparatory project work also continues on the thoroughfares through the junctions of Pilsen, Brno, Ostrava, Pardubice and Česká Třebová.

## MODERNISATION OF OTHER LINES INTEGRATED INTO THE EUROPEAN RAILWAY SYSTEM

The renovation of the Střelenský Tunnel on the line Horní Lideč – Slovak state border was completed in 2013. Preparations for the optimisation of lines in the track sections Ústí nad Labem – Cheb, Lysá nad Labem – Prague-Vysočany, Kolín – Všetaty – Děčín and České Budějovice – Pilsen are ongoing. New lines in the track sections Choceň – Ústí nad Orlicí, Brno – Přerov, and Pilsen – Česká Kubic are scheduled for implementation in the longer term.

## ENSURING THE INTEROPERABILITY OF SELECTED LINES

Other significant investments include construction projects to ensure the interoperability of the railway network. After the completion of the GSM-R digital radio system at the First Railway Transit Corridor Děčín – Kolín – Břeclav and at the Second Railway Transit Corridor Břeclav – Přerov – Petrovice u Karviné, the GSM-R in the track sections Ostrava – Mosty u Jablunkova – Slovak state border,

Přerov – Česká Třebová, and Děčín – Všetaty – Kolín was also completed. The 2014 is expected to see the launch of the implementation in the track sections Kolín – Havlíčkův Brod – Křižanov – Brno, Beroun – Prague – Benešov, Beroun – Pilsen – Cheb. In 2015 the GSM-R project will be launched in the Benešov – Votice track section. After the completion of the ETCS (European Train Control System) pilot project in the track section Poříčany – Kolín, installation of the ETCS in the track section Kolín – Břeclav – Austrian/Slovak state border is underway and preparations are being made to continue in the Kolín – Prague – Děčín – German state border track section.

### INVESTMENT IN RAILWAY INFRASTRUCTURE TO SUPPORT THE DEVELOPMENT OF SUBURBAN TRANSPORT AND INTEGRATED TRANSPORT SYSTEMS

In order to enhance the quality of suburban transport, the following projects are under preparation: modernisation of the Hradec Králové – Pardubice track section, the first stage of which will include the double-tracking of the Stéblová – Opatovice nad Labem section (expected to start in 2014), and renovation and electrification of the Brno – Zastávka u Brna, and Prague – Kladno track sections with a link to Václav Havel Airport, Otrokovice – Vizovice and other stations.

### HIGH-SPEED CONNECTIONS

In 2013 SŽDC took over the responsibility for the preparation of the concept of "High-speed connections" from the Ministry of Transport of the Czech Republic. The concept introduces a new approach to the issue of high-speed track construction on the territory of the Czech Republic. In connection with the change in the concept, new lines for the future high-speed connections network are being examined step by step and measures are being drafted regarding relevant protected railway zones. Although some regions welcome these plans, there will be conflicts in some affected areas and various interest groups will attempt to block the plans. During an information campaign, SŽDC will aim to sufficiently explain and advocate the public interest and the benefits of the implementation of high-speed connections and thus hopefully have a positive impact on public opinion.

### Key priorities of SŽDC in the area of modernisation and development of the railway infrastructure

#### Key priorities for 2014

Ensure the existing OP Transport is fully exhausted on suitable projects

Ensure comprehensive preparation of suitable projects for CEF (including interoperability)

Ensure preparation of suitable projects for OP Transport II

#### Key priorities for the upcoming programming period 2014–2020

Completion of corridor modernisation

Railway junction modernisation

Interoperability structures (GSM-R + ETCS)

Other key constructions

Preparation of High-Speed Connections

The aim of the gradual steps listed is to fulfil the key strategic objective: creating a high-quality railway that is attractive from a business point of view.

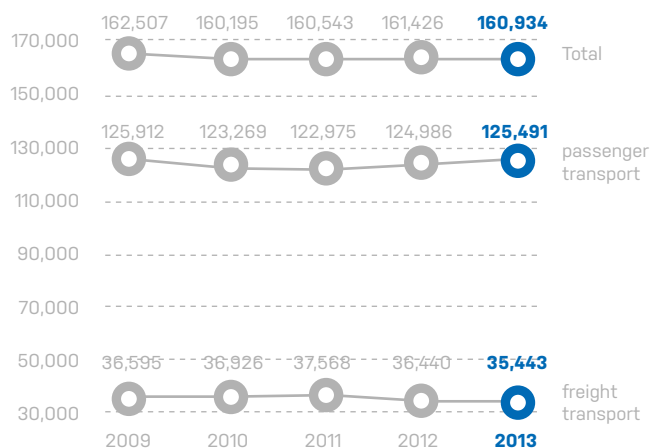
## UTILISATION OF THE RAILWAY INFRASTRUCTURE BY CARRIERS

The number of carriers utilising the state-owned SŽDC railway infrastructure slightly increased again and now amounts to 84. Some carriers make great use of it throughout the whole year while others engage in seasonal or recreational transport. One of the conditions to operate rail transport laid down by the law is the conclusion of a contract to operate rail transport on national and regional rail network. Other conditions include for example a valid licence, carrier authorisation, financial capacity or liability insurance regarding damage caused by rail transport operation.

**In passenger transport**, the number of train kilometres slightly increased in 2013. The drop in performance of České dráhy, a.s. was offset by other companies, especially as a result of LEO Express a.s., which started operating trains based on a regular timetable, and as a result of the

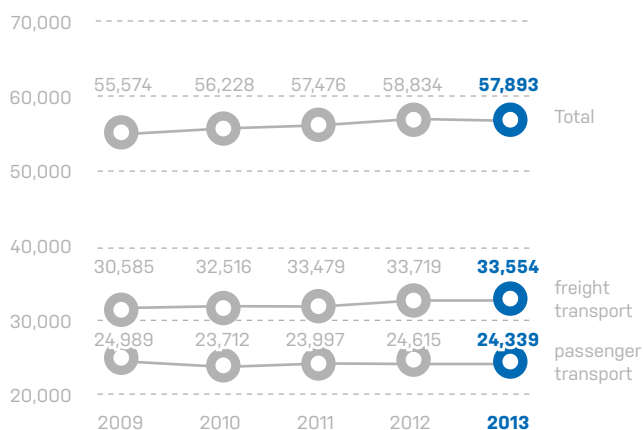
# OUR ORGANISATION'S ACTIVITIES

## Performance of carriers on network operated by SŽDC (thousands of trkm)



trkm – train kilometre represents the distance travelled by train in kilometres.

## Performance of carriers on network operated by SŽDC (mil. of gtkm)



gtkm – gross tonne kilometre is a product of the gross weight of the rolling stock [tractive units, railway carriages and other vehicles on own wheels] integrated in the train and the distance travelled in km

## Percentage of carriers in passenger transport production (comparison of the share in 2012 and 2013)

Carrier / indicator, year	trkm 2012	gtkm 2012	trkm 2013	gtkm 2013
České dráhy, a. s.	97.2	97.06	95.61	94.87
RegioJet a.s.	1.62	2.57	1.94	3.40
LEO Express a.s.	0.08	0.07	1.65	1.47
GW Train Regio a.s.	0.70	0.14	0.34	0.08
Vogtlandbahn-GmbH, organizační složka	0.33	0.13	0.32	0.13
Other carriers	0.07	0.03	0.14	0.05

## Percentage of carriers in freight transport production (comparison of the share in 2012 and 2013)

Carrier / indicator, year	trkm 2012	gtkm 2012	trkm 2013	gtkm 2013
ČD Cargo, a. s.	75.82	79.38	73.47	76.33
Advanced World Transport a.s.	6.11	8.03	6.02	7.78
UNIPETROL DOPRAVA, s.r.o.	3.26	3.67	3.56	3.87
IDS CARGO a.s.	0.98	0.98	1.85	2.06
SD – Kolejová doprava, a.s.	0.67	0.89	1.40	1.92
Rail Cargo Austria Aktiengesellschaft	0.02	0.02	1.21	1.77
LTE Logistik a Transport Czechia s.r.o.	1.03	1.40	0.93	1.18
METRANS Rail s.r.o.	0.51	0.63	0.79	0.95
BF Logistics s.r.o.	0.34	0.46	0.71	0.92
PKP CARGO SPÓŁKA AKCYJNA	1.85	1.96	0.71	0.89
Other carriers	9.41	2.58	9.35	2.33

increase in transport by RegioJet, a.s. and also due to partial changes in public passenger transport within the Prague rail junction, including auxiliary trains during floods. The drop in the value of the indicator of gross tonne kilometres relates to the increase of the proportion of motor carriages and electric units as opposed to standard units consisting of a locomotive and cars.

The performance of **freight transport** continued in its declining trend. The drop marked by ČD Cargo, a.s., the largest freight carrier, was slightly offset by the increase of performance by other carriers.

### SUMMARY OF ALLOCATED TRACK SECTIONS

Pursuant to the Railway Act, SŽDC allocates path capacity. SŽDC is obliged (during the process of path capacity allocation) to ensure equal track access for all carriers. In accordance with the Railway Act, SŽDC issues the National and Regional Network Statement on this subject, publishing a description of the process of path capacity allocation, including the mandatory data disclosed in the application and the timetable for submitting applications.

The applications for path capacity allocation are divided into the following categories:

- application for path capacity allocation as part of preparing the annual timetable (both ordinary or delayed application);
- application for path capacity allocation as part of a change to the annual timetable;

- application for an individual ad hoc path capacity allocation.

On 30 November 2011, SŽDC published the National and Regional Network Statement valid for the 2013 timetable in the Transportation and Tariff Bulletin. A total of 22 carriers applied for path capacity allocation for the 2013 timetable, of whom 11 carriers requested capacity allocation for passenger transport. After a coordination process, carriers were allocated capacity and their applications were incorporated into the timetable for 2013, valid from 9 December 2012 to 14 December 2013. Similarly, the carriers were asked to submit their applications for path capacity allocation for the 2014 timetable (the National and Regional Network Statement published on 12 December 2012).

Another indicator, which is important primarily in terms of labour intensity, is the number of processed applications. This indicator has been monitored in terms of application for an individual ad hoc path capacity allocation.

### FULFILMENT OF THE TRAIN DIAGRAM

The fulfilment of the train diagram is influenced by a number of factors, primarily by traffic closures or the level of vehicle and infrastructure failures. The train diagram states how many passenger trains of all categories were on time in the given year (a delay of 0 to 5 minutes). In the past three years, the fulfilment of the passenger train diagram has been showing stable results of over 92.5%.

### Development of the allocated path capacity in path days

Year	2009	2010	2011	2012	2013
Application for path capacity allocation as part of preparing the annual timetable (both ordinary or delayed application)	3,886,141	3,759,730	3,599,600	3,579,854	3,310,034
Application for path capacity allocation as part of a change to the annual timetable	167,490	128,949	90,347	80,806	85,096
Application for an individual ad hoc path capacity allocation	226,054	246,789	248,935	218,281	231,665
<b>Total</b>	<b>4,279,685</b>	<b>4,135,468</b>	<b>3,938,882</b>	<b>3,878,941</b>	<b>3,626,795</b>

A path day represents one path on one day. The number of path days of the allocated capacity is the number of days for which the relevant path has an allocated capacity.

### Development of the number of processed applications

Year	2009	2010	2011	2012	2013
Number of processed applications	148,575	163,166	166,767	163,685	180,579

## RAIL NETWORK AND RAIL TRANSPORT OPERATION SAFETY

Rail and rail transport operation safety is a basic priority of SŽDC and enjoys our utmost attention. Safety measures have been on a high level in the Organisation for a long time. The basic features are stipulated in the Railway Act and its implementing regulation. SŽDC has fully qualified staff, the necessary know-how and technical equipment for ensuring the safe operation of rail and rail transport.

### RAIL NETWORK AND RAIL TRANSPORT OPERATION SAFETY SYSTEM

SŽDC holds the Certificate on rail operator safety and a Carrier certificate issued by the Rail Authority based on submitted required documentation. The certificates are proof of the fact that SŽDC meets the conditions stipulated in the Railway Act in respect of rail vehicle operation, that it has issued the mandatory internal safety policies, it has a rail network and rail transport operation safety management system and that it has established a set of organisational and technological measures for safe rail network and rail transport operation. The Carrier certificate is an internationally acknowledged document by whose issuance a member state (i.e. in this case the Czech Republic) guarantees a safe operation of rail transport in the territory of all member states of the European Union.

### SAFETY GOALS

The rail network and rail transport operation safety system also includes the preparation of annual safety reports. These define and evaluate safety objectives defined by rail operators and carriers and include the results of meeting the measures for continuous improvement of the rail network and rail transport operation safety system. The safety objectives defined by SŽDC are based not only on an analysis of accidents (extraordinary events) that have arisen in the previous years but also on an analysis of their previous and expected development.

### PREVENTIVE ACTIVITIES

The measures adopted in order to prevent the occurrence of accidents focus on controlling and preventive activities and issuance of instructive handouts. During the controls performed in 2013, no deficiencies were identified which could be evaluated as deficiencies of the system. The identified deficiencies were discussed with the employees involved and their immediate superiors. Instructive handouts were issued as guidance for the employees in respect of several accidents.

### ISO 9001 QUALITY MANAGEMENT CERTIFICATE

As part of constant efforts to increase the productivity and quality of the activities performed, the Department for Rail Operation Safety System has introduced a quality management system in accordance with the ČSN EN ISO 9001:2008 standard. The system was audited by an independent audit firm. The certification is proof of the fact that the management system is properly organised in accordance with applicable standards and regulations and that documentation is well-managed.

#### Investigation of accidents and work injuries

The duties of rail operators and carriers include investigation of accidents and work injuries in terms of identifying the causes and circumstances of their occurrence and adoption of measures to prevent such accidents and work injuries. Thanks to the coverage of the whole railway network and 24/7 emergency service, SŽDC has been successful in minimising the time necessary to arrive at the place of accident or work injury and as a result also in minimising the losses incurred by the carriers.

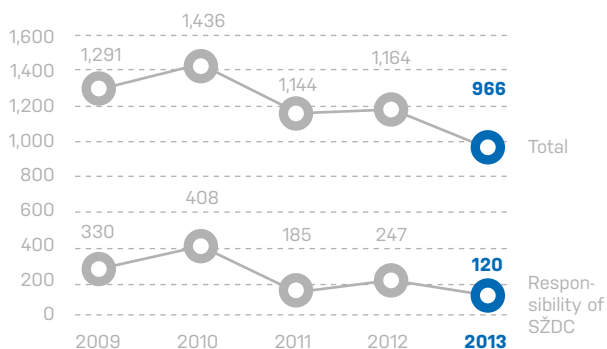
The contractual investigation of accidents and work injuries for other carriers and rail operators is conducted so as to further improve the financial results and hence to achieve the required quality and consistency of investigations. At present, SŽDC has concluded 62 contracts for the investigation of accidents.

### ACCIDENT RATE

As follows from a comparison of the 2013 accident rate results with the results for the previous years, the total number of accidents and the number of accidents caused by SŽDC have showed a significant drop. Almost all indicators monitored, including physical damage, reported a de-



### Comparison of the total number of accidents in 2009–2013

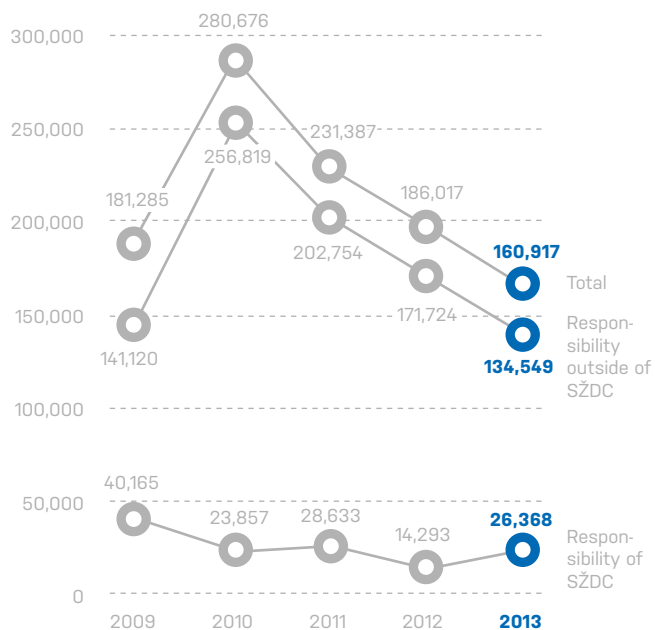


crease. The 2013 accident rate figures show that SŽDC operates the infrastructure safely and fully in accordance with TSI and other regulations and requirements of the European Union.

### CHANGE OF THE SAFETY SYSTEM AT LEVEL CROSSINGS

In 2013, SŽDC continued focusing on enhancing safety at level crossings. The safety system was changed at 72 level crossings in total, 16 of which had previously been secured only by warning signs and were now upgraded to a higher safety level.

### Comparison of physical damage in 2009–2013 (in TCZK)



## HUMAN RESOURCES

### EMPLOYEES

As at 1 January 2013, SŽDC had 17,331 employees working in 208 professions and in 17 organisational units, which operate in the individual regions of the Czech Republic and in the Directorate General of the Organisation.

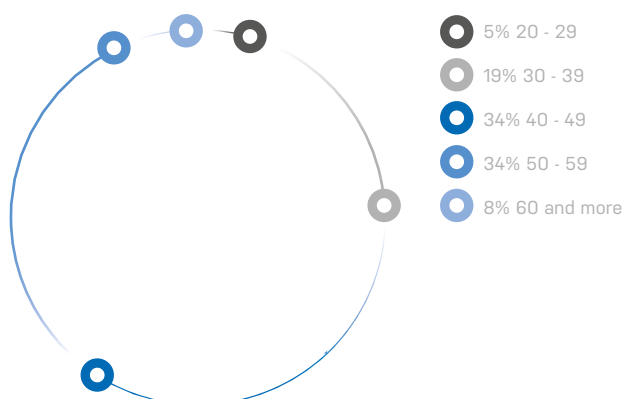
After ten years of its existence and as SŽDC started its activities on 1 January 2003 with only 61 employees, the Organisation has become one of the biggest Czech employers and the biggest employer in terms of rail transport.

In 2013, the organisational structure of the organisational units stabilised. Effective from 1 January 2013, the 17th organisational unit with the name Shared Service Centre Prague was created by spin-off from the existing organisational structure. This organisational unit provides HR and payroll services, occupational safety and health services, psychological services and other specific organisation-wide services.

During 2013, the number of employees dropped by a total of 131 (year-on-year by -0.8%). The average number of full-time equivalent employees was 17,227.17 in 2013 (a year-on-year decrease by 152.44).

The age structure of employees did not change significantly year-on-year. As at 31 December 2013, the average age of SŽDC employees was 46.53 years.

### Age structure of SŽDC employees



Rail transport belongs to the male-dominated industries and therefore the share of male employees was again 73% as at 31 December 2013. Despite this fact, the share of female employees increased slightly (year-on-year by 0.14%).

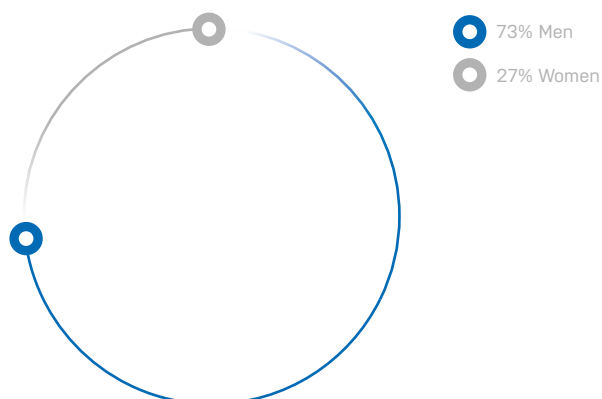
In 2013, the employee structure by achieved level of education showed improvement. The number of employees with incomplete education, primary school and vocational training or high school degree decreased year-on-year by 0.97% and on the other hand, the number of employees with a university increased by 0.64%.

### REMUNERATION AND EMPLOYEE BENEFITS

The remuneration principles and extent of employee benefits provided were negotiated in SŽDC's Collective Agreement for the period 2009–2013. The remuneration rules for 2013 were agreed upon in the eighth amendment of the Collective Agreement effective from 1 January 2013. A uniform payroll system continued to be applied. In 2013, SŽDC met all of the obligations towards its employees in terms of remuneration and employee benefits.

The range of employee benefits provided which are used to stabilise and motivate the employees did not change in 2013. Next to the transportation benefits and benefits in terms of working hours and holidays, SŽDC continued to provide contributions towards the supplementary pension insurance and life insurance schemes. A total of 1,858 employees performing professions which have been determined to be exhausting were provided a reconditioning treatment programme in one of the four spa facilities

### Employee structure by gender



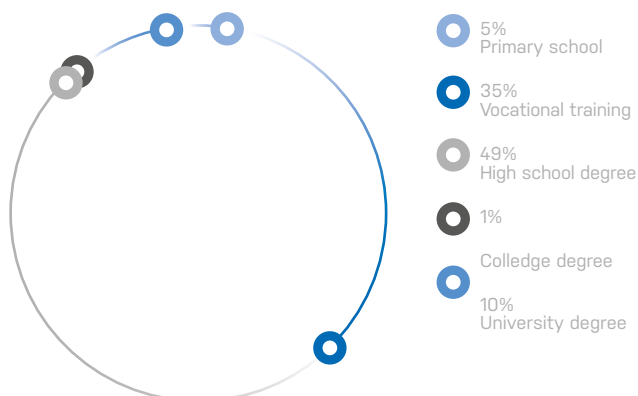
which were chosen in a tender (Jeseník Spa, Bělohrad Spa, Dudince Spa and Trenčianske Teplice Spa).

In accordance with the financial principles and the approved budget negotiated with the trade union organisations, the Cultural and Social Needs Fund was used to provide funds for meal vouchers, cultural and sports activities, including participation in international railway events or in regional and national qualifications (qualifiers). Employees and their family members can also use employer-contributed holiday packages, etc. A non-refundable social grant of CZK 15,000 was provided to those employees who had incurred damage to their property as a result of the June floods and submitted an application for aid, which was approved by the trade union organisations.

### COOPERATION WITH TRADE UNION ORGANISATIONS

The main social policy of SŽDC is to keep social peace and therefore it pays big attention to cooperation with trade union organisations. As at 31 December 2013, nine trade union organisations were active in SŽDC, both multi-profession organisations as well as organisations representing a single profession. During 2013, regular meetings of the employer with representatives of the trade union organisations were held where information was provided and discussed with the social partners in accordance with the Labour Code and SŽDC's Collective Agreement in force. From 2 September 2013, collective bargaining about SŽDC's Collective Agreement was held which resulted in the conclusion of SŽDC's Collective Agreement for 2014 on 9 December 2013.

### Employee structure by achieved level of education



### EDUCATION

The main training objective was the consolidation of technical training for rail maintenance and repair and traffic control staff. Also, the Organisation's psychological workplace in Česká Třebová was used to full capacity, as psychological evaluation is a necessary requirement for most demanding traffic control jobs and for fire department staff. Monitoring activity focused on the provision of employee training and the professional skills of lecturers. In addition, workshops on amended and new legal regulations were organised. SŽDC continued and further developed its contractual cooperation with selected high schools and universities.

### MEDICAL CARE AT WORK

Medical care at work for SŽDC employees was provided through a contractual health-care facility. In addition to the prescribed types of medical examinations (introductory check-ups, regular check-ups, extraordinary checkups and check-ups at termination of employment), it also focused on workplace check-ups as part of occupational safety and health inspections. Job applicants and SŽDC employees used the services of physicians (outpatient departments) providing medical care at work all over the Czech Republic (approx. 110 physicians provided their services to SŽDC).

### OCCUPATIONAL SAFETY AND HEALTH

Health and safety activities primarily focused on eliminating the deficiencies detected during inspections or ordinary activities. Persons in charge of risk prevention (employees responsible for occupational safety and health) were included in a newly established organisational unit with the name of Shared Service Centre Prague effective from 1 January 2013.

There were no fatal work injuries in 2013. In total, 252 work injuries were classified as other work injuries without subsequent sick leave, 116 work injuries were classified as other work injuries with subsequent sick leave longer than three calendar days and 7 work injuries required hospitalisation for more than five days.

## INTERNATIONAL RELATIONS

Our objective in terms of international relations is to support and promote the interests of the Czech railway infrastructure in Europe. The incorporation of Czech paths into the main European routes is a necessary condition for the future development of Czech railways and their future co-funding from EU funds. SŽDC intends to continue providing all European carriers with a high-quality, reliable, fast and safe railway infrastructure, further interoperable from an international point of view. Meeting this objective is conditional on intensive Europe-wide cooperation.

In 2013, SŽDC continued negotiations with its partners on all levels, both within international railway organisations or as part of the direct involvement of SŽDC in European Commission committees (RISC and SERAC). Similar to the past years, our experts continued working with CEN and CENELEC on standards.

### RFC – RAIL FREIGHT CORRIDORS

Regulation (EU) No. 913/2010 of the European Parliament and of the Council concerning a European rail network for competitive freight defines nine rail freight corridors ("RFC"), three of which go through the Czech Republic. Together with its counterparts, SŽDC already successfully put in operation the Orient/East-Med (RFC 7) corridor from Prague to Constantza and Athens on 10 November 2013 and the Czech-Slovak (RFC 9) corridor from Prague to Čierna nad Tisou. The Baltic-Adriatic (RFC 5) corridor from Gdynia to Koper and Italian ports will be put in operation on 10 November 2015.

In 2013, based on Annex II to Regulation (EU) No. 1316/2013 the main TEN-T corridor network was interconnected with the rail freight corridor (RFC) network. Successful negotiations of SŽDC and the Czech Ministry of Transport with EU institutions and partner railway operators resulted in the approval of the RFC 7 corridor extension from Prague to the North Sea ports in 2018 (Hamburg, Rostock, Wilhelmshaven and Bremerhaven). In 2020, the desired connection of RFC 9 with the new Rhine – Danube corridor will be realised and

will provide the Czech Republic with connections to Strasbourg, Baden-Württemberg and Bavaria. Similarly, the Czech Republic strives for full membership in the organisational structures of the North Sea-Baltic corridor (RFC 8) so as to ensure better access to Rotterdam and Antwerp ports.

### INTERNATIONAL RAILWAY ORGANISATIONS

#### International Union of Railways (UIC)

Since its very inception, it has been the objective of the UIC to create uniform technical railway standards and to create conditions for an interoperable railway system in cooperation with the European Railway Agency. SŽDC's experts continue to actively participate in various permanent work groups and are also involved in individual projects, primarily within the Rail System Forum. We succeeded in including SŽDC's comments in the new standards and influencing several new policies, exchanging experience in terms of superstructure and substructure, artificial structure, communication and security technology, energy systems, and electric traction. SŽDC also participated in projects within the UIC forum Environment. The issues of rising crime levels (primarily metal theft), secure operation and possible cyber attacks were topics of the UIC forum Safety with which SŽDC actively cooperated.

#### Community of European Railway and Infrastructure Companies (CER)

This organisation joins together more than 70 railway companies and is considered the most influential association of railway companies in Brussels. Since its incorporation, SŽDC has been a member of the Community of European Railway and Infrastructure Companies ("CER"). SŽDC appreciates the activities of CER primarily in regards to negotiations with EU institutions (primarily the European Commission, the European Parliament, and the European Council) and it actively participates in preparing the sector's statements on EU draft legislation which impacts the railway sector. SŽDC's experts are members of many CER working groups – Infrastructure Interest Group, Energy, Corridors, Human Resources Directors, and European Rail Traffic Management System. Similarly as in the past year, in 2013 the majority of work was done on updating the relevant TSIs and their extension outside the TEN-T network.

Both SŽDC and the Czech Republic can be proud of the fact that in 2013, Jiří Kolář, the Director General of SŽDC, was re-elected vice-president of CER in Brussels. This is another way how SŽDC can partially influence the way in which the European transport policy is going to develop.

### **Association of European Infrastructure Managers RailNetEurope (RNE)**

SŽDC actively participated in the activities of RNE, an international organisation, which is a significant non-profit association of infrastructure managers, rail operators, and path capacity allocators. In 2013, the association again concentrated on providing support to carriers in terms of their cross-border activities (both in terms of passenger and freight transport) and on enhancing the effectiveness of processes of the individual infrastructure managers primarily by further harmonising the conditions for cross-border rail transport, coordinating the preparation of timetables across Europe and providing for unified access to the marketing and sale of international paths (including the Network Statement). Big importance can be attributed to the cooperation of infrastructure managers in terms of railway operation, the exchange of real time information about trains and after-sale services, such as monitoring and reporting. The tasks of RNE were fulfilled by four permanent working groups and ad hoc project groups coordinated by the RNE Joint Office which associates almost 40 infrastructure managers of a railway network comprising more than 230,000 km of paths.

### **North Atlantic Treaty Organisation (NATO)**

SŽDC was actively involved in the work of NATO's Civil Emergency Planning Committee (CEP), specifically in the work of the Planning Board for Inland Surface Transport (PBIST). One of the basic tasks of this board is to provide for the support of NATO troops by the host country and to coordinate their transfer (regroupment) to the individual NATO missions.

### **European Telecommunications Standards Institute (ETSI)**

SŽDC is a member of the non-profit organization European Telecommunications Standards Institute ("ETSI"), which produces globally applicable telecommunications standards for Europe. Thanks to its membership in this organization, SŽDC has access to all published standards and specifications from this area.

### **Organisation for cooperation between railways (OSJD)**

SŽDC's experts cooperated with Committee V – Infrastructure and Rail Vehicles of OSJD, primarily in the groups working on issues concerning superstructure (List of rail defects), substructure and diagnostics of paths.

### **Bilateral and multilateral relations**

In 2013, SŽDC held a conference of the general managers (directors general) of the Visegrád Group railway companies ("V4"). The participants assessed the conference very positively and in the final memorandum they specified the main common interest issues of V4 countries in terms rail transport development.

In terms of international contractual relations (both bilateral and multicultural), amendments to the supplementary arrangements between SŽDC and ÖBB-Infrastruktur AG were finalised in 2013. During the past year, SŽDC managed to finalise the bilingual excerpts from the new SŽDC D1 Signalling and Transportation Directive with most contractual partners, which is a real success in view of the significant differences in respect of tradition and development of the operational regulations, differences in terms of language and in terms of infrastructural equipment.

# 2008



## MILOŠ HOUSKA

### **Timetable Department Manager**

The timetable is law for the railways. In spite of the very different requirements of the entities applying for path capacity allocation and rail carriers, we have been trying to prepare the timetable in such manner that it eventually suits as many clients as possible. The process of compilation of a timetable represents at least one year of demanding negotiations. Despite that, the timetables have been and will always be ready on time.



As follows from the approval of the amendment to Act No. 77/2002 Coll., SŽDC has taken over the function of a rail operator. It is newly responsible both for the operability of the railway infrastructure and for the preparation and issuance of timetables.

**Number of lines in the timetable based on category (regardless of carrier)**

Local trains (Os):	8,157
Limited-stop trains (Sp):	372
Fast trains (R):	829
Higher-quality trains (EC, EN, Ex, IC, LE, SC):	195
Express freight trains (Nex):	373
Empty car and fully charged freight trains:	2,114
Handling and siding freight trains:	1,495

**8,157**  
local trains



# SŽDC PERFORMANCE



## FINANCIAL PERFORMANCE OF SŽDC

An accounting loss of CZK (2,201) million was generated for the 2013 accounting period. The accounting loss is primarily a result of accounting depreciation and a revenue resulting from the remission of SŽDC's liabilities, i.e. the so-called debt remission. Both items are just accounting transactions, and they do not have any impact on the balance of income and expenses. The amount of depreciation charged will exceed the debt remission both this year and in the following years.

The objective of SŽDC is to stabilise financial income and expenses following from its performance so that operating cash flows are well-balanced.

### The following items had the most significant impact on SŽDC's financial performance in 2013:

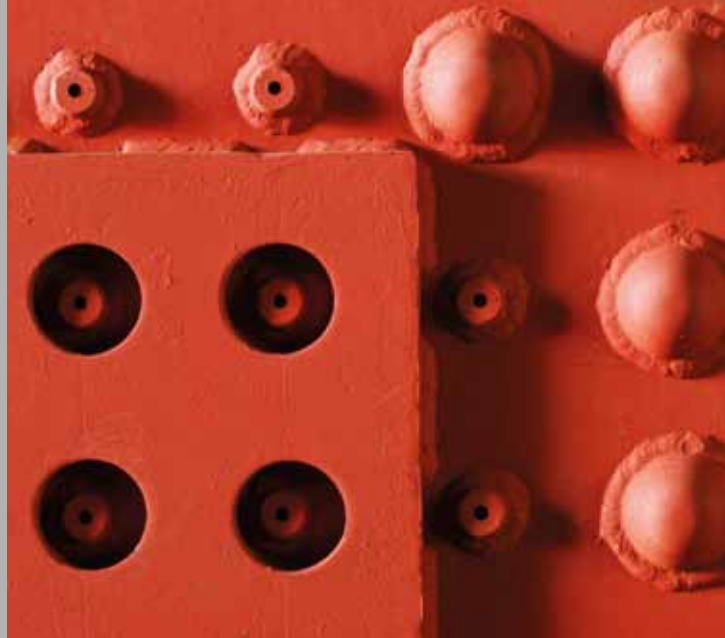
(in millions of CZK)

Revenues from use of railway infrastructure	4,212
Revenues from allocated railway infrastructure capacity	87
Subsidies for the railway infrastructure not paid from SFTI	550
Subsidies from SFTI for repairs and maintenance	9,623
Subsidies from SFTI for repairs and maintenance after floods	180
Other subsidies	15
SŽDC debt remission as per Czech Government Resolution No. 1553 from 2005	2,446
Purchase and sale of energy and distribution services	358
Materials, energy consumption and services	(7,697)
Personnel expenses	(8,406)
Accounting depreciation	(4,194)
Other operating revenues and expenses	1,493
<b>Operating profit/loss</b>	<b>(1,333)</b>
Interest expense/interest income	(338)
Exchange rate difference	(501)
Other financial revenues and expenses	(4)
<b>Profit/loss from financial operations</b>	<b>(843)</b>
<b>Profit/loss before tax</b>	<b>(2,176)</b>
Deferred tax	(25)
<b>Profit/loss after tax for the year</b>	<b>(2,201)</b>

**Revenues from the use of railway infrastructure** represent considerations for track access by carriers, i.e. significant income. Payment for track access is one of SŽDC's sources used to cover expenses for rail network maintenance and railway transport organisation.

**Revenues from railway infrastructure capacity allocation** represent SŽDC's revenues based on the Railway Act which stipulates that SŽDC is the institution in charge of allocating the railway infrastructure capacity. For more information about capacity allocation see the National and Regional Network Statement.





**Subsidies for the railway infrastructure not paid from SFTI** include contributions from the Ministry of Transport provided to cover expenses relating to railway operation which are not covered by the other income of SŽDC and for which SFTI subsidies cannot be used.

**SFTI subsidies** are the most important revenue and cash-generating item of SŽDC to cover the expenses relating to safeguarding the railway infrastructure. The SFTI provides, on a contractual basis, non-investment funds for financing repairs and maintenance of the national and regional networks owned by the state and managed by SŽDC.

**Subsidies from SFTI for repairs and maintenance after floods** are intended to cover expenses incurred in connection with the removal of flood-related damage from June 2013.

**Other subsidies** primarily comprise subsidies from Operational Programme Transport (wage reimbursement) and operational subsidies from SFTI for a certain purpose – subsidies for studies.

A significant item with a substantial effect on SŽDC's revenues is the revenue resulting from the **remission of SŽDC's liabilities** (the so-called "debt remission"). Among others, the liabilities of Czech Railways, a state organisation, resulting from loan agreements for funding corridors have been transferred to SŽDC at its incorporation. The Czech Ministry of Transport has been paying back these liabilities to banks based on state guarantees provided to Czech Railways, a state organisation. In 2005, as a result of negotiations between SŽDC, the Ministry of Transport of the Czech Republic and the Ministry of Finance of the Czech Republic, Czech Government Resolution No.1553 dated 30 November 2005 was adopted, which resolved this situation by accounting debt remission of SŽDC. The debt remission is implemented on a contractual basis with the Ministry of Finance and

represents a non-cash revenue item only, i.e. with no entitlement to additional state budget funds.

**Purchase and sale of energy and distribution services** includes expenses on the purchase of distribution services and electricity (the transfer points of low tension and high tension outside the electrical grid to ensure the internal electricity for SŽDC's consumption and to supply electricity to external customers connected to the local distribution network of the railways) and expenses on the purchase of distribution services and electricity for the points of supply and transfer points of the electrical grid. At the same time, it includes revenues from sale of distribution services and from sale of electricity as well as revenues from sale of distribution services for the electrical grid.

The most significant expense item comprises **operating expenses relating to consumption**, i.e. consumption of materials and consumables and services. The services mainly include expenses related to ensuring the operability of the railway infrastructure and incurred in connection with repairs and maintenance provided by external suppliers.

**SŽDC's personnel expenses** include wages and salaries, social security expenses and social expenses.

One of the significant operating expenses relates to **accounting depreciation**, i.e. the recognition of the depreciation of fixed assets to expenses.

**SŽDC's other operating revenues/expenses** include other revenue and expense items, e.g. revenues from the sale of fixed assets and materials reduced by their net book value, revenues from external outputs and leases, own work capitalised, revenues from salvaged materials, taxes and fees, changes in provisions and allowances, property and liability insurance, a contribution for personal protective equipment to be used at work, and membership fees paid to organisations.

**Interest expense** results mainly from bank loans relating to capital expenditures that were taken over from the former state organisation České dráhy (Czech Railways). As specified in the notes to the financial statements, this interest is paid to the banks by the Czech Ministry of Finance on behalf of SŽDC. Only in the case of the loan agreement signed with Česká spořitelna, a. s., intended for performance improvement projects pertaining to the railway infrastructure, does SŽDC use its own resources to pay all related expenses, including interest.

**Exchange rate differences** arise from the translation of foreign currency liabilities, loans and interest at the exchange rate valid as at 31 December 2013. As a result of the intervention of the Czech National Bank at the end of 2013 the Czech crown weakened against the Euro. Given that most loans taken over from the former state organisation České dráhy (Czech Railways) are denominated in Euro, the Czech crown value of these liabilities increased and the difference was, in line with applicable regulations, recognised as expense.

The 2013 profit/loss also includes a tax expense arising from a change in deferred tax liability. The items constituting **deferred tax** are listed in the notes to the financial statements.

## OPERATION AND OPERABILITY OF RAILWAY INFRASTRUCTURE

### **OPERATING THE RAILWAY INFRASTRUCTURE**

Total expenses incurred in ensuring the operational control of the railway infrastructure amounted to CZK 4,967 million in 2013 and they included primarily track operation activities ensured by the Regional Directorates and Central Traffic Controls, and further expenses on the administrative apparatus of the Assistant Director General for Traffic Control which are kept in the accounting records on a central basis.

SŽDC employees perform the operational control of railway traffic, dispatcher's traffic control, operation of signalling installations and information systems for passengers, preparation of timetables, and path capacity allocation to carriers. The expenses on these activities are covered for most part from SŽDC's own resources comprising primarily the revenues from the use of railway infrastructure paid by rail transport operators and a contribution of the Czech Ministry of Transport for railway infrastructure not paid from SFTI and other income of SŽDC from own activities of SŽDC's organisational units. The expenses on ensuring railway infrastructure capacity and preparing the timetable are illustrated in the accounting system by a scheme of engagements (contracts) and covered by revenues from path capacity allocation and preparing the timetable.

### **OPERABILITY OF THE RAILWAY INFRASTRUCTURE**

SŽDC ensures the operability on the rail superstructure, substructure, on rail substructure structures, bridges and tunnels, buildings and structures, electrical and energy equipment, and communication and security technology equipment under its management. In order to ensure operability, it uses both its own HR, engineering or technical capacity (primarily the capacity of its own organisational units – the Regional Directorates and specialised units of the Fire Department, the Technical Centre of Infrastructure, the Railway Energy Administration, and the Railway Geodesy Administration) and contractual relations with suppliers operating in the relevant market. The total expenses on operability of the railway infrastructure excluding depreciation amounted to CZK 9,631 million in 2013, including the appropriate portion of expenses on administrative apparatus of the Assistant Director General for Rail Operability which are kept in the accounting records on a central basis. Furthermore, the Organisation performed activities totalling CZK 180 million connected with the removal of the effects of flood damage to the railway infrastructure primarily in the Elbe and Vltava (Moldau) river basins incurred in June 2013. Funds from the SFTI budget were used to ensure operability of the railway infrastructure. SFTI provides SŽDC with non-investment funds for financing repairs and rail service of the national and regional networks owned by the state.

The following revenues were primarily used to cover the costs of ensuring the operation and operability of the railway infrastructure (excluding amortisation):

(in millions of CZK)

<b>Revenues from use of railway infrastructure</b>	<b>4,212</b>
freight transport (České dráhy, a.s., and ČD Cargo, a.s.)	1,826
passenger transport (České dráhy, a.s.)	1,652
freight transport – other carriers	642
Passenger transport – other carriers	92
<b>Revenues from allocated railway infrastructure capacity</b>	<b>87</b>
<b>Subsidies for the railway infrastructure not paid from SFTI</b>	<b>550</b>
<b>Subsidies from SFTI for repairs and maintenance</b>	<b>9,623</b>
<b>Subsidies from SFTI for repairs and maintenance after floods</b>	<b>180</b>

## INVESTMENT PROJECTS

Funding for investment projects came mostly from public sources. The most significant source of investment funding in 2013 continued to be subsidies from EU funds. With respect to the railway infrastructure, SŽDC, acting as the final beneficiary and investor, is the main entity responsible for EU fund utilisation in the Czech Republic.

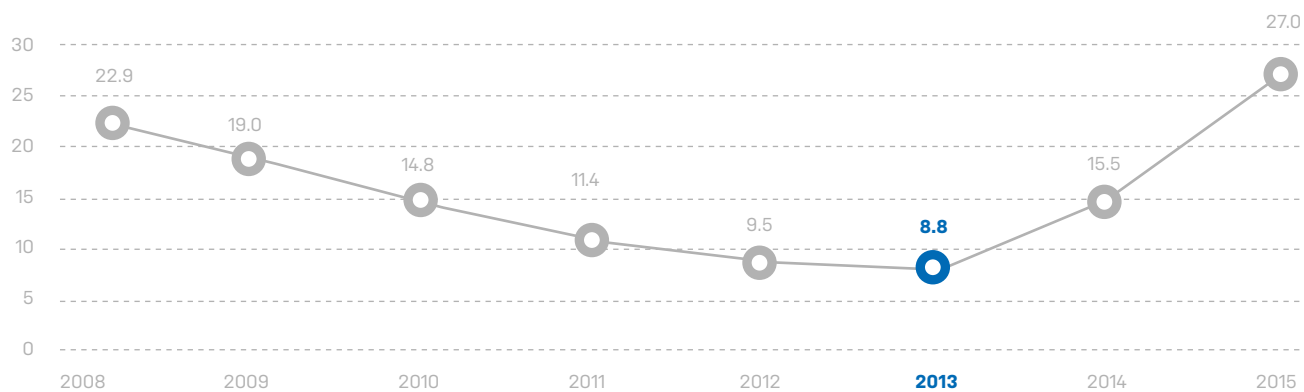
EU subsidies from the Operational Programme Transport (OPT) accounted for the largest share of funds. Other sources were obtained from SFTI, the State Environmental Fund of the Czech Republic ("SEF"), and in sporadic cases, small contributions were obtained from regions, cities and municipalities.

The sources of investment subsidies received for the preparation and implementation of investment projects on the railway infrastructure in 2013 were as follows:

(in millions of CZK)

SFTI for construction and modernisation, national share; OPT, EIB	8,678
Advance funding from SFTI	20
EU funds	50
Contributions from cities, municipalities, regions, SEF and other entities	3
<b>Total</b>	<b>8,751</b>

### Past development and expected future development of investment sources received in 2008–2015 (in BCZK)



## PROJECTED BUSINESS AND FINANCIAL SITUATION IN 2014

SŽDC's objective is to achieve a good balance between revenues and expenses in close cooperation with state administration bodies and the effort not to increase SŽDC's entitlement to state budget funds.

SŽDC's performance is regularly assessed and analysed in order to maintain its business and financial stability. The mandatory key performance indicators (KPIs) will be thoroughly examined in respect of all organisational units of SŽDC so as not to exceed the total budgeted expenses.

SŽDC intends to spend its means efficiently and to provide for such railway infrastructure on which it will be possible to organise reliable and safe passenger and freight rail transport.

## RISK MANAGEMENT

The main objective of SŽDC's risk management system is to mitigate to the full extent possible any negative impact of risks on meeting the intentions and objectives of the organisation and on the organisation's profit or loss.

As is the case of all state-owned entities, SŽDC's activities are governed by laws and regulations valid for state organisations. These regulations significantly influence the state organisation's approach to risk management. SŽDC's risk management is a continuous systematic and methodical activity organised by the organisation's management within the internal control system in coordination with the Internal Audit Department. A part of the risk management process is the mapping all potential risks, the assessment of the materiality of risks based on the probability of their occurrence, the adoption of a set of measures to eliminate

or minimise risks or to mitigate their undesirable impact, and the examination of the implementation and effectiveness of these measures. The measures to minimise risks include internal policies whose observance is monitored as part of management inspections and internal audits.

The major risks to which SŽDC is potentially exposed comprise operational and financial risk, information technology risk, and human resources risk.

### OPERATIONAL RISK

The objective of risk management in terms of operations is to ensure primarily the safe and failure-free operation on the railway infrastructure. In terms of the operation and operability control segment, risks are minimised already in the phase of recruiting new employees where big emphasis is put on their good physical condition and, for selected professions, also on mental capacity. New employees complete training and pass exams stipulated for their future position by internal policy. As for selected professions, periodic exams are to be passed periodically. Risk management also includes the creation and constant maintenance of a system of internal policies which define the requirements of the individual parts of as well as the correct procedures for performing works on the railway infrastructure. Further, regular inspections and measurements are made which are determined to assess the technical condition of the railway infrastructure. The inspecting activity is performed based on an internal policy and on the current priorities of the Organisation determined at the beginning of every year.

In the event of accidents, the cause and circumstances of their occurrence are investigated, and corrective measures to prevent such accidents proposed, including the terms of realisation. The implementation of corrective measures is checked and subsequently documented. Where it has been proven that an accident had been caused by an employee, relevant penalties and compensation of damage shall be applied. Damage caused to third parties is covered by liability insurance.

## FINANCIAL RISK

In terms of finance, SŽDC is exposed to liquidity risk, interest rate risk, currency risk, and credit risk.

As SŽDC's activities in terms of modernisation and ensuring operability of the railway infrastructure are financed almost exclusively from subsidies, liquidity in these areas is managed in relation to the relevant grant names for the relevant fiscal year. In other areas financed primarily from revenues, the key tool of managing liquidity is the continuous monitoring of the actual cash flow management and utilisation of the appropriate volume of loan products determined for this purpose.

Up to a certain extent, the liquidity risk is also managed by issuing internal policies. The most significant area in terms of the volume of cash flows is infrastructure modernisation. In this area, the liquidity risk is managed primarily by minimising the changes in terms of financial and time demands when preparing and realising constructions, by the strict observance of the Public Procurement Act and contractual conditions of the subsidy providers so that sufficient sources for funding modernisation are ensured and possible penalties minimised.

The interest rate and currency risks are connected primarily with long-term loans for construction and reconstruction of rail corridors denominated both in foreign currencies and Czech crowns taken over from České dráhy, s. o. (Czech Railways, a state-owned entity). The interest rate risk from a non-guaranteed loan denominated in Czech crowns was managed and regulated by a concluded interest rate swap until 2013.

The credit risk which follows from the debtors' inability to pay their liabilities to SŽDC is regulated through the monitoring and assessment of the condition of receivables and the immediate resolution of overdue receivables using all legal possibilities. The procedures applied to the monitoring, assessment and collection of debts are stipulated in an internal policy the adherence to which is reviewed.

## INFORMATION TECHNOLOGY RISKS

The significant risks in terms of information technologies include the misuse, damage to or loss of data and a possible breach in the functionality of significant information systems. SŽDC eliminates these risks by applying various measures defined in internal policies, primarily a controlled administration of applications, servers and networks, a functioning anti-virus protection, limitation of individual users' access rights and creating backup data. At present, an external company has been preparing an information systems and cyber security concept which should be applied on an organisation-wide basis.

## HR RISKS

SŽDC's interests regarding the requirements on future employees have been secured through cooperation with secondary (high) schools and universities, as well as through the Organisation's participation in the transportation sector council's activities regarding the preparation of the national qualifications system. In accordance with the implemented concept of human resources management, the age structure of the key professions is analysed and selected employees undergo special training process in order to ensure the succession of key positions. Observing both external and internal legislation as well as SŽDC's Collective Agreement ensures the conditions for social consensus and a low employee turnover level, which is supported by a funding guarantee for rail operation and operability by the Czech Ministry of Transport.

# 2011



## TOMÁŠ NACHTMAN

### **In charge of managing the Traffic Control Department**

The future of traffic control consists primarily in remote track control performed by central traffic control units. As a result of this process, we will have to reduce the number of station dispatchers. On the other hand, railway operation will be much faster and safer, train delays will be shorter and passengers will be provided with better-quality information.



Upon completion of the transfer of the so-called life railway infrastructure, effective from 1 September, the number of SŽDC employees grew by thousands of station dispatchers, dispatchers, signalmen and other operational staff members.

**Development of the number of operational staff as at 31 December 2013**

Profession	Number of employees
Station dispatcher	4,286
Signalman	1,906
Switch inspector	745
Rail transport operator	310
Station supervisor	184
Switchman	122
Block signalman	117
Gateman	65

**4,286**  
station  
dispatchers



# CORPORATE SOCIAL RESPONSIBILITY



From a long-term point of view, SŽDC has been presenting itself as a modern and propitious organisation whose principal activities fulfil all three basic pillars of the European CSR programme (corporate social responsibility). The individual projects help it to behave responsibly both towards its employees and the general public and third parties. Within its internal programmes, it has been creating conditions for both the personal and professional development of employees, cooperating with interest groups or organisations from the transportation sector and further with secondary (high) schools and universities specialising in subjects relating to transportation.

## **COOPERATION WITH SCHOOLS**

In 2013, the Organisation continued developing cooperation with selected secondary (high) schools and universities teaching technical and business subjects. The graduates of these schools and universities can get a job with SŽDC. This cooperation brings the students an opportunity of a practical training at a worksite under supervision of experienced employees. SŽDC's employees further give lectures and teach some technical subjects, define the topics for the students' theses and participate in expert conferences organised by the partner schools and universities.

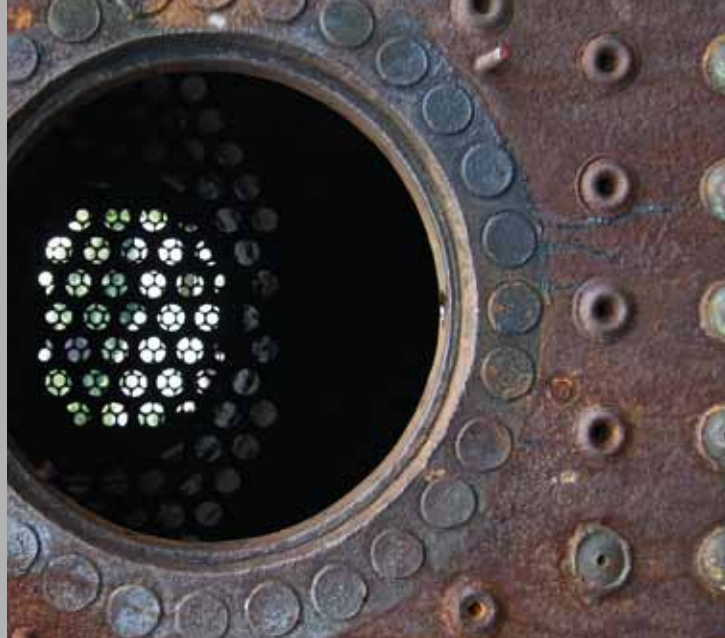
## **STUDENT CUP**

In 2013, SŽDC organised the first year of the Student Cup, the aim of which was to present the Organisation to primary school pupils of 8th and 9th grades as one of the biggest employers in the Czech Republic, to present to them several professions, to bring to their attention the issue of safety at level crossings and above all to present to them the affiliated secondary (high) schools and specific subjects aimed at SŽDC's activities.

## **PREVENTIVE TRAIN**

In 2013, SŽDC for the first time officially participated in a project of České dráhy, a. s. (Czech Railways) named Preventive train which is aimed primarily at primary school pupils and secondary (high) school students. The objective of this project is to present the main risks of incorrect railway and train behaviour to the general public through films on security issues. These films will be showed in a special cinema car and accompanied by a discussion with experts who deal with railway accidents.





### **FUND-RAISING CAMPAIGN**

Together with the trade union organisations, SŽDC organised a voluntary fund-raiser in the period from 21 June to 31 August 2013 under the name 2013 FLOODS – SŽDC in order to raise funds to support its employees who have incurred damage to their property as a result of floods at the end of May and in June 2013. Primarily thanks to the contributions of SŽDC employees we managed to collect a total amount of CZK 800,000, which was distributed among 39 employees who incurred damage.

### **ORGANISATION MAGAZINES**

SŽDC has been publishing its own periodicals for both internal and external communication. The My Railways (Moje železnice) intra-organisation bulletin comprises expert articles on rail transport and focuses on the support of both professional and personal development of employees. The external expert magazine Modern Railways (Moderní železnice) for the professional public focuses primarily on communication with the business partners and representatives of public administration and self-government units.

### **RESPONSIBLE ATTITUDE TO HUMAN RESOURCES MANAGEMENT**

SŽDC has defined its HR policy and adopted a human resources management concept, which defines the long-term, mid-term and short-term objectives and tasks, which the Organisation intends to achieve in this area. In cooperation with the trade union organisations, SŽDC consequently lays stress on abiding by the conditions for safety at work, requires adherence to occupational health and safety principles and cares about the good health of its employees. For more information about this issue, please read the chapter on human resources.

### **ENVIRONMENT**

In 2013, SŽDC significantly intensified its activities connected with the maintenance and removal of trees surrounding the railway infrastructure and further located in the protected railway zone in order to eliminate accidents. The removed plants are usually non-indigenous shrubs of low environmental and aesthetical value which represent an increased safety risk for both the railway infrastructure and rail traffic on it due to the possibility of them falling onto sections open to traffic.

As regards corporate social responsibility, SŽDC adopted several measures which will bring with it a number of positives for the nature and countryside. One of these measures is the pilot project focusing on replacing the unsuitable vegetation along a number of track sections in the Vysočina Region. Opting for small-growth woods will not endanger the railway infrastructure; on the contrary, it will help to stabilise the railway embankments and to eliminate the tracks being covered with snow in winter. It will also support biodiversity. In 2013, co-funding of this project from the Operational Programme Environment in the amount of CZK 8 million was approved.

As part of effectively preventing landslides and fallen rocks on the infrastructure, SŽDC also prepared seven successful projects for several regions (Vysočina Region, South Bohemian Region, Central Bohemian Region, and the Hradec Králové Region) totalling CZK 118 million. The subsidies for projects co-funded from the Operational Programme Environment amount to up to 90% of the tax-deductible expenses.

# 2012



## JIŘÍ KOLÁŘ

**Director General  
of Správa železniční dopravní cesty**

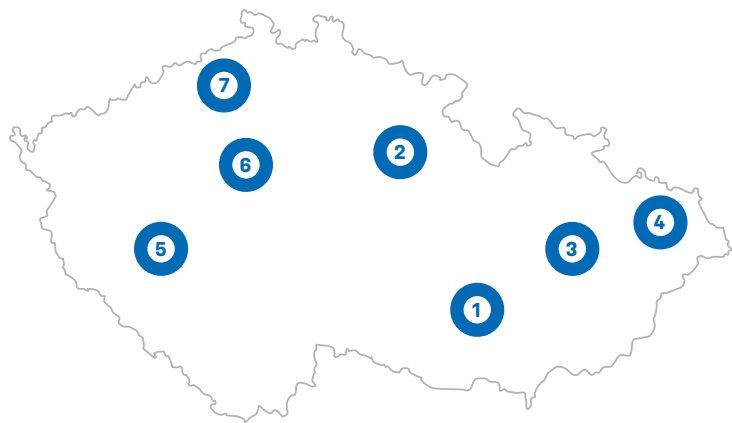
SŽDC wants to be a thriving, flexible and customer-oriented organisation ensuring the development of fully operational, modern and safe rail network that is an integral part of the European rail system. As a result of various activities performed, the organisation has been divided into several organisational units. We nevertheless remain one team.



Effective from 1 April, Regional Traffic Centres and Regional Infrastructure Administrations merged to form seven Regional Directorates of SŽDC. The activities connected with railway infrastructure maintenance and with the operation are effectively controlled on the level of individual regions.

#### REGIONAL DIRECTORATES

- 1 Regional Directorate Brno
- 2 Regional Directorate Hradec Králové
- 3 Regional Directorate Olomouc
- 4 Regional Directorate Ostrava
- 5 Regional Directorate Plzeň
- 6 Regional Directorate Prague
- 7 Regional Directorate Ústí nad Labem



# 2013



Ten years after its establishment, SŽDC is one of the largest employers in the Czech Republic. It ensures the development of a fully operational, modern and safe rail network that is an integral part of the European rail system.



# Financial

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# section

# INDEPENDENT AUDITOR'S REPORT

TO THE INSTITUTOR OF SPRÁVA ŽELEZNIČNÍ DOPRAVNÍ CESTY,  
STÁTNÍ ORGANIZACE



**KPMG Česká republika Audit, s.r.o.**  
Pobřežní 648/1a  
186 00 Praha 8  
Česká republika

Telephone +420 222 123 111  
Fax +420 222 123 100  
Internet www.kpmg.cz

## Financial statements

On the basis of our audit, on 28 May 2014 we issued an auditor's report on the statutory financial statements of Správa železniční dopravní cesty, státní organizace, which are included in this annual report, and our report was as follows:

"We have audited the accompanying financial statements of Správa železniční dopravní cesty, státní organizace, which comprise the balance sheet as of 31 December 2013, and the income statement for the year then ended, and the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about Správa železniční dopravní cesty, státní organizace is set out in Note 1 to these financial statements.

## Statutory Body's Responsibility for the Financial Statements

The statutory body of Správa železniční dopravní cesty, státní organizace is responsible for the preparation of financial statements that give a true and fair view in accordance with Czech accounting legislation and for such internal controls as the statutory body determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Správa železniční dopravní cesty, státní organizace as of 31 December 2013, and of its financial performance for the year then ended in accordance with Czech accounting legislation.

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Obchodní rejstřík vedený  
Městským soudem v Praze  
oddíl C, vložka 24185.

IČ 49619187  
DIČ CZ699001996



## Emphasis of matter

Without qualifying our opinion, we draw attention to following facts stated in the notes to the financial statements.

As stated in note 7.2 to the financial statements, Správa železniční dopravní cesty, státní organizace provides carriers with the railway infrastructure for use in the public interest for an officially determined price which is set in compliance with Pricing Act No. 526/1990 Coll. The proceeds from payments for the use of the railway infrastructure are not sufficient to offset the costs involved in operating, maintaining and developing the railway infrastructure. As such, the financing of SŽDC's activities is dependent upon subsidies from the state and/or other entities. These conditions indicate the existence of a material uncertainty that may cast doubt on the Company's ability to continue as a going concern. However, as stated in note 7.2 to the financial statements, for 2014 SŽDC has contractually ensured funding from the State Fund of Transport Infrastructure for investment and non-investment activities of TCZK 28,364,263 and from the Ministry of Transport for non-investment activities of TCZK 550,000. Accordingly, the financial statements have been prepared on a going concern basis and therefore do not include adjustments to the valuation and classification of assets and liabilities that would be necessary if the Company was unable to continue as a going concern. Our opinion is not qualified in respect of this matter.

As stated in note 7.1 to the financial statements, for the purpose of preparation of the opening balance sheet as at 1 January 2003 it was required that the management of Správa železniční dopravní cesty, státní organizace applied, based on the Transformation Act, the general principles of division of the assets and liabilities of České dráhy, státní organizace (state organisation Czech Railways) to individual items or performed some estimates, or used certain assumptions in order to divide these assets and liabilities. When performing this application of the Transformation Act and determining the estimates and assumptions, the management made its best effort with the aim to ensure an appropriate and legally consistent division of the assets and liabilities. Despite this effort, alternative interpretations of certain provisions of the Transformation Act may exist and it cannot be excluded that in future some of these alternative interpretations may be considered better suitable. The alternative interpretations concern primarily tangible fixed assets and the sources of their funding. Our opinion is not qualified in respect of this matter.

As stated in note 7.1 to the financial statements, in compliance with Act No. 77/2002 Coll., on the Joint Stock Company Czech Railways (České dráhy), on the State Organisation Railway Infrastructure Administration (Správa železniční dopravní cesty) and on Amendments to Act No. 266/1994 Coll., on Railways, as amended, most liabilities of České dráhy, státní organizace were transferred to Správa železniční dopravní cesty, státní organizace as at 1 January 2003. As further stated in notes 3.16 and 4.11.2 to the financial statements, the long-term payables to banks which have been taken over from České dráhy, státní organizace (state organisation Czech Railways) are paid by the Ministry of Finance according to the instalment plans and then they are transferred to long-term payables to the State and they are subject to debt remission. Our opinion is not qualified in respect of this matter.

Net financial income from operations of Správa železniční dopravní cesty, státní organizace is insufficient to cover these long-term payables and therefore the solution for their payment is subject to Resolution of the Government of the Czech Republic No. 1553 as of 30 November 2005, in which the Government determined the manner of waiver of the payables of Správa železniční dopravní cesty, státní organizace until the moment of their redemption. In 2013, the payables totalling CZK 2.45 billion (CZK 5.65 billion in 2012) were waived and this amount was recorded as a part of other operating revenues. Based on Act No. 77/2002 Coll., on Railways, the Czech Republic is liable for the liabilities of Správa železniční dopravní cesty, státní organizace. Our opinion is not qualified in respect of this matter.

# INDEPENDENT AUDITOR'S REPORT



As stated in note 7.4 to the financial statements, the useful life and economic contribution of a significant part of the existing fixed assets which form the railway infrastructure depends on availability of financial means and on future decisions on renovation, modernisation, rationalisation and use of railway infrastructure and on the prices set for its use. Due to the existing uncertainty regarding the above mentioned issues it is not possible to determine the final useful life and economic contribution of the existing fixed assets and therefore no relevant adjustments were made to the valuation in the financial statements. Our opinion is not qualified in respect of this matter.

As stated in note 4.2.1 to the financial statements, Správa železniční dopravní cesty, státní organizace recognised assets of CZK 2.29 billion in tangible fixed assets under construction. This item also includes tangible fixed assets under construction acquired from subsidies of CZK 2.01 billion. After having received subsidies and made payments to suppliers in the following accounting period, the acquisition cost of the assets under construction will be reduced by the subsidies and these assets will be recognised in off-balance sheet accounts. Správa železniční dopravní cesty, státní organizace did not account for entitlement to subsidies to tangible assets under construction as at the reporting date as an incontestable entitlement to the subsidy arises only upon its utilisation. Until that moment the funds still belong to the provider. The total acquisition cost of tangible fixed assets recorded off-balance sheet was CZK 157.82 billion as at 31 December 2013. Our opinion is not qualified in respect of this matter.

As stated in note 4.2.7 to the financial statements, a significant part of tangible fixed assets are assets acquired free of charge, which are depreciated based on the depreciation plan of the accounting unit. These assets were reciprocally recorded to Capital contributions. The replacement cost of assets acquired free of charge is derived from the contractual arrangement. In the financial statements of the organisation, these tangible fixed assets are recognised in accordance with the price stated in the contractual arrangement. Our opinion is not qualified in respect of this matter."

## Annual report

We have audited the consistency of the annual report with the audited financial statements. This annual report is the responsibility of the Company's statutory body. Our responsibility is to express our opinion on the consistency of the annual report with the audited financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance that the information disclosed in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the audited financial statements. We believe that the audit we have conducted provides a reasonable basis for our audit opinion.

In our opinion, the information disclosed in the annual report is, in all material respects, consistent with the audited financial statements.

Prague, on 28 May 2014

  
KPMG Česká republika Audit, s.r.o.  
Licence number 71

  
Pavel Závitkovský  
Partner  
Licence number 69



# FINANCIAL STATEMENTS

## BALANCE SHEET IN FULL FORMAT (NON-CONSOLIDATED) AS AT 31 DECEMBER 2013 (IN THOUSANDS OF CZECH CROWNS "TCZK")

Ident.	ASSETS	line	Current period			Prior period
			Gross	Adjust	Net	Net
a	b	c	1	2	3	4
	<b>TOTAL ASSETS (L.02+03+31+63)</b>	<b>001</b>	<b>177,723,686</b>	<b>(100,802,794)</b>	<b>76,920,892</b>	<b>80,862,901</b>
<b>A.</b>	<b>Receivables for subscribed registered capital</b>	<b>002</b>				
<b>B.</b>	<b>Fixed assets (L.04+13+23)</b>	<b>003</b>	<b>173,432,403</b>	<b>(99,942,456)</b>	<b>73,489,947</b>	<b>77,205,435</b>
<b>B.I.</b>	<b>Intangible fixed assets (L.05 to 12)</b>	<b>004</b>	<b>491,438</b>	<b>(339,612)</b>	<b>151,826</b>	<b>151,462</b>
B.I.1.	Incorporation expenses	005				
2.	Research and development	006				
3.	Software	007	472,584	(336,637)	135,947	93,297
4.	Intellectual property rights	008				
5.	Goodwill	009				
6.	Other intangible fixed assets	010	4,163	(2,975)	1,188	1,504
7.	Intangible fixed assets under construction	011	14,648		14,648	56,649
8.	Advance payments for intangible fixed assets	012	43		43	12
<b>B.II.</b>	<b>Tangible fixed assets (L.14 to 22)</b>	<b>013</b>	<b>172,940,965</b>	<b>(99,602,844)</b>	<b>73,338,121</b>	<b>77,053,973</b>
B.II.1.	Land	014	6,562,480	(6,060)	6,556,420	6,538,049
2.	Buildings	015	135,527,596	(82,273,722)	53,253,874	54,742,301
3.	Plant and equipment	016	20,089,359	(14,274,849)	5,814,510	6,419,690
4.	Cultivated areas	017				
5.	Adult livestock	018				
6.	Other tangible fixed assets	019	496		496	496
7.	Tangible fixed assets under construction	020	2,291,459	(65,416)	2,226,043	3,336,442
8.	Advance payments for tangible fixed assets	021	110,341		110,341	83,276
9.	Adjustments to acquired fixed assets	022	8 359 234	(2,982,797)	5,376,437	5,933,719
<b>B.III.</b>	<b>Long-term investments (L.24 to 30)</b>	<b>023</b>				
B.III.1.	Equity investments – subsidiaries	024				
2.	Equity investments – associated companies	025				
3.	Other long-term securities and ownership interests	026				
4.	Loans – group undertakings, associated companies	027				
5.	Other long-term investments	028				

# FINANCIAL STATEMENTS

Ident.	ASSETS	line	Current period			Prior period	
			Gross	Adjust	Net	Net	
a	b	c	1	2	3	4	
6.	Long-term investments (provisional value)	029					
7.	Advance payments for long-term investments	030					
<b>C.</b>	<b>Current assets (L.32+39+48+58)</b>	<b>031</b>	<b>4,251,332</b>	<b>(860,338)</b>	<b>3,390,994</b>	<b>3,638,795</b>	
<b>C.I.</b>	<b>Inventories (L.33 to 38)</b>	<b>032</b>	<b>328,449</b>	<b>(2,539)</b>	<b>325,910</b>	<b>381,884</b>	
<b>C.I.1.</b>	<b>Raw materials</b>	<b>033</b>	<b>328,388</b>	<b>(2,539)</b>	<b>325,849</b>	<b>381,585</b>	
2.	Work-in-progress and semi-finished products	034	39		39	236	
3.	Finished goods	035					
4.	Young and other livestock	036					
5.	Goods for resale	037	8		8	10	
6.	Advance payments for inventories	038	14		14	53	
<b>C.II.</b>	<b>Long-term receivables (L.40 to 47)</b>	<b>039</b>	<b>1,663</b>		<b>1,663</b>	<b>3,257</b>	
C.II.1.	Trade receivables	040	239		239	2,366	
2.	Receivables – group undertakings	041					
3.	Receivables – associated companies	042					
4.	Receivables from shareholders/owners and alliance partners	043					
5.	Long-term advances paid	044	1,349		1,349	891	
6.	Estimated receivables	045					
7.	Other receivables	046	75		75		
8.	Deferred tax asset	047					
<b>C.III.</b>	<b>Short-term receivables (L.49 to 57)</b>	<b>048</b>	<b>2,933,076</b>	<b>(857,799)</b>	<b>2,075,277</b>	<b>2,208,769</b>	
C.III.1.	Trade receivables	049	2,291,092	(753,610)	1,537,482	1,576,852	
2.	Receivables – group undertakings	050					
3.	Receivables – associated companies	051					
4.	Receivables from shareholders/owners and alliance partners	052					
5.	Social security and health insurance	053					
6.	Tax receivables	054	117,063		117,063	80,269	
7.	Short-term advances paid	055	139,946		139,946	140,541	
8.	Estimated receivables	056	275,722		275,722	347,799	
9.	Other receivables	057	109,253	(104,189)	5,064	63,308	
<b>C.IV.</b>	<b>Short-term financial assets (L.59 to 62)</b>	<b>058</b>	<b>988,144</b>		<b>988,144</b>	<b>1,044,885</b>	
C.IV.1.	Cash	059	2,495		2,495	1,863	
2.	Bank accounts	060	985,649		985,649	1,043,022	
3.	Short-term securities and ownership interests	061					
4.	Short-term investments (provisional value)	062					
<b>D.I.</b>	<b>Deferrals (L. 64+65+66)</b>	<b>063</b>	<b>39,951</b>		<b>39,951</b>	<b>18,671</b>	
D.I.1.	Prepaid expenses	064	26,571		26,571	17,668	
2.	Complex prepaid expenses	065					
3.	Accrued revenues	066	13,380		13,380	1,003	

Ident.	LIABILITIES	line	Current period	Prior period
a	b	c	5	6
	<b>TOTAL LIABILITIES AND EQUITY (L.68+88+121)</b>	<b>067</b>	<b>76,920,892</b>	<b>80,862,901</b>
<b>A.</b>	<b>Equity (L.69+73+80+83+87)</b>	<b>068</b>	<b>57,876,357</b>	<b>58,954,883</b>
<b>A.I.</b>	<b>Registered capital (L.70+71+72)</b>	<b>069</b>	<b>53,996,770</b>	<b>52,728,589</b>
A.I.1.	Registered capital	070	53,996,770	52,728,589
2.	Own shares and ownership interests (-)	071		
3.	Changes in registered capital	072		
<b>A.II.</b>	<b>Capital contributions (L.74 to 79)</b>	<b>073</b>	<b>981,590</b>	<b>966,562</b>
A.II.1.	Share premium	074		
2.	Other capital contributions	075	981,590	966,562
3.	Revaluation of assets and liabilities	076		
4.	Revaluation reserve on transformations	077		
5.	Differences resulting from transformations	078		
6.	Change in revaluation reserve on transformations	079		
<b>A.III.</b>	<b>Reserve funds, undistributable fund and other funds from profit (L.81+82)</b>	<b>080</b>	<b>971,305</b>	<b>1,050,461</b>
A.III.1.	Statutory reserve fund / Undistributable fund	081	957,843	996,450
2.	Statutory and other funds	082	13,462	54,011
<b>A.IV.</b>	<b>Retained earnings (L.84+85+86)</b>	<b>083</b>	<b>4,128,073</b>	<b>4,133,812</b>
A.IV.1.	Retained profits	084	4,133,812	4,133,812
2.	Accumulated losses	085		
3.	Other retained earnings	086	(5,739)	
<b>A.V.</b>	<b>Profit (loss) for the current period (+/-)</b>	<b>087</b>	<b>(2,201,381)</b>	<b>75,459</b>
<b>B.</b>	<b>Liabilities (L.89+94+105+117)</b>	<b>088</b>	<b>18,871,180</b>	<b>21,774,974</b>
<b>B.I.</b>	<b>Provisions (L.89 to 92)</b>	<b>089</b>	<b>2,237,653</b>	<b>2,727,055</b>
B.I.1.	Tax-deductible provisions	090		
2.	Provision for pensions and other similar payables	091		
3.	Income tax provision	092		
4.	Other provisions	093	2,237,653	2,727,055
<b>B.II.</b>	<b>Long-term liabilities (L.95 to 104)</b>	<b>094</b>	<b>4,767,980</b>	<b>5,441,780</b>
B.II.1.	Trade payables	095	200,146	542,008
2.	Liabilities – group undertakings	096		
3.	Liabilities – associated companies	097		
4.	Liabilities to shareholders/owners and alliance partners	098		
5.	Long-term advances received	099		
6.	Debentures and bonds issued	100		
7.	Long-term bills of exchange payable	101		
8.	Estimated payables	102		
9.	Other payables	103	1,053,652	1,410,638
10.	Deferred tax liability	104	3,514,182	3,489,134

# FINANCIAL STATEMENTS

Ident.	LIABILITIES	line	Current period	Prior period
a	b	c	5	6
<b>B.III.</b>	<b>Short-term liabilities (L.106 to 116)</b>	<b>105</b>	<b>4,058,757</b>	<b>5,001,034</b>
B.III.1.	Trade payables	106	2,439,454	3,159,630
2.	Liabilities - group undertakings	107		
3.	Liabilities - associated companies	108		
4.	Liabilities to shareholders/owners and alliance partners	109		
5.	Payables to employees	110	459,718	465,378
6.	Payables to social security and health insurance	111	244,005	244,705
7.	Tax liabilities and subsidies	112	413,668	610,121
8.	Short-term advances received	113	100,166	117,912
9.	Debentures and bonds issued	114		
10.	Estimated payables	115	401,417	370,307
11.	Other payables	116	329	32,981
<b>B.IV.</b>	<b>Bank loans and overdrafts (L.118+119+120)</b>	<b>117</b>	<b>7,806,790</b>	<b>8,605,105</b>
B.IV.1.	Long-term bank loans	118	6,549,774	7,944,763
2.	Short-term bank loans	119	1,257,016	660,342
3.	Short-term financial liabilities	120		
<b>C.I.</b>	<b>Accruals (L.122+123)</b>	<b>121</b>	<b>173,355</b>	<b>133,044</b>
C.I.1.	Accrued expenses	122	90,980	49,548
2.	Deferred revenues	123	82,375	83,496

# INCOME STATEMENT CLASSIFICATION BY NATURE FOR THE YEAR ENDED 31 DECEMBER 2013 (IN THOUSANDS OF CZECH CROWNS „TCZK“)

Ident.	TEXT	Line	Accounting period	
			Current	Prior
a	b	c	1	2
I.	Revenue from goods	01	2	2
A.	Cost of goods sold	02	2	2
<b>+</b>	<b>Gross profit (L.01-02)</b>	<b>03</b>		
II.	Revenue from production (L.05+06+07)	04	7,111,914	7,172,416
II.1.	Revenue from own products and services	05	6,804,977	6,912,101
II.2.	Change in inventory of own production	06	(197)	(509)
II.3.	Own work capitalised	07	307,134	260,824
B.	Cost of sales (L.09+10)	08	9,192,592	7,960,203
B.1.	Materials and consumables	09	2,971,825	2,749,703
B.2.	Services	10	6,220,767	5,210,500
<b>+</b>	<b>Added value (L.03+04-08)</b>	<b>11</b>	<b>(2,080,678)</b>	<b>(787,787)</b>
C.	Personnel expenses (L.13 to 16)	12	8,405,640	8,265,671
C.1.	Wages and salaries	13	5,954,089	5,853,336
C.2.	Remuneration of board members	14	2,158	1,752
C.3.	Social security and health insurance expenses	15	1,998,573	1,952,471
C.4.	Social expenses	16	450,820	458,112
D.	Taxes and charges	17	40,756	39,633
E.	Depreciation of intangible and tangible fixed assets	18	4,193,945	4,248,632
III.	Proceeds from disposals of fixed assets and raw material (L.20+21)	19	302,971	259,565
III.1.	Proceeds from disposals of fixed assets	20	112,519	37,381
III.2.	Proceeds from disposals of raw material	21	190,452	222,184
F.	Net book value of fixed assets and raw material sold (L.23+24)	22	229,145	234,491
F.1.	Net book value of fixed assets sold	23	39,053	12,891
F.2.	Raw materials sold	24	190,092	221,600
G.	Change in provisions and adjustments relating to operating activity and change in complex prepaid expenses	25	(317,295)	1,593,819
IV.	Other operating revenues	26	13,162,698	15,371,629
H.	Other operating expenses	27	165,996	171,027
V.	Transfer of operating revenues	28		
I.	Transfer of operating expenses	29		
<b>*</b>	<b>Operating profit (loss) (L.11-12-17-18+19-22-25+26-27+28-29)</b>	<b>30</b>	<b>(1,333,196)</b>	<b>290,134</b>

# FINANCIAL STATEMENTS

Ident.	TEXT	Line	Accounting period	
			Current	Prior
a	b	c	1	2
VI.	Proceeds from sale of securities and ownership interests	31		
J.	Securities and ownership interests sold	32		
VII.	Revenue from long-term investments (L.34+35+36)	33		
VII.1.	Revenue from investments in group undertakings and associated companies	34		
VII.2.	Revenue from other long-term securities and ownership interests	35		
VII.3.	Revenue from other long-term investments	36		
VIII.	Revenue from short-term financial investments	37		
K.	Financial assets expenses	38		
IX.	Revenue from revaluation of securities and derivatives	39		
L.	Expenses for revaluation of securities and derivatives	40		
M.	Change in provisions and adjustments relating to financial activity	41		
X.	Interest revenue	42	2,968	2,763
N.	Interest expense	43	340,805	416,818
XI.	Other financial revenues	44	126,945	322,617
O.	Other financial expenses	45	632,245	82,638
XII.	Transfer of financial revenues	46		
P.	Transfer of financial expenses	47		
*	<b>Profit (loss) from financial operations (L.31-32+33+37-38+39-40-41+42-43+44-45+46-47)</b>	<b>48</b>	<b>(843,137)</b>	<b>(174,076)</b>
Q.	Income tax on ordinary profit (loss) (L.50+51)	49	25,048	40,599
Q.1.	- current	50		
Q.2.	- deferred	51	25,048	40,599
**	<b>Profit (loss) on ordinary activities after tax (L.30+48-49)</b>	<b>52</b>	<b>(2,201,381)</b>	<b>75,459</b>
XIII.	Extraordinary revenues	53		
R.	Extraordinary expenses	54		
S.	Income tax on extraordinary profit (loss) (L.56+57)	55		
S.1.	- current	56		
S.2.	- deferred	57		
*	<b>Extraordinary profit (loss) (L.53-54-55)</b>	<b>58</b>		
T.	Transfer of profit or loss to partners	59		
***	<b>Profit (loss) for the accounting period (L.52+58-59)</b>	<b>60</b>	<b>(2,201,381)</b>	<b>75,459</b>
****	<b>Profit (loss) before tax (L.30+48+53-54)</b>	<b>61</b>	<b>(2,176,333)</b>	<b>116,058</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

## 1. GENERAL INFORMATION

### 1.1. GENERAL INFORMATION

Správa železniční dopravní cesty, státní organizace ("SŽDC" or "the Organization") was established as at 1 January 2003 as one of two legal successors of České dráhy, státní organizace ("ČD, s.o."), in accordance with Act No. 77/2002 Coll. ("the Transformation Act").

As at 1 January 2003 SŽDC was recorded in the Commercial Register maintained by the Municipal Court in Prague, Section A, File 48384.

The address of SŽDC's registered office is Prague 1 - Nové Město, Dlážďená 1003/7, postcode 110 00, Czech Republic.

The institutor of SŽDC is the Czech Republic (with the Ministry of Transport of the Czech Republic being charged with exercising the founder's duties). The governing body in matters of settling legal remedies against SŽDC's decisions is the Ministry of Transport of the Czech Republic.

The reporting period is the calendar year. The information in these notes to the financial statements are presented in thousands of Czech crowns (TCZK), unless stated otherwise.

The financial statements of SŽDC for 2013 have been prepared as at 31 December 2013.

These notes have been prepared for the period starting 1 January 2013 and ending 31 December 2013 and include significant changes as of the date of SŽDC's registration.

### 1.2. PRINCIPAL ACTIVITIES

In accordance with the Transformation Act, the principal activities of SŽDC consist of operating the railway infrastructure and ensuring its operability, maintenance, modernisation and development.

Throughout 2013 the operation of the railway infrastructure was ensured by SŽDC's internal capacities.

SŽDC provides the railway infrastructure for use by carriers. Income arising from the use of the railway infrastructure is predominantly realised with the key users, i.e. České dráhy, a.s. ("ČD") and ČD Cargo, a.s. ("ČD Cargo"), as discussed in Note 7.3.

SŽDC generates additional major revenues from grants, which are used to cover expenditure related to modernisation and development, and to some extent maintenance, as discussed in Note 3.11.

SŽDC also administers the assets and liabilities set out in Sections 20 and 38a of the Transformation Act. In addition to assets relating to the railway infrastructure, these principally involve assumed receivables and payables, including the loans of ČD, s.o., and the assets specified in the Appendix to the Act that had been administered by the Czech Ministry of Transport until 30 June 2004. The assumed payables are the subject of debt remission (refer to Note 3.15).

On 30 May 2007, having complied with all the requirements arising from Act No. 458/2000 Coll., the Energy Act, as amended, SŽDC was granted a licence for electricity distribution by the Energy Regulatory Office in Jihlava. SŽDC began conducting this activity on 1 July 2007. On 3 December 2007 SŽDC also received a licence for electricity trading. This activity was started on 1 January 2008.

Pursuant to the amendment to the Transformation Act, on 1 July 2008 SŽDC assumed the role of the operator of the national railway infrastructure and regional railway infrastructure owned by the state, including certain activities related to the operation of the railway infrastructure.

Based on a resolution of the Government of the Czech Republic, as at 1 September 2011 activities concerning traffic control at stations and on railway lines were transferred from ČD to SŽDC. In connection with this transfer, SŽDC also took over 9,336 employees. These activities, whose cost was invoiced to SŽDC prior to the above date, were subsequently performed by SŽDC's employees.

### 1.3. SŽDC'S ORGANISATIONAL STRUCTURE AND BODIES

SŽDC is a standalone state organisation and does not hold equity investments in any other entity. Pursuant to the Transformation Act, the Ministry of Transport of the Czech Republic acts as the founder of SŽDC. The ministry also acts as the shareholder of ČD. SŽDC has many contractual relations with ČD and its subsidiaries, the most important of which are described in Note 7.3. SŽDC's bodies include the Management Board, the Director General and the Audit Committee.

The Director General acts and signs in full on behalf of SŽDC independently. In the absence of the Director General, a Deputy Director General acts and signs in full on behalf of SŽDC, in the order specified in the Commercial Register.

The Director General, Mr Jiří Kolář, is the SŽDC's statutory representative, managing its activities and acting on its behalf. The statutory Deputy Director General, Mr Bohuslav Navrátil, authorised to act in the absence of the Director General, is recorded in the Commercial Register.

#### The members of the SŽDC's management as at 31 December 2013 were:

Name	Position	Date
Jiří Kolář	Director General	since 19 Apr 2012
Bohuslav Navrátil	Deputy Director General	since 11 Feb 2004
Jan Blecha	First Assistant Director General	since 1 Jun 2012
Aleš Krejčí	Assistant Director General for Finance	since 1 Jun 2012
Mojmír Nejezchleb	Assistant Director General for Rail Modernisation	since 1 Jul 2013
Bohuslav Navrátil	Assistant Director General for Rail Operability	since 1 Jun 2012
Tomáš Nachtman	In charge of Traffic Control Department	since 11 Sep 2013

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

## The members of the Management Board as at 31 December 2013 were:

Name	Position	Date
Adolf Jílek	Chairman	since 2 Dec 2008
Lukáš Hampl	Member	since 11 Nov 2010
Jaroslav Deml	Member	since 28 Mar 2013
František Kopecký	Member	since 5 Dec 2013
Jiří Matolín	Member	since 5 Dec 2013
Milán Matoušek	Member	since 5 Dec 2013
Zdeněk Votruba	Member	since 5 Dec 2013

## The members of the Audit Committee as at 31 December 2013 were:

Name	Date
Hana Březinová	since 1 Jan 2010
Lukáš Hampl	since 14 Dec 2010

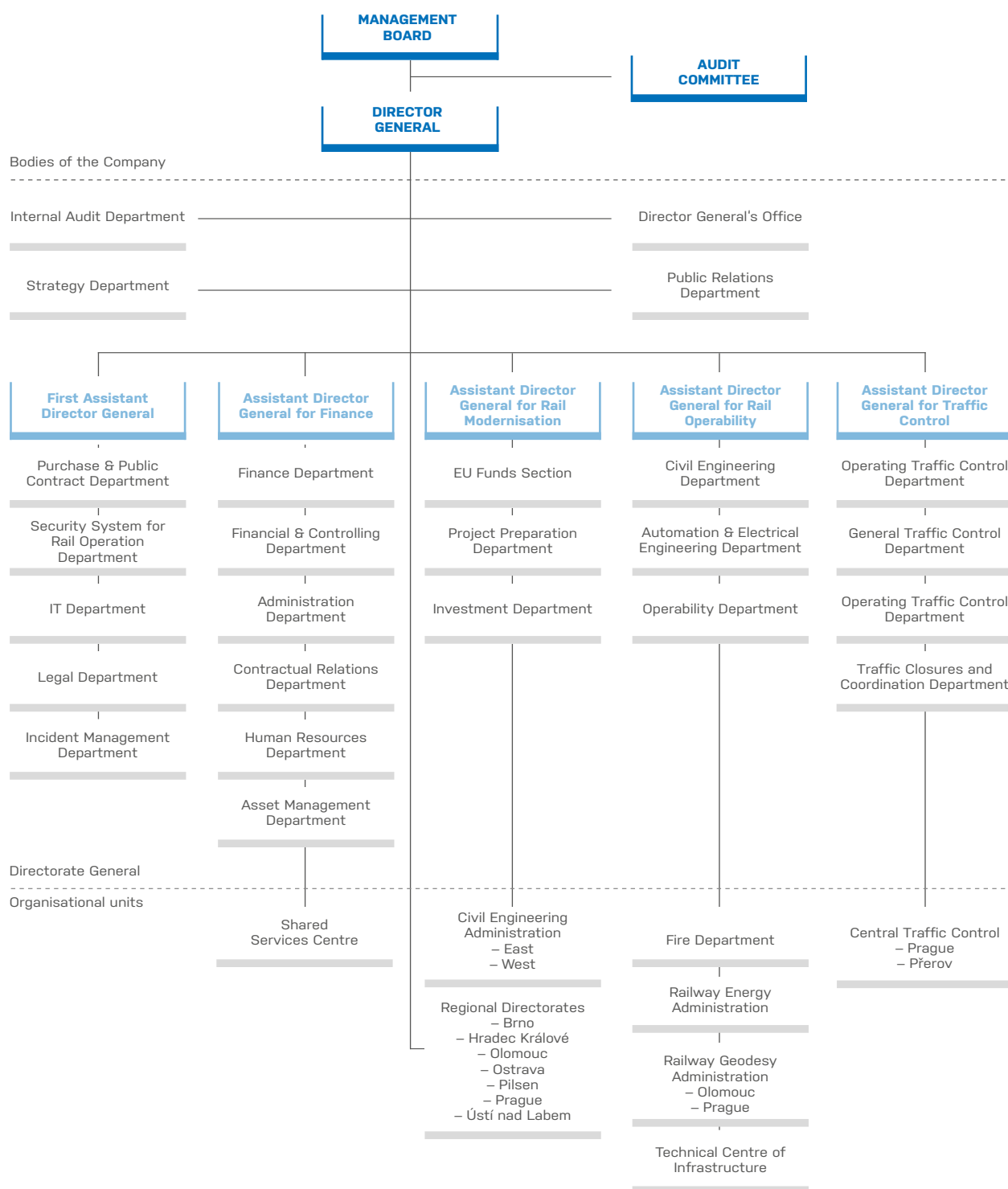
Changes in the SŽDC's bodies as at the date of issue of the financial statements are described in Note 8.

### 1.4. CHANGES IN THE COMMERCIAL REGISTER

During 2013, no significant changes were recorded in the Commercial Register. Only those changes in the position of the Director General and the Deputy Director General are recorded in the Commercial Register.

## 1.5. SŽDC'S ORGANISATIONAL STRUCTURE AS AT 31 DECEMBER 2013

The following chart shows the organisational structure of SŽDC as at 31 December 2013:



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

## 2. ACCOUNTING POLICIES AND GENERAL ACCOUNTING PRINCIPLES

The SŽDC's accounts are maintained, and the financial statements have been prepared, in accordance with Act No. 563/1991 Coll., on Accounting, as amended; Decree No. 500/2002 Coll., which implements certain provisions of Act No. 563/1991 Coll., on Accounting, for business entities using double-entry bookkeeping, as amended; and Czech Accounting Standards for Business Entities, as amended.

The accounting records are maintained in compliance with general accounting principles, specifically the historical cost basis except for certain areas (refer to Note 3.1.), the accruals principle, the principle of prudence, and the going concern assumption.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### **3.1. TANGIBLE AND INTANGIBLE FIXED ASSETS**

SŽDC administers state assets pursuant to the Transformation Act.

At SŽDC, fixed assets include assets with an estimated useful life greater than one year and an individual acquisition cost greater than CZK 40,000 for plant and equipment (tangible fixed assets) or CZK 60,000 for intangible fixed assets.

Purchased fixed assets are stated at cost.

Land acquired until 1992 is measured at the arm's length price prevailing at the date of acquisition, in accordance with a decree of the Ministry of Finance. Land acquired after 1992 is measured at cost.

Other tangible fixed assets are stated at cost, which includes interest on loans provided to fund the acquisition of the assets until they are available for use plus other expenses attributable to their acquisition.

Tangible and intangible assets produced internally are stated at internal cost, which includes direct costs and an allocation of manufacturing and/or administrative overheads.

Plant and equipment costing up to CZK 40,000 and intangible assets costing up to CZK 60,000 are expensed at the date of acquisition and further maintained in off-balance sheet records, except for vehicles marked with a registration sign and, based on individual assessment, significant assets for which SŽDC is not the first user and which have a significant original acquisition cost (e.g. assets acquired through the purchase of a part of a business). Additional easements established over third-party property are recorded as intangible fixed assets, irrespective of their cost.

Technical improvements totalling more than CZK 40,000 in respect of a tangible asset for the period increases the cost of that fixed asset.

Assets identified during a fixed asset count that have not been previously included in the accounting records, as well as received gifts and free-of-charge transfers within the Czech Republic, are measured at replacement cost.

The cost of railway infrastructure assets acquired after 1 January 2002 using grants is reduced by the amount of the respective grant. Assets funded by grants are recorded in sub-ledger accounts.

The bulk of SŽDC's tangible fixed assets is composed of the railway infrastructure, which was not depreciated for accounting purposes in 2003 and 2004, in accordance with Section 26 of the Transformation Act. The amount of unrecognised depreciation expense amounts to approximately CZK 7.6 billion for both years. As of 1 January 2005 SŽDC depreciates these assets, in accordance with the amendment to the Transformation Act.

At the reporting date, adjustments to fixed assets are established based on an individual assessment of the actual condition and future usability of individual items or groups of assets as part of the stocktaking process. Adjustments are established at an amount equal to the difference between the carrying amount and estimated selling price of an unused asset, provided that the estimated selling price is lower than the current carrying amount.

Assets acquired through the purchase of a part of a business as at 1 July 2008 and 1 September 2011 were valued by a court-appointed expert and included as part of SŽDC's assets at the carrying amounts recognised by the selling organisation at the date of acquisition of the part of the business. The expert opinion for the valuation of the so-called "Dead railway infrastructure" (as at 1 July 2008) was prepared by PricewaterhouseCoopers Česká republika, s.r.o. The expert opinion for the valuation of the so-called "Live railway infrastructure" (as at 1 September 2011) was prepared by E & Y Valuations s.r.o.

The difference between the aggregate carrying amount and purchase price of the assets represents an adjustment to acquired fixed assets, which is depreciated to expenses on a straight-line basis over 15 years (180 months), in accordance with Decree 500/2002 Coll., as amended.

Low value tangible assets (including IT equipment) are maintained in off-balance sheet records, at the cost at which they were released for consumption.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

## **3.2. INVENTORIES**

The bulk of SŽDC's inventories consists of inventory related to the railway superstructure – both the new superstructure stored primarily in superstructure material centres and the superstructure salvaged from investment activities or maintenance. Other inventories include electrical materials, safety installations, concrete sleepers and prefabricated components, personal protective work aids and other operating materials.

Purchased inventories are measured at cost, which includes the purchase price and other expenses associated with the acquisition.

Materials salvaged upon the liquidation of fixed assets or repairs are measured at replacement cost.

Adjustments to inventories are established based on suggestions of individual inventory count committees, which determine the amount of unused, damaged or impaired inventories during inventory-taking. Adjustments are established either at an amount equal to the carrying amount of inventories designated for liquidation or, for inventories for sale, at an amount equal to the difference between the carrying amount and net realisable value, provided that the net realisable value is lower than the current carrying amount.

Acquisitions and dispatches of inventories are accounted for using method A.

## **3.3. RECEIVABLES**

Upon origination, receivables are stated at their nominal value. Receivables acquired through assignment are carried at cost.

Receivables due within one year of the reporting date are presented as short-term. Other receivables are presented as long-term.

At the reporting date, the Organization established tax-deductible adjustments in accordance with Act No. 593/1992 Coll., on Reserves, as amended. Accounting adjustments were recognised in respect of receivables based on an analysis of the credit status of customers and the ageing structure of receivables, including:

- a full adjustment to receivables assumed from ČD, s.o.; and
- a full adjustment to other receivables maturing up to 30 June 2013.

## **3.4. PAYABLES**

Upon origination, payables are stated at their nominal value.

Payables due within one year of the reporting date are presented as short-term. Other payables are presented as long-term.



### **3.5. LOANS AND LONG-TERM PAYABLES**

Loans and long-term payables are stated at their nominal value.

Any part of long-term loans and payables that is due within one year of the reporting date is included in short-term loans and payables, except as disclosed in Note 4.13.2.

Borrowing costs that are attributable to the acquisition and construction of fixed assets and incurred until these assets are available for use are capitalised as part of the cost of the assets.

### **3.6. EQUITY**

The registered capital balance as at 1 January 2003 was equal to the carrying amount of assets net of liabilities assumed as at the date on which SŽDC was registered, as discussed in Note 7.1.

On 1 July 2004, the assets specified in the Appendix to the Transformation Act, which were transferred from the Ministry of Transport to SŽDC, were recorded in the registered capital account. In addition, a subsidy granted by the Ministry of Transport for the purchase of a part of business from ČD as at 1 July 2008 was also recorded in the registered capital account.

Changes in registered capital are recorded in respect of transfers of land to the Land Fund of the Czech Republic, free-of-charge transfers of assets, privatisation (refer to Note 3.16.), corrections of accounting errors in the register of land by matching them with the Real Estate Cadastre, or in respect of additional refinements made to the scope and value of assets and liabilities taken over by SŽDC as at 1 January 2003.

SŽDC contributes to the statutory reserve fund when profit is generated.

SŽDC contributes to the cultural and social needs fund in accordance with Decree No. 310/1995 Coll., on the Cultural and Social Needs Fund, as amended, by complying with Section 16 of Decree No. 114/2002 Coll., on the Cultural and Social Needs Fund. SŽDC utilises the fund in compliance with its approved policies and the respective collective agreement.

### **3.7. PROVISIONS**

SŽDC establishes provisions for: litigations; compensation for work injuries and occupational diseases; extra pension payments to former employees of ČD, s.o.; restructuring; unpaid payroll expenses and other expenses ("PEOE"); damages; and potential penalties.

A litigation provision is established based on a professional estimate of losses arising from legal disputes, and a detailed analysis of the status of individual disputes.

A provision for payments relating to compensation for work injuries and occupational diseases and for extra pension payments to former employees of ČD, s.o. is established at the present value of estimated future payments arising from claims originating as at the reporting date, based on a statistical analysis of available historical information. The provision has been reviewed as at the date of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

A restructuring provision is established for organisational changes announced during the reporting period that are to be effected after the end of the reporting period. The provision equals the amount of severance pay due to employees who are affected by the reorganisation.

A provision for unpaid PEOE comprises salaries estimated to be paid to the management based on the assessment using key performance indicators.

A provision for damages is established based on a legal opinion on recognised damages.

A provision for potential penalties is established where a payment assessment or a similar decision has been issued but all procedures enabling the elimination of the obligation to pay the penalty have not concluded. The provision equals the amount of payment assessments issued, or the amount stipulated by applicable legislation, taking into account the outcome of the aforementioned procedures.

## **3.8. FOREIGN CURRENCY TRANSACTIONS**

Transactions denominated in foreign currencies are recorded at the Czech National Bank ("CNB") official rate at the first working day of the month. Where a foreign currency is purchased or sold in exchange for Czech currency, the exchange rate of the bank executing the transaction is applied. When accounting for foreign travel expenses, the Czech National Bank official rate at the date on which the advance was provided to the respective employee is applied.

At the reporting date, assets and liabilities denominated in foreign currencies are translated to Czech crowns at the Czech National Bank official rate at that date, i.e. at 31 December 2013.

Any foreign exchange gains or losses are credited to other financial revenues or debited to other financial expenses, as appropriate.

SŽDC does not use any financial instruments to hedge against currency risk.

## **3.9. INCOME TAX**

Current tax comprises an estimate of tax payable calculated based on the taxable income, using the tax rate valid as at the first day of the accounting period, and any adjustments to taxes payable for previous periods. Taxable income differs from the profit recognised in the income statement as it does not include revenues or expenses that are taxable or deductible in other periods. In addition, it does not include items that are non-taxable or non-tax deductible.

Deferred tax is calculated using the liability method based on the balance sheet approach. The liability method involves applying the income tax rate expected to be valid in the future period in which the tax asset/liability is utilised. Under the balance sheet approach, the liability method is based on temporary differences between the tax base of assets/liabilities and the carrying amount of assets/liabilities recognised in the balance sheet. The tax base of assets/liabilities is the amount that can be utilised for tax purposes in the future.

A deferred tax asset is recognised only if it is probable that it will be utilised in future accounting periods. Deferred tax is recognised in the income statement, except when it relates to items recorded directly in equity, in which case it is also included in equity. Deferred tax assets and liabilities are offset, and presented in the balance sheet on an aggregate net basis.

### **3.10. FINANCIAL DERIVATIVES**

The Organization designates financial derivatives as either trading or hedging derivatives. A hedging derivative must meet the following conditions:

- At the inception of the hedge, a decision was made regarding the hedged item, the hedging instrument, the risks being hedged, and the manner of assessing and documenting the effectiveness of the hedge – the hedging relationship is formally documented;
- The hedge is highly effective (i.e. within a range of 80–125 percent); and
- The effectiveness of the hedge can be reliably measured and is assessed on an ongoing basis.

Derivatives that do not meet the above criteria for hedging derivatives are classified as trading derivatives.

At the reporting date trading derivatives are carried at fair value, which is based on a professional estimate made by the bank (a financial market participant).

The fair value of financial derivatives is the present value of expected cash flows arising from these transactions. The present value is established using common market-accepted models. Parameters identified in an active market, such as exchange rates, yield curves and volatilities of relevant financial instruments, are subsequently input in these valuation models. All financial derivatives having positive fair values are recognised as assets, while all financial derivatives with negative fair values are recognised as liabilities.

Changes in the fair values of trading derivatives are recognised as a gain or loss on derivative transactions, as appropriate.

The value of financial derivatives is influenced by interest rate movements in the interbank market.

In accordance with its risk management strategy, SŽDC uses derivatives (interest rate swaps) as hedging instruments. However, at the reporting date these derivatives did not meet the criteria for hedge accounting under Czech Accounting Standards and were therefore accounted for as derivatives held for trading.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

## **3.11. GRANTS**

SŽDC receives grants in accordance with applicable Czech legislation.

Non-investment grants primarily comprise grants from the State Fund for Transport Infrastructure ("SFTI") and from the Czech Republic's budget. These grants are intended to cover expenses related to ensuring the operability and operation of the railway infrastructure. When the expenses have been recorded, the grant is credited to other operating revenues.

Investment grants comprise grants intended to cover expenditure related to restoring and modernising the railway infrastructure. These grants include funds relating to individual infrastructure modernisation projects approved by the Government, as well as funds relating to the development phase of specific projects. These funds are provided by the SFTI, the European Union ("the EU") and the state budget. Investment grants are accounted for as a reduction in the cost of the respective fixed asset(s).

Until an investment grant is received, SŽDC recognises a fixed asset under construction. After the grant has been received and payments to suppliers made, the cost of the fixed asset under construction is reduced by the grant and the asset is further recorded off balance sheet. SŽDC does not account for entitlements to grants at the reporting date, as an undisputable entitlement to a grant only arises upon utilising the funds granted and billing them to the provider. Until utilised and billed, the funds belong to the provider.

Some investment grants received from the SFTI represent "pre-financing", whereby the respective grant is expected to be subsequently settled from EU funds. The funds subsequently received from EU funds are paid back to the SFTI. Consequently, grants received from the SFTI under pre-financing are presented as part of tax liabilities and subsidies. The amount of the expected grant from EU funds reduces the cost of the respective asset(s) and increases estimated receivables.

## **3.12. REVENUES**

Revenues are recognised on an accrual basis.

In addition to non-investment grants, the bulk of SŽDC's revenues is composed of proceeds arising from the use of the railway infrastructure. Another significant revenue item relates to electricity distribution and trading activities, in which SŽDC has been engaged since 1 January 2008, based on a licence granted to SŽDC by the Energy Regulatory Office.

## **3.13. USE OF ESTIMATES**

The presentation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and the reported amounts of revenues and expenses for the reporting period. The management of SŽDC believes that the estimates and assumptions used will not significantly differ from actual results in the following accounting periods.

## **3.14. CHANGE IN ACCOUNTING POLICIES**

No changes were made to accounting policies in 2013.

### 3.15. DEBT REMISSION

As at the date of its incorporation, SŽDC assumed long-term payables arising from guaranteed loan agreements related to the financing of rail corridors and other programmes guaranteed by the State in accordance with the Transformation Act. The debt service in respect of all the loan agreements is provided by the Ministry of Finance.

All payments of principal and interest made by the Ministry of Finance in relation to the repayment of bonds are recognised as long-term payables to the state budget in SŽDC's accounts.

Revenue from the use of the railway infrastructure is insufficient to cover expenses related to operating, maintaining and developing the railway infrastructure. Consequently, SŽDC does not generate disposable funds that could be used to settle its liabilities to the state budget. As a result, on 30 November 2005 the Government adopted Resolution No. 1553, defining a strategy for forgiving SŽDC's liabilities until they are fully settled. The resolution states that "subject to compliance with the outlined strategy for dealing with SŽDC's liabilities, this entity is considered to be clear of debts".

The actual remission of debt occurs, and is accounted for, on the basis of the "Debt Remission Agreement", in accordance with the abovementioned Resolution No. 1553.

The amount to be forgiven in future periods is submitted for approval to the Czech Government annually by each 30 September.

The amount of liabilities forgiven in the year is recorded under other operating revenues of the current period.

### 3.16. PRIVATISATION

In accordance with the Transformation Act, as at 1 July 2004 SŽDC took over from the Ministry of Transport assets intended for the settlement of liabilities assumed from ČD, s.o.

The assets that are the subject of privatisation projects are carried at historical cost net of accumulated depreciation ("net book value"). Following the approval of the privatisation projects, the assets were transferred to the Czech National Property Fund, since 1 January 2006 to the Ministry of Finance, at the net book value prevailing at the disposal date. In accordance with Czech Accounting Standard No. 22, the disposal of assets is recognised as a reduction in fixed assets with a charge against SŽDC's equity.

In 2013 the Ministry of Finance privatised SŽDC's assets by selling them to third parties. Based on the respective contracts, proceeds from the privatisation are subsequently transferred from the Ministry of Finance to SŽDC. When received, they are recognised as other operating revenues. For details, see Note 7.5.

### 3.17. SALE OF ASSETS

In accordance with Section 20 (4) of the Transformation Act, the sale of assets constituting the railway infrastructure is subject to approval by the Czech Government. The sale of assets listed in the Appendix to the Transformation Act must be approved by the Management Board of SŽDC.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

## 3.18. LEASE OF ASSETS

SŽDC leases assets constituting the railway infrastructure as well as assets intended for the settlement of liabilities assumed from ČD, s.o.

## 4. ADDITIONAL INFORMATION ON THE BALANCE SHEET AND INCOME STATEMENT

### 4.1. INTANGIBLE FIXED ASSETS

	Other intangible assets	Intangible assets under construction	Advances paid	Software	Total
<b>Acquisition cost</b>					
Balance at 1/1/2013	3,853	56,649	12	353,339	413,853
Additions	351	14,123	31	91,281	105,786
Disposals	(41)	(46)	--	--	(87)
Transfers to off balance sheet	--	(28,114)	--	--	(28,114)
Transfers	--	(27,964)	--	27,964	--
Balance at 31/12/2013	4,163	14,648	43	472,584	491,438
<b>Accumulated depreciation</b>					
Balance at 1/1/2013	2,349	--	--	260,042	262,391
Depreciation expense	646	--	--	76,595	77,241
Disposals	(20)	--	--	--	(20)
Transfers	--	--	--	--	--
Balance at 31/12/2013	2,975	--	--	336,637	339,612
<b>Net book value 1/1/2013</b>	<b>1,504</b>	<b>56,649</b>	<b>12</b>	<b>93,297</b>	<b>151,462</b>
<b>Net book value 31/12/2013</b>	<b>1,188</b>	<b>14,648</b>	<b>43</b>	<b>135,947</b>	<b>151,826</b>

Additions to software primarily include the acquisition of technical software applications and central systems.

## 4.2. TANGIBLE FIXED ASSETS

### 4.2.1. Continuity schedule in tangible fixed assets

	Land	Constructions	Machinery and equipment	Motor vehicles	Adjustment to acquired fixed assets	Tangible assets under construction	Works of art	Advances paid	Total
<b>Acquisition cost</b>									
Balance at 1/1/2013	6,557,978	134,700,341	19,532,542	706,989	8,359,234	3,402,817	496	83,276	173,343,673
Additions	24,430	1,203,344	223,726	10,904	--	7,293,293	--	44,584	8,800,281
Disposals	(19,931)	(461,270)	(437,044)	(2,190)	--	(5,004)	--	(17,519)	(942,958)
Transfers to off balance sheet	--	--	--	--	--	(8,260,031)	--	--	(8,260,031)
Transfers	3	85,181	44,031	10,401	--	(139,616)	--	--	--
Balance at 31/12/2013	6,562,480	135,527,596	19,363,255	726,104	8,359,234	2,291,459	496	110,341	172,940,965
<b>Accumulated depreciation</b>									
Balance at 1/1/2013	--	79,75,198	13,388,342	417,460	2,425,515	--	--	--	95,988,515
Depreciation expense <sup>(1)</sup>	--	2,764,161	731,770	63,491	557,282	--	--	--	4,116,704
Disposals	--	(414,171)	(318,261)	(1,500)	--	--	--	--	(733,934)
Transfers	--	14,207	(14,207)	--	--	--	--	--	--
Balance at 31/12/2013	--	82,121,395	13,787,644	479,451	2,982,797	--	--	--	99,371,287
<b>Adjustments</b>									
Balance at 1/1/2013	19,929	200,842	13,592	447	--	66,375	--	--	301,185
Change in adjustments	(13,869)	(48,515)	(6,237)	(48)	--	(959)	--	--	(69,628)
Balance at 31/12/2013	6,060	152,327	7,355	399	--	65,416	--	--	231,557
<b>Net book value 1/1/2013</b>	<b>6,538,049</b>	<b>54,742,301</b>	<b>6,130,608</b>	<b>289,082</b>	<b>5,933,719</b>	<b>3,336,442</b>	<b>496</b>	<b>83,276</b>	<b>77,053,973</b>
<b>Net book value 31/12/2013</b>	<b>6,556,420</b>	<b>53,253,874</b>	<b>5,568,256</b>	<b>246,254</b>	<b>5,376,437</b>	<b>2,226,043</b>	<b>496</b>	<b>110,341</b>	<b>73,338,121</b>

<sup>(1)</sup> Depreciation expense includes depreciation in accounts 551/\*, 553/1000 and 557/1000 in compliance with the income statement.

Major additions to tangible fixed assets put into use in 2013 include free-of-charge asset transfers at the replacement cost of TCZK 1,274,744. For example, this concerns a railway bridge in Kolín taken over from the Waterways Directorate of the Czech Republic.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

The most important tangible asset disposals in 2013 include the liquidation of assets as a result of new constructions related to the modernisation of railway corridors with an acquisition cost of TCZK 613,488 and net book value of TCZK 135,996 and the sale of immovable assets with an acquisition cost of TCZK 121,815 and net book value of TCZK 38,935.

The balance of tangible assets under construction represents the construction of railway corridors (as described in Note 6.4.), and the construction works to modernise and renovate the railway infrastructure incomplete as at 31 December 2013. For example, this concerns the renovation of the Přerov railway station and "Optimisation of the Mosty u Jablůnka – Bystřice nad Olší line".

Additions to tangible assets under construction predominantly include the acquisition cost of railway corridors and construction works to modernise and renovate the railway infrastructure in 2013 where the grant used to finance the constructions has not been accounted for before 31 December 2013. Transfers to off-balance sheet are made once the investment grant that decreases the asset's acquisition cost is recorded. In 2013, subsidised assets totalling TCZK 8,288,145 (2012 – TCZK 8,561,769) were included in the off balance sheet records.

## 4.2.2. Investment grants

Investment grants received in 2012 and 2013 were as follows:

(TCZK)	1/1–31/12/2012	1/1–31/12/2013
State Fund of Transport Infrastructure for construction and modernisation, state share, Transport Operational Programme, EIB	9,429,317	8,677,669
Pre-financing	89,152	20,264
<b>Total investment grants from the SFTI including pre-financing</b>	<b>9,518,469</b>	<b>8,697,933</b>
EU funds	62,853	50,084
Contributions from municipalities, regions and other entities	10,000	2,700
State Fund of Environment	--	528
<b>Total investment grants</b>	<b>9,591,322</b>	<b>8,751,245</b>

Grants from the State Fund of Transport Infrastructure for construction and modernisation include funds from the Transport Operational Programme and grants from the State Fund of Transport Infrastructure for projects financed from national resources.

Grants received from the State Fund of Transport Infrastructure in the form of pre-financing in 2013 amounted to TCZK 20,264 and in 2012 to TCZK 89,152.

In 2013, funds provided from the Transport Operational Programme amounted to TCZK 3,723,316 and in 2012 to TCZK 4,099,541.

In 2013, projects were commenced at SŽDC under which the grants from the Environment Operational Programme ("EOP") are utilised. The grants are provided by the State Fund of Environment ("SFE"). The portion attributable to Europe is pre-financed by the State Fund of Transport Infrastructure that is also involved in the financing.



#### 4.2.3. Assets not reported in the balance sheet

The amount of fixed assets financed from grants and other sources recorded off-balance sheet is TCZK 157,823,724 and TCZK 149,713,049 as at 31 December 2013 and 31 December 2012, respectively.

The aggregate amount of low-value tangible assets not reported in the balance sheet is TCZK 809,350 and TCZK 960,769 as at 31 December 2013 and 31 December 2012, respectively. These balances are composed of assets with a cost not exceeding TCZK 40 which are retained in the off balance sheet records at historical cost. These balances were recognised in expenses when acquired in accordance with the effective legislation.

As a result of savings, the low-value tangible assets in the off-balance sheet decreased by TCZK 151,419.

#### 4.2.4. Continuity schedule in assets financed from grants and reported in the sub-ledger accounts

	Software	Other intangible assets	Intangible assets under construction	Land	Constructions	Machinery and equipment	Motor vehicles	Tangible assets under construction	Total
<b>Acquisition cost</b>									
Balance at 1/1/2013	10,919	24,979	2,855	508,623	89,382,476	24,292,232	327,473	35,163,492	149,713,049
Additions (Transfers from the balance sheet)	--	102	28,013	39,872	286,541	257,860	455	7,675,302	8,288,145
Disposals	--	--	(17)	--	(21,623)	(59,998)	--	(95,832)	(177,470)
Transfers	27,284	597	(27,881)	19,335	6,427,786	1,106,322	3,061	(7,556,504)	--
<b>Balance at 31/12/2013</b>	<b>38,203</b>	<b>25,678</b>	<b>2,970</b>	<b>567,830</b>	<b>96,075,180</b>	<b>25,596,416</b>	<b>330,989</b>	<b>35,186,458</b>	<b>157,823,724</b>

Tangible assets under construction primarily include constructions related to the modernisation and renovation of the railway infrastructure for which occupancy permits have not been issued as at the reporting date and therefore were not put into use for the accounting purposes.

Major additions to tangible assets under construction represent constructions such as "Modernisation of the Votice - Benešov u Prahy line", "Optimisation of the Zbiroh – Rokycany line", "Renovation of the Přerov railway station", "Renovation of the Břeclav junction (second construction project), and "Optimisation of the Mosty u Jablunkova – Bystřice nad Olší line".

Major disposal of tangible assets under construction represents tunnel cave-in during the optimisation of the Mosty u Jablunkova - Bystřice nad Olší line.

#### 4.2.5. Pledged assets

SŽDC held no pledged assets as at 31 December 2013 and 31 December 2012.

#### 4.2.6. Assets held under finance and operating leases

As at 31 December 2013, SŽDC reports fixed assets acquired on an operating lease or leaseback basis in the aggregate acquisition cost of TCZK 386,509 (2012 – TCZK 127,922). Operating lease contracts are used for leasing cars and leaseback arrangements for leasing low-value rolling stock (motor all-purpose trolleys) used to repair and maintain the railway infrastructure.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Assets in operating leases consist namely of non-residential premises owned by ČD which are used by SŽDC as rooms for placing technologies and offices for staff ensuring the railway operability with the annual cost of CZK 72 million (2012 – CZK 77 million) and offices for traffic control employees with the annual cost of CZK 39 million (2012 – CZK 43 million). Lease contracts are concluded for an indefinite period with notice period and the possibility to decrease the size of the leased premises.

## 4.2.7. Assets acquired free of charge

In 2013, SŽDC acquired free of charge tangible fixed assets at the replacement cost of TCZK 1,274,744 (2012 – TCZK 10,470) and did not acquire any fixed assets by donation (2012 – TCZK 17,017). Over its entire existence, SŽDC has acquired fixed assets free of charge or by donation, the balance of which is TCZK 2,606,622 (2012 – TCZK 1,237,724). Assets acquired free of charge and by donation include assets recorded within tangible fixed assets based on a contract, usually a contract on free-of-charge transfer or a contract to make a donation. This concerns assets transferred to SŽDC related to induced investments of entities such as the Road and Motorway Directorate, State Enterprises of Czech Republic rivers or towns and municipalities where the assets are part of the railway infrastructure and are managed – pursuant to the law – by SŽDC.

## 4.3. INVENTORY

(TCZK)	Balance at 31/12/2012	Balance at 31/12/2013
Material in stock	386,605	328,272
Material in transit	74	116
Work in progress	236	39
Goods in stock	10	8
Advances paid for inventory	53	14
Adjustment to inventory	(5,094)	(2,539)
<b>Total inventory</b>	<b>381,884</b>	<b>325,910</b>

The total balance of inventory was affected by a decrease in material in stock of TCZK 58,333. There was a decrease in supplies of the superstructure material of TCZK 40,600 and also a decrease in inventories of other organisational units of TCZK 12,447, and a decrease in inventories held in the Hradec Králové uniform and gear storage of TCZK 5,286.

Adjustments of TCZK 2,539 were created based on the usability assessment made by an stock-take committee in the Hradec Králové uniform and gear storage with regard to inventories of TCZK 2,379, and also with regard to the superstructure material warehouse in Hranice, and the Regional Directorates in Hradec Králové, Olomouc, Brno, Ústí nad Labem and Pilsen.

## 4.4. SHORT-TERM RECEIVABLES

### 4.4.1. Trade receivables

The ageing structure of short-term trade receivables:

(TCZK)								
31/12/2012	Before due date	Past due date (in days)					Total past due	Total
		0–90 days	91–180	181–365	1–2 years	2 years and greater		
Gross	1,266,578	76,116	85,515	9,741	80,650	573,700	825,722	2,092,300
Adjustment	--	--	--	(5,331)	(3,397)	(506,720)	(515,448)	(515,448)
Net	1,266,578	76,116	85,515	4,410	77,253	66,980	310,274	1,576,852

(TCZK)								
31/12/2013	Before due date	Past due date (in days)					Total past due	Total
		0–90 days	91–180	181–365	1–2 years	2 years and greater		
Gross	1,359,589	65,224	62,520	10,722	149,871	643,166	1,048,547	2,291,092
Adjustment	--	--	--	(5,897)	(109,145)	(638,568)	(753,610)	(753,610)
Net	1,359,589	65,224	62,520	4,825	40,726	4,598	177,893	1,537,482

The total balance of receivables as at 31 December 2013 showed a slight decrease compared with the previous year. A considerable part of receivables within and past maturity represent receivables relating to the use of the railway infrastructure and communication technologies from ČD and ČD Cargo.

Adjustments include an amount of TCZK 473,609 (including tax non-deductible adjustment of TCZK 2 522) recognised against receivables from ČD Cargo arising from unpaid invoices for the supply of traction electricity, for the use of the railway infrastructure and services of the Technical Centre, see Note 6.2.2.

Upon transformation in 2003, SŽDC acquired receivables from the former Yugoslav Railways. In the same year, these receivables were assigned to a third party. However, the assignee breached its obligations and made no payments, and therefore SŽDC withdrew from the contract in 2006 and again became the creditor in respect of these receivables. These receivables amount to TCZK 112,981 as at 31 December 2013 (2012 – TCZK 112,981), to which an adjustment of TCZK 112,981 (2012 – TCZK 112,981) has been created.

### 4.4.2. Tax receivables

Tax receivables as at 31 December 2013 predominantly include a receivable relating to value added tax of TCZK 117,009 (2012 – TCZK 80,269).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

## 4.4.3. Other receivables

The structure of other receivables:

(TCZK)	Balance at 31/12/2012	Balance at 31/12/2013
<b>Type of receivables</b>		
Receivables assumed from ČD, s.o.	11,138	9,934
Of which:		
Damage to assets of ČD, s.o.	8,421	7,422
Other	2,717	2,512
Receivables arising from damages	66,130	73,164
Receivables from the purchase of a part of enterprise	22,390	22,390
Contribution to the cultural and social needs fund	58,875	--
Other	2,837	3,765
<b>Total other receivables</b>	<b>161,370</b>	<b>109,253</b>
Adjustments	(98,062)	(104,189)
<b>Total other receivables, net</b>	<b>63,308</b>	<b>5,064</b>

Receivables arising from damages include significant balances such as the rebilling of the damage arising from the collapse of a bridge in the Studénka railway station of TCZK 3,708 (2012 – TCZK 3,708) which has been submitted for legal recovery; damage arising from a train derailling during construction works of TCZK 9,302 (2012 – TCZK 9,302), a claim regarding the non-functional ultrasound rail inspection module of TCZK 9,400 (2012 – TCZK 9,400); claiming damages relating to the security equipment of TCZK 2,888 (2012 – TCZK 2,888); claiming compensation at the court of TCZK 20,985 (2012 – TCZK 20,985) for the damage caused by extraordinary events occurring at the Prackovice nad Labem and Lovosice railway stations and damage of TCZK 4,364 (2012 – TCZK 0) and unlawful wood extraction along the track.

## 4.5. ESTIMATED RECEIVABLES

(TCZK)	Balance at 31/12/2012	Balance at 31/12/2013
Anticipated grant from EU funds (see Note 3.11.)	193,335	133,315
Estimated receivable from rebilling expenses for the administration of residential premises, the sale of which did not become legally effective	269	--
Estimated receivable for the share of the ČD network transition	1,373	1,154
Unbilled consumption of electricity	8,997	8,576
Entitlement for insurance benefits	579	9,104
Fire Department services for ČD	6,147	15,000
Fire Department services for ČD Cargo, a. s.	4,921	1,042
Estimated receivables from damages claimed	90,315	69,607
Heat consumption by lessees	6,290	4,885
Leased railway cable networks	24,360	25,642
Other items	11,213	7,397
<b>Total estimated receivables</b>	<b>347,799</b>	<b>275,722</b>
Adjustments	--	--
<b>Total estimated receivables, net</b>	<b>347,799</b>	<b>275,722</b>

The entitlement for receiving grants from EU in 2013 of TCZK 133,315 primarily relates to TEN-T projects (Veselí – Doubí II, Lubahn), technical assistance under the Transport Operational Programme (Sudoměřice – Votice, Hradec Králové – Chrudim, Brno railway station, renovation of the Břeclav railway station, etc.) and the Environment Operational Programme (Všetaty – Prostřední Žleb). The grants were received in 2014.

The Fire Department services for ČD and ČD Cargo were provided in 2013 based on an association contract and were invoiced in 2014 based on the actual costs.

Major claimed damages reported in estimated receivables relate to the damage incurred upon train derailments at the Štětí and Liběchov railway stations in 2012 and at the Blansko railway station.

Other items mainly consist of estimated items for billing additional lease-related services to lessees in the following year.

#### 4.6. DERIVATIVE FINANCIAL INSTRUMENTS

(TCZK)	31/12/2012 Fair value	31/12/2013 Fair value
Derivatives held for trading:		
Interest rate swaps	(31,696)	--
<b>Total</b>	<b>(31,696)</b>	<b>--</b>

The Framework Contract for Trading on the Financial Market (the "Framework Contract") was concluded between Česká spořitelna, a.s. ("ČS, a.s.") and SŽDC on 5 February 2008. This contract relates to a bank loan not guaranteed by the state provided by Česká spořitelna, a.s. for the funding of performance improvement activities on the railway infrastructure in the aggregate amount of CZK 1.5 billion. The Framework Contract includes an Interest Rate Swap Hedging Contract which was in effect until 31 December 2013; the hedging of interest rates related to the gradual drawing of the loan facility up to CZK 1.5 billion and the interest rates were hedged based on the fixed 3M PRIBOR.

The impact of changes in the fair value from the revaluation of the derivative is presented in Other financial expenses (refer to Note 4.23) and Other financial revenues (refer to Note 4.22) in the income statement.

#### 4.7. SHORT-TERM FINANCIAL ASSETS

(TCZK)	31/12/2012	31/12/2013
Cash on hand and cash in transit	1,560	2,058
Stamps and vouchers	303	437
Cash at bank	1,043,022	985,649
<b>Total financial assets</b>	<b>1,044,885</b>	<b>988,144</b>

In assessing the total balance of the SŽDC's cash at bank, it is necessary to consider the balance of an overdraft facility of TCZK 1,257,016 (2012 – TCZK 660,342) (refer to Note 4.13.3.). Reflecting the impact of the drawn overdraft facility, as at 31 December 2013 the total balance of the SŽDC's net position to the banks is represented by an overdraft of TCZK 271,367 (2012 – receivable of TCZK 382,680).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

## 4.8. DEFERRED EXPENSES

Deferred expenses largely include deferred operating expenses related to the principal activities of the following year (insurance, prepayments, highway stamps, one-off payments related to leaseback of special rolling stock – motor all-purpose trolley and traction rail assembly vehicle, etc.).

## 4.9. EQUITY

Analysis of movements in equity from 1 January 2013 to 31 December 2013

	Registered capital	Capital contrib.	Statutory reserve fund/Undistributable fund	Statutory and other funds	Retained profits	Other retained earnings	Current year profit or loss	Total
Balance at 1/1/2013	52,728,589	966,562	996,450	54,011	4,133,812	--	75,459	58,954,883
Assets identified during stock counts	--	14,956	--	--	--	--	--	14,956
Free-of-charge transfers of assets and other transfers	1,273,423	72	--	--	--	--	--	1,273,495
Privatised assets	(5,242)	--	--	--	--	--	--	(5,242)
Distribution of profit or loss	--	--	7,546	67,913	--	--	(75,459)	--
Use of the culture and social needs fund	--	--	(46,153)	(108,462)	--	--	--	(154,615)
Other profit or loss	--	--	--	--	--	(5,739)	--	(5,739)
Current year profit or loss	--	--	--	--	--	--	(2,201,381)	(2,201,381)
<b>Balance at 31/12/2013</b>	<b>53,996,770</b>	<b>981,590</b>	<b>957,843</b>	<b>13,462</b>	<b>4,133,812</b>	<b>(5 739)</b>	<b>(2,201,381)</b>	<b>57,876,357</b>

Information about the substance of individual equity components is presented in Note 3.6.

In accordance with Czech Accounting Standard No. 22., the amount of registered capital was reduced by the net book value of privatised assets in 2013.

The registered capital in 2013 was influenced by fluctuations – assets added free-of-charge total TCZK 1,274,744 and assets handed over total TCZK 1,321.

In connection with the process of making the transformation of ČD, s.o. more precise, no additions or disposals of assets were accounted for in fixed assets or equity in SŽDC's accounting books in 2013. Based on the physical count and examination of assets in 2013, land with a replacement cost of TCZK 14,956 was included in SŽDC's assets.

Other profit or loss primarily includes additional recording of asset disposals during the stock counts.

## 4.10. PROVISIONS

(TCZK)	Balance at 31/12/2012	Additions	Use	Balance at 31/12/2013
Provision for legal disputes	1,966,030	154,459	17,237	2,103,252
Provision for compensation for job-related accidents and occupational illness	73,829	60,828	73,829	60,828
Provision for extra pension payments	38,987	33,573	38,987	33,573
Provision for damages – ČD Cargo	189,214	--	189,214	--
Provision for unpaid payroll and other expenses	--	40,000	--	40,000
Provision for violating budget discipline	458,995	--	458,995	--
<b>Total provisions</b>	<b>2,727,055</b>	<b>288,860</b>	<b>778,262</b>	<b>2,237,653</b>

Information about the substance of individual provisions is presented in Note 3.7.

The provision for legal disputes has been recognised on the basis of the status of new or pending legal disputes in which SŽDC was named as the defendant and the current underlying court or out-of-court proceedings. The important part of this provision relates to the recognition of the provision for damages claimed by ČEZ Prodej s.r.o. due to SŽDC's failure to purchase the contracted amount of electricity in 2010 and 2011 (refer to Note 6.2.1.).

## 4.11. LONG-TERM PAYABLES

### 4.11.1. Trade payables

(TCZK)	31/12/2012	31/12/2013
<b>Type of payables</b>		
Retentions	524,060	181,528
Bid-bonds, security deposits, sureties	3,000	3,000
Cash deposits received from customers	14,948	15,618
<b>Total</b>	<b>542,008</b>	<b>200,146</b>

The decrease in retentions is due to release of retentions to contractors after the expiry of contractual period during 2013.

### 4.11.2. Other payables

(TCZK)	31/12/2012	31/12/2013
<b>Creditor</b>		
Czech Ministry of Finance – payment under the state guarantee for loan interest, after the remission	280,011	166,855
Czech Ministry of Finance – payment under the state guarantee for loan principal, after the remission	1,130,627	886,797
<b>Total</b>	<b>1,410,638</b>	<b>1,053,652</b>

Payables to the state (the Czech Ministry of Finance) arise from the repayment of loan principal and interest balances which the State has made on behalf of SŽDC under the state guarantee (according to individual contracts and/or the Transformation Act). The balances of these payables do not accrue any interest.

In 2005, the Czech Government adopted Resolution No. 1553 on the remission of these payables (refer to Note 3.15.). In 2013 and 2012, payables of CZK 2,446 million and CZK 5,646 million were remitted.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

## 4.12. SHORT-TERM PAYABLES

### 4.12.1. Trade payables

The ageing structure of trade payables:

(TCZK)								
Year	Before due date	Past due date (in days)					Total past due date	Total
		0-90 days	91-180	181-365	1-2 years	2 years and greater		
2012	3,137,122	20,036	737	1,777	(109)	67	22,508	<b>3,159,630</b>
2013	2,421,957	16,818	280	375	111	(87)	17,497	<b>2,439,454</b>

Payables before their due dates predominantly relate to Subterra a.s., Viamont DSP a.s. and OHL ŽS, a.s. regarding their construction works.

### 4.12.2. Social security and health insurance liabilities

Social security and health insurance liabilities total TCZK 244,005 (2012 – TCZK 244,705). None of these liabilities are overdue.

### 4.12.3. Tax liabilities and subsidies

(TCZK)	Balance at 31/12/2012	Balance at 31/12/2013
Undrawn investment subsidies from the SFTI	28,191	5,914
SFTI – TEN-T recoverable subsidy	87,143	61,217
SFE – Environment Operational Programme recoverable subsidy	--	1,292
SFTI – Cohesion fund recoverable subsidy	40,813	4,717
Transport Operational Programme recoverable subsidy	70,469	70,469
TEN-T investment grants	308,431	198,509
Investment contributions of municipalities, regions and other entities	9,875	4,622
Income tax withheld on behalf of employees	64,918	65,649
Other taxes	281	1,279
<b>Total tax liabilities and subsidies</b>	<b>610,121</b>	<b>413,668</b>

The bulk of the balance of investment subsidies as at 31 December 2013 includes the payable from undrawn EU – TEN-T funds amounting to TCZK 198,509 (2012 – TCZK 308,431). The net value of investment subsidies includes predominantly the payable of the pre-financing of constructions in terms of a recoverable subsidy (refer to Note 3.11.) for constructions co-financed from EU, in the amounts of TCZK 198,425 and TCZK 137,695 as at 31 December 2012 and 2013, respectively.

SŽDC maintains no tax arrears with respect to the relevant tax authorities.

### 4.12.4. Short-term advances received

Short-term advances received amount to TCZK 100,166 and TCZK 117,912 as at 31 December 2013 and 2012, respectively. Advances are received predominantly for ancillary services relating to the lease of residential and non-residential premises, provision of easements when SŽDC is the obligated party, and prepayments for the purchase of electricity.



#### 4.12.5. Estimated payables

(TCZK)	Balance at 31/12/2012	Balance at 31/12/2013
Unbilled supplies	336,244	365,675
Unbilled supplies related to acquisition of fixed assets	--	5,610
Estimated payable for interest expenses in respect of corridors	21,214	17,167
Other	12,849	12,965
<b>Total estimated payables</b>	<b>370,307</b>	<b>401,417</b>

Considering an ongoing lawsuit related to the fee for use of railway infrastructure, unbilled supplies include estimated fees in the amount of the difference between 2011 and 2012 tariff, estimated additional lease-related costs as well as estimated internal electricity consumption costs.

### 4.13. BANK LOANS AND OVERDRAFTS

#### 4.13.1. Long-term bank loans

SŽDC's debt portfolio principally includes payables arising from loan agreements previously held by ČD, s.o. The loans carry a state guarantee and were received primarily in connection with the financing of the construction and renovation of railway corridors pursuant to Government Resolutions No. 798/1999 and No. 1201/2000. These loans will be subject to debt remission (refer to Note 3.15). The debt portfolio includes also a non-guaranteed loan from ČS, a.s. for performance improvements where SŽDC pays for all expenses associated with the loan agreement including interest.

(TCZK)						
Bank	Currency	Balance at 31/12/2012	Drawing in 1-12/2013	Repayments 1-12/2013	FX differences	Balance at 31/12/2013
<b>The 1st corridor:</b>						
KfW Frankfurt	EUR	96,404	--	34,254	7,961	70,111
EIB Lucemburk	EUR	415,949	--	221,297	32,225	226,877
Japan EXIM bank	JPY	355,848	--	165,305	(38,152)	152,391
EIB Lucemburk	EUR	570,828	--	130,312	43,815	484,331
Komerční banka, a.s	CZK	347,000	--	174,000	--	173,000
KfW Frankfurt	EUR	462,576	--	82,182	40,123	420,517
<b>The 2nd corridor:</b>						
EIB Lucemburk	EUR	1,340,800	--	357,113	113,313	1,097,000
EIB Lucemburk	EUR	2,298,514	--	305,406	200,891	2,193,999
KfW Frankfurt	EUR	1,156,849	--	274,037	98,741	981,553
<b>Subtotal</b>		<b>7,044,768</b>	<b>--</b>	<b>1,743,906</b>	<b>498,917</b>	<b>5,799,779</b>
<b>Performance improvements</b>						
ČS, a.s.	CZK	899,995	--	150,000	--	749,995
<b>Subtotal</b>		<b>899,995</b>	<b>--</b>	<b>150,000</b>	<b>--</b>	<b>749,995</b>
<b>Total</b>		<b>7,944,763</b>	<b>--</b>	<b>1,893,906</b>	<b>498,917</b>	<b>6,549,774</b>

Interest rates attached to the loans presented above are fixed within a range of 3–8 percent p.a. or floating derived from PRIBOR, LIBOR and EURIBOR with a mark-up in the range of 0.15–0.287 percent p.a.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

## 4.13.2. Summary of loan maturities

(TCZK)	Paid in 2013	Payable in 2014	Due in the following years
Long-term loans	1,893,906	1,963,552	4,586,222
<b>Total</b>	<b>1,893,906</b>	<b>1,963,552</b>	<b>4,586,222</b>

The repayments of long-term loans according to guarantees provided by the State under special legislation or guarantees resulting from the Transformation Act are made by the State (the Czech Ministry of Finance). When the repayment is made by the State, the relevant balance is reallocated to "Other long-term payables". The Ministry of Finance repaid principals amounting to TCZK 1,743,906 in the year ended 31 December 2013.

The debt service arising from the non-guaranteed loan provided by Česká spořitelna, a.s. was paid by SŽDC in full in the amount of TCZK 150,000.

Given that SŽDC's loans are repaid by the State and are subsequently carried as long-term payables, the portion of loans maturing within one year is not classified as short-term in the financial statements.

## 4.13.3. Short-term bank loans

(TCZK)	31/12/2012	31/12/2013
Overdraft	660,342	1,257,016
<b>Short-term bank loans</b>	<b>660,342</b>	<b>1,257,016</b>

At the end of 2013, the Organization drew the allowed overdraft limit from the cash pool account to settle payables arising from operability and operations of the railway infrastructure (including the rail servicing).

## 4.14. DEFERRED TAX

SŽDC has determined deferred tax as follows:

(TCZK)	31/12/2012	31/12/2013
Tangible and intangible fixed assets	(4,047,076)	(4,036,332)
Adjustments to fixed assets	53,439	42,845
Adjustments to inventory	968	482
Trade receivables	28,999	53,669
Provisions	474,536	425,154
<b>Total deferred (asset +, liability -)</b>	<b>(3,489,134)</b>	<b>(3,514,182)</b>

SŽDC reports tax losses of TCZK 2,920,467 (2012 – TCZK 4,494,046). As at 31 December 2013 and as at 31 December 2012, SŽDC did not account for a deferred tax asset arising from tax losses as it was uncertain that SŽDC would generate sufficient taxable profits against which this asset can be utilised. In accordance with accounting procedures shown in Note 3.9, a tax rate of 19% (2012 – 19%) was used to calculate deferred tax.

#### 4.15. ACCRUALS AND DEFERRALS

(TCZK)	Balance at 31/12/2012	Balance at 31/12/2013
Settlement agreement – lump-sum compensation of future expenses	79,364	78,787
Rent collected upfront	2,308	929
Accrued expenses for the payment for non-compliance with the obligatory number of employed disabled people	27,234	28,418
Accrued expenses – documents received after the annual VAT reconciliation	15,457	5,713
Acquisition of software	--	48,771
Other	8,681	10,737
<b>Total accrued expenses and deferred income</b>	<b>133,044</b>	<b>173,355</b>

The subject-matter of the settlement agreement is the financial settlement resulting from the supplies of defective material which will be gradually replaced by 31 December 2018.

#### 4.16. INCOME FROM OWN PRODUCTS AND SERVICES

(TCZK)	2012	2013
Income from use of the railway infrastructure by ČD – freight transport	41,970	34,538
Income from use of the railway infrastructure by ČD – passenger transport	1,579,023	1,652,148
Income from use of the railway infrastructure by ČD Cargo, a.s. – freight	2,234,696	1,791,625
Income from use of the railway infrastructure by external carriers – freight	552,312	641,426
Income from use of the railway infrastructure by external carriers – passenger	48,409	92,238
Income from operation of the railway infrastructure	72,943	86,630
Rental income	268,708	234,503
Income from other external services	434,584	415,896
Income from the sales of electricity	1,677,167	1,853,610
Income from foreign carriers for provided services (extraordinary shipments, etc.)	2,289	2,363
<b>Total income from own products and services</b>	<b>6,912,101</b>	<b>6,804,977</b>

All income was generated in the Czech Republic.

The development of income from using the railway infrastructure in 2013 was influenced by both the physical indicators (train kilometres, gross tonne kilometres) and the fact that prices in passenger as well as freight transport changed during the year. Income from passenger transport carried out by ČD is, in spite of a slight decrease in services, higher than in 2012 primarily due to a slight price increase as at 1 July 2013 and the cancellation of a discount for ensuring basic transport services in regions. An increase in income from passenger transport is attributable to an increase in services provided by RegioJet a.s. and LEO Express a.s.

Income from use of the railway infrastructure by ČD Cargo – freight showed a major drop as a result of a decrease in the volume of services and primarily due to a decrease in prices and expanding a discount to individual complete wagon loads. Other freight carriers increased their income predominantly due to an absolute increase in services.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

## 4.17. PURCHASED SERVICES

(TCZK)		
Item	2012	2013
Costs of construction repairs and maintenance excluding outsourced activity	2,864,028	29,580
Costs of repairing apartments	32,257	29,531
Costs of services provided by the statutory auditor	2,625	3,811
Of which: – statutory audit of the financial statements	1,250	1,250
– other assurance services provided by the statutory auditor	160	--
– other non-audit services provided by the statutory auditor	1,215	2,561
Costs of cooperation in allocating the capacity of the railway infrastructure	516	540
Activity that can be done by outsourcing	610,449	4,642,946
Of which: – repair and construction maintenance	--	3,766,176
– other	610,449	876,770
Other	1,700,625	1,514,359
Of which: – repair and maintenance	900,501	780,331
– lease, software under TCZK 60, platform cleaning, etc.	800,124	734,028
<b>Total services</b>	<b>5,210,500</b>	<b>6,220,767</b>

Activity that can be done by outsourcing represents projects that are contracted based on the tender laws and that form part of SŽDC's Comprehensive plan for repairs and maintenance. In order to record activities which can be better provided through outsourcing, these services have been recorded separately since 2013.

## 4.18. PERSONNEL EXPENSES

(TCZK)	Total personnel expenses in 2012	Wages and salaries	Social security and health insurance	Other expenses	Total personnel expenses in 2013
Additional social programme	6,172	--	--	--	--
Current expenses	8,115,643	5,849,560	1,998,573	452,978	8,301,111
Other	143,856	104,529	--	--	104,529
<b>Total</b>	<b>8,265,671</b>	<b>5,954,089</b>	<b>1,998,573</b>	<b>452,978</b>	<b>8,405,640</b>

Current personnel expenses represent costs of SŽDC's employees for the year ended 31 December 2013. The "social security and health insurance" column shows payments made by the employer.

Other expenses include compensation for lost earnings, contributions for company catering, special pension contributions to previous employees of ČD, s.o., contributions to additional pension insurance, contributions to capital insurance, and motivating contributions for students.

#### 4.19. CHANGE IN PROVISIONS AND ADJUSTMENTS

(TCZK)		
Item	2012	2013
Change in provisions	1,560,822	(489,402)
Change in adjustments to receivables	14,772	244,289
Change in adjustments to tangible fixed assets	13,225	(69,628)
Change in adjustments to inventory	5,000	(2,555)
<b>Total change in provisions and adjustments relating to operating activities</b>	<b>1,593,819</b>	<b>(317,295)</b>

In 2013, the change in provisions was mainly affected by derecognising a provision for possible payables to ČD Cargo for the billing associated with rerouting, derecognising a provision for violating budget discipline and recognising a provision for default interest relating to the payment orders in favour of ČEZ Prodej, s.r.o. An increase in adjustments for receivables was affected by recognising an adjustment for receivables from ČD Cargo relating to the use of the railway infrastructure and supplies of electrical energy.

#### 4.20. OTHER OPERATING INCOME

(TCZK)		
Item	2012	2013
Subsidies from the SFTI for repairs and maintenance of the railway infrastructure	8,658,856	9,231,940
Subsidies from the SFTI for repairs and maintenance after floods	--	180,439
Non-investment subsidies from the state budget	550,000	550,000
Non-investment subsidies from the SFTI – special purpose	495	8,739
Non-investment subsidies – Transport Operational Programme	4,229	5,197
Subsidies from the SFTI for the selected non-investment projects	124,611	390,925
Other subsidies	--	652
Subsidies from the state budget to the additional social programme pursuant to the government resolution	6,172	--
Remission of debt	5,646,630	2,445,707
Proceeds from recovered material	229,215	230,564
Proceeds from privatisation	752	--
Received contractual penalties and default interest	7,603	7,517
Claims for compensation of shortages and damage	90,348	48,038
Other	52,718	62,980
<b>Total other operating income</b>	<b>15,371,629</b>	<b>13,162,698</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

## 4.21. OTHER OPERATING EXPENSE

(TCZK)		
Item	2012	2013
Non-investment and investment default interest	3,994	1
Fines and penalties	1,308	6,980
Write-off of receivables	9,343	10,428
Write-off of failed investments	10,454	1,155
Retirement pension	14,352	13,020
Costs arising from the failure to employ the disabled	27,234	28,418
Insurance of assets and liability insurance	63,082	63,913
Membership contributions	5,871	6,430
Shortages and damage	3,998	2,290
Liability for damage to third party assets	15,904	20,443
Other	15,487	12,918
<b>Total other operating expense</b>	<b>171,027</b>	<b>165,996</b>

## 4.22. OTHER FINANCIAL INCOME

Other financial income principally includes foreign exchange gains arising from foreign currency translation and income from derivate transactions.

## 4.23. OTHER FINANCIAL EXPENSE

Other financial expenses predominantly include foreign exchange losses from the translation of foreign currency loans, the impact of the change in the fair value from revaluation of derivatives (refer to Note 4.6.) and bank charges.

## 5. EMPLOYEES, EXECUTIVES AND STATUTORY BODIES

### 5.1. PERSONNEL EXPENSES AND NUMBER OF EMPLOYEES

The following tables summarises the average recalculated number of SŽDC's employees and executives and the related current personnel expenses for the years ended 31 December 2012 and 2013:

(TCZK)					
2012	Average headcount	Wages and salaries	Social security and health insurance	Other expenses	Total personnel expenses
Employees	17,335	5,782,696	1,932,996	458,112	8,173,804
Executives	45	70,640	19,475	1,752	91,867
<b>Total</b>	<b>17,380</b>	<b>5,853,336</b>	<b>1,952,471</b>	<b>459,864</b>	<b>8,265,671</b>

(TCZK)					
2013	Average headcount	Wages and salaries	Social security and health insurance	Other expenses	Total personnel expenses
Employees	17,182	5,878,157	1,976,985	448,275	8,303,417
Executives	45	75,932	21,588	4,703	102,223
<b>Total</b>	<b>17,227</b>	<b>5,954,089</b>	<b>1,998,573</b>	<b>452,978</b>	<b>8,405,640</b>

As at 1 January 2013, SŽDC had 17,331 employees, divided into a total of 17 organisational units, according to the scope of their activities and individual regions. SŽDC also has the Directorate General in Prague, responsible for strategic and organisational activities.

Effective from 1 January 2013, a new organisational unit, Prague Shared Service Centre, was established by detaching it from the existing organisational structure. This unit ensures personnel and payroll services, health prevention at work, psychological services and other selected important activities for SŽDC's organisational units.

During 2013, the organisational structure of the units was established and individual activities were rationalised and optimised, as a result of which the number of employees decreased by approximately 1%.

As at 31 December 2013, SŽDC had 17,200 employees, i.e. by 131 fewer employees than as at 31 December 2012.

### 5.2. PROVIDED LOANS, BORROWINGS AND OTHER REMUNERATION

In 2012 and 2013, members of the SŽDC's management did not receive any borrowings, loans or any other bonuses in addition to their basic salaries.

In 2013, bonuses totalling TCZK 2,158 were paid to members of the SŽDC's Management Board (2012 – TCZK 1,752).

## 6. CONTINGENT LIABILITIES AND OTHER OFF BALANCE SHEET COMMITMENTS

### 6.1. OFF BALANCE SHEET COMMITMENTS

#### 6.1.1. Environmental liabilities

Deliverables from the performed across-the-board environmental audit of the assets owned by the state with the right of management for the SŽDC (2008) and other available analyses indicate that the level of proven pollution is lower than originally anticipated (this also relates to the distribution of assets of ČD, s.o. in the past according to Act No. 77/2002 Coll.). As such, it will not be necessary to continue the intensive monitoring of these areas. However, this was only a partial sample of areas with potential legacy contamination. For this reason, it is not possible to calculate the total potential future liabilities arising from damage caused by prior activities (potential legacy environmental burdens including soil and water pollution, etc.).

It is impossible to determine the liabilities related to the prevention of potential future damage (predominantly due to accident leakage of harmful substances in extraordinary events). The actually incurred costs for the prevention of environmental damage (including potential environmental damage) are recognised as operating expenses as part of the securing of the operability of the railway infrastructure. In case of confirming the originator of an environmental accident such costs are being rebilled.

Concurrently, it will be necessary to continue with the gradual removal of the legacy noise burden in sections both within and outside the corridors.

With respect to the modernisation of the railway infrastructure, environmental protection is an integral part of the preparatory project documentation and environmental costs are part of the acquisition cost of a new investment construction.

In 2013, total non-capital expenditures related to environment were approx. CZK 258.4 million (2012 – CZK 389 million). Capital expenditures related to sound protection when modernising tracks were CZK 36.8 million (2012 – CZK 100.4 million). In contrast with previous years, modernisation of tracks in 2013 was carried out outside large residential areas (i.e. at sections where the degree of protection against high levels of noise is not as large as, for example, in the case of the Prague – Benešov line, etc.). Capital expenditures decreased as a result of changes in legislation in 2011 (modification of or less strict requirements).

Other capital expenditures that primarily relate to the planned maintenance of buildings owned by SŽDC whose nature helps protect environment (by reducing electricity consumption, for example) were calculated at CZK 13.9 million in 2013.



## **6.2. LEGAL DISPUTES**

### **6.2.1. ČEZ Prodej, s.r.o.**

In 2008, SŽDC entered into a contract for the supply of traction electricity for 2009–2011 with ČEZ Prodej, s.r.o. pursuant to a tender. Given the changed legislative conditions, SŽDC discontinued supplying traction electricity to carriers on 1 January 2010 and accordingly decreased the purchase from ČEZ Prodej, s.r.o. Even though SŽDC believes that it proceeded in accordance with the concluded contract, ČEZ Prodej, s.r.o. has filed an action to seek damages from SŽDC equalling the difference between expected and realised complementary sales in 2010 and 2011. The issue is currently being dealt with through the courts. Although SŽDC is convinced that its course of action is justified, it has recognised a provision due to existing uncertainties regarding the legal dispute.

### **6.2.2. ČD Cargo**

ČD Cargo issued invoices to SŽDC for damage incurred from increased costs related to alternate routes for reasons of line closures. SŽDC did not recognise these invoices and did not incorporate them into its accounting. However ČD Cargo unilaterally offset these receivables against invoices issued by SŽDC for the use of railway infrastructure. SŽDC did not recognise these unilateral offsets either and on 17 August 2011 asked the Prague Municipal Court to issue an order for payment to cover arrears for use of infrastructure. ČD Cargo filed a protest against this order for payment. On 15 January 2014 the High Court in Prague issued a judgement ref. No. 12 Cmo 307/2013 – 254 on the ČD Cargo's duty to settle unpaid invoices to SŽDC for the use of infrastructure and supplies of electrical energy. The judgement became legally effective on 13 February 2014 (refer to Note 8.2.). As it is uncertain that ČD Cargo will settle these receivables, a tax deductible adjustment of TCZK 176,406 was established.

ČD Cargo did not pay for a part of purchased electricity for 2009 invoiced by SŽDC. The Organization has filed suit, claiming disbursement of unjustified enrichment amounting to TCZK 294,681 with appurtenances. The Prague Municipal Court issued a payment order in favour of SŽDC. ČD Cargo has filed a protest against this payment order. A decision of the High Court of Justice in Prague is now expected. As it is uncertain that ČD Cargo will settle these receivables, a tax deductible adjustment of TCZK 294,681 was established.

## **6.3. PROPERTY RELATIONS**

SŽDC's records also include a number of plots of land with unclear ownership titles. These cases are reviewed on an ongoing basis as the data included in the Real Estate Cadastre is digitised. Adjustments, if any, are charged against equity accounts (refer to Note 3.6.).

## **6.4. PROJECTED COMMITMENTS ASSOCIATED WITH CORRIDOR CONSTRUCTION**

With a view to fully linking the Czech railway infrastructure to the European infrastructure, SŽDC is overseeing the construction of railway transit corridors. The construction of the 1st Railway Corridor was completed in 2004 and the construction of the 2nd Railway Corridor was completed in 2007. Construction of the 3rd and 4th Railway Corridor is currently in progress.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Expenses that are projected to be incurred are as follows:

(TCZK)			
Balance at 31/12/2013	Construction work undertaken to date	The estimate of the remaining expenses	Total estimated expenses
1 <sup>st</sup> corridor	40,759,568	--	40,759,568
2 <sup>nd</sup> corridor	39,016,291	--	39,016,291
3 <sup>rd</sup> corridor	38,373,432	22,692,159	61,065,591
4 <sup>th</sup> corridor	20,148,602	25,908,054	46,056,656
<b>Total</b>	<b>138,297,893</b>	<b>48,600,213</b>	<b>186,898,106</b>

Implementation of the 3<sup>rd</sup> Transit Railway Corridor from the state border Mosty u Jablunkova – Dětmárovice – Přerov – Česká Třebová – Prague – Pilsen – Cheb, state border was approved by Government Resolution No. 575 of 5 June 2002.

Implementation of the 4<sup>th</sup> Transit Railway Corridor from the state border Horní Dvořiště – České Budějovice – Prague was approved by Government Resolution No. 1317 of 10 December 2001.

3<sup>rd</sup> and 4<sup>th</sup> corridor are planned to be completed in 2018.

## 7. OTHER INFORMATION

### 7.1. FORMATION AND INCORPORATION OF SŽDC

On 1 March 2002, Act 77/2002 Coll., on České dráhy, a.s. as a joint stock company, SŽDC as a state organisation, an amendment to Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll., as amended, took effect (hereinafter the "Transformation Act"). On the basis of the Transformation Act, České dráhy, a.s. as the state organisation discontinued its activities and operations on 31 December 2002 and SŽDC and České dráhy, a.s. were formed as its legal successors effective from 1 January 2003.

SŽDC assumed the assets comprising the railway infrastructure while České dráhy, a.s. assumed the assets used to operate railway transportation and railway infrastructure. In addition, SŽDC took over the majority of receivables and payables while České dráhy, a.s. assumed only trade receivables and payables before their due dates and receivables and payables arising from employment arrangements with its employees. Both entities assumed the assets and liabilities at their book values.

The Transformation Act was amended in April 2004 under which, as of 1 July 2004, SŽDC took over assets of the state organisation České dráhy earmarked for the settlement of the payables of the state organisation České dráhy which had passed on to the Czech Ministry of Transport under the original wording of the Transformation Act.

While the apportionment of the assets between the successor companies was made on a best effort basis to ensure the appropriate and legally consistent apportionment of assets, alternative interpretations of certain provisions of the Transformation Act remain. This specifically relates to the assets specified in the Establishment Deed of České dráhy, a.s. The financial statements of SŽDC do not include any adjustments that might be necessary as a result of any such future revisions of the applied interpretations and the resulting impacts on the reported components and amounts of SŽDC's assets and liabilities.

## 7.2. SIGNIFICANT FACTOR IMPACTING SŽDC'S ACTIVITIES AND OPERATIONS

SŽDC was formed pursuant to, and its activities and operations are governed by, the Transformation Act, Act 266/94 Coll. and other general legal regulations governing the position of state organisations. The above legislation, inter alia, sets out the scope of SŽDC's assets or its role in operating and securing the operability of the railway infrastructure in the public interest.

Under the amendment to the Transformation Act, SŽDC assumed the activities of the railway infrastructure operator on 1 July 2008. For this reason, the contract between SŽDC and ČD for the operability of the railway infrastructure was discontinued as of 30 June 2008 and the contract was replaced by individual contracts defining mutual relations between SŽDC and ČD.

Pursuant to Resolution of the Government of the Czech Republic No. 486 from 22 June 2011 on the transfer of remaining rail operation activities (Rail Servicing) from ČD to SŽDC and in relation to the Commercial Code, a purchase of a part of the business was realised on 1 September 2011. The subject of the purchase was Rail Servicing, i.e. traffic control in railway stations and on railway lines.

SŽDC provides carriers with the railway infrastructure for use in the public interest for an officially determined price which is set in compliance with Pricing Act 526/1990 Coll. The proceeds from payments for the use of the railway infrastructure are not sufficient to offset the costs involved in operating, maintaining and developing the railway infrastructure. As such, the financing of SŽDC's activities is dependent upon subsidies from the state and/or other entities. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. However for 2014, SŽDC has contractually ensured funding from the State Fund of Transport Infrastructure for investment and non-investment activities of TCZK 28,364,263 and from the Ministry of Transport for non-investment activities of TCZK 550,000. These funds enabled SŽDC to provide services in the same extent as in 2013, accordingly, the financial statements have been prepared on a going concern basis.

## 7.3. TRANSACTIONS WITH ČD AND ČD CARGO

Expenses and revenues resulting from the transactions carried out with ČD:

(TCZK)		
2012	Expenses	Revenues
ČD		
Expenses for managing the operation of railway infrastructure	3,415	--
Revenues from using the railway infrastructure – passenger transport	--	1,579,023
Revenues from using the railway infrastructure – freight transport	--	41,970
Revenues from allocated railway infrastructure capacity	--	50,005
Revenues from electricity	--	1,433,397
Fire Department services	--	14,050
Telecommunication network operation services	--	72,785
<b>Total</b>	<b>3,415</b>	<b>3,191,230</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(TCZK)		
2013	Expenses	Revenues
<b>ČD</b>		
Expenses for managing the operation of railway infrastructure	--	--
Revenues from using the railway infrastructure – passenger transport	--	1,652,148
Revenues from using the railway infrastructure – freight transport	--	34,538
Revenues from allocated railway infrastructure capacity	--	50,537
Revenues from electricity	--	1,613,409
Fire Department services	--	20,237
Telecommunication network operation services	--	62,648
<b>Total</b>	<b>--</b>	<b>3,433,517</b>

As at 31 December 2013, SŽDC recorded amounts due from and to ČD at the net amount of TCZK 661,007 (2012 – TCZK 612,826). The amount that is reported in the balance sheet as part of trade receivables from ČD is TCZK 681,747 (2012 – TCZK 644,611). Trade payables including received prepayments amount to TCZK 20,740 (2012 – TCZK 31,785).

Expenses and revenues resulting from the transactions carried out with ČD Cargo:

(TCZK)	2012	2013
Revenues from using the railway infrastructure – freight transport	2,234,696	1,791,625
Revenues from allocated railway infrastructure capacity	12,936	18,479
Revenues from electricity	503	332
Fire Department services	11,240	5,301
Telecommunication network operation services	52,393	46,229
<b>Total</b>	<b>2,311,768</b>	<b>1,861,966</b>

As at 31 December 2013, SŽDC recorded amounts due from and to ČD Cargo at the net amount resulting in a receivable of TCZK 1,018,470 (2012 – TCZK 937,406). The amount that is reported in the balance sheet as part of trade receivables from ČD Cargo is TCZK 1,025,178 (2012 – TCZK 949,740). Trade payables including received prepayments amount to TCZK 6,708 (2012 – TCZK 12,334). Part of receivables from ČD Cargo are currently subject to arbitral proceedings (refer to Note 4.4.1).

## 7.4. ECONOMIC BENEFITS ASSOCIATED WITH FIXED ASSETS

The useful lives of, and economic benefits associated with, the bulk of the existing fixed assets forming the railway infrastructure are dependent upon the availability of funding and future decisions regarding their renovation, modernisation and performance improvement. Due to the existing uncertainties in the above areas, the ultimate useful lives of, and economic benefits associated with, the existing tangible fixed assets cannot be presently determined, and, accordingly, no adjustment to the valuation of tangible fixed assets has been made in the financial statements.

## 7.5. PRIVATISATION

SŽDC records assets held for privatisation. These assets are separated in the accounting by an accounting circle – Assets for Remission of Debts ("ARD").

In 2013, SŽDC completed 18 privatisation projects for assets within the ARD accounting circle in the aggregate amount of TCZK 5,242 (2012 – TCZK 46,962).

Of the 18 privatisation projects, SŽDC completed one project related to the residential living fund and one to assets not included in the residential living fund. The remaining 16 projects related to the complete privatisation of land following the privatisation of the residential living fund.

As at 31 December 2013, SŽDC records assets intended for the settlement of payables assumed from ČD, s.o. listed in the Appendix to the Transformation Act in the net book value of TCZK 604,486. As at 31 December 2012, the net book value of these assets amounted to TCZK 576,555.

## 7.6. SALE OF ASSETS

### 7.6.1. Sale of redundant assets – the Railway Infrastructure Assets circle

In 2013, a total of 185 sales of immovable assets were carried out within the Railway Infrastructure Assets circle, after being approved by the Czech Government. Revenues from these sales were TCZK 67,268 (2012 – TCZK 31,570).

### 7.6.2. Sale of redundant assets – the Assets for Remission of Debts circle

In 2013, a total of 2 sales of assets were carried out within the Assets for Remission of Debts circle. Revenues from these sales were TCZK 44,105 (2012 – TCZK 508).

## 7.7. LEASED ASSETS

### 7.7.1. Lease of assets kept within the Assets for Remission of Debts circle

As at 31 December 2013, SŽDC reports 95 contracts for the lease of apartments. Revenues from these leases were TCZK 2,871 (2012 – TCZK 2,914).

With respect to assets not included in the residential living fund, SŽDC records 237 lease contracts with total revenues of TCZK 42,680 (2012 – TCZK 39,369).

Total revenues from the lease of real estate were TCZK 45,551 (2012 – TCZK 42,283).

### 7.7.2. Lease of assets kept within the Railway Infrastructure Assets circle

As at 31 December 2013, SŽDC reports 1,522 contracts for the lease of apartments. Revenues from these leases were TCZK 40,551 (2012 – TCZK 42,968).

With respect to assets not included in the residential living fund, SŽDC records 5,369 lease contracts with total revenues of TCZK 141,424 (2012 – TCZK 157,219).

Total revenues from the lease of real estate were TCZK 181,975 (2012 – TCZK 200,187).

## 8. SUBSEQUENT EVENTS

### 8.1. CHANGES IN SŽDC'S BODIES

Pursuant to Government Resolution No. 195 of 24 March 2014 the following changes were made to the Management Board:

The following members were recalled as at 24 March 2014:

- Adolf Jílek
- Lukáš Hampl
- Jaroslav Deml
- František Kopecký
- Jiří Matolín
- Milán Matoušek
- Zdeněk Votruba

The following members were appointed from 25 March 2014:

- Tomáš Drmola
- Milan Feranec
- Jaroslav Foldyna
- Václav Horák
- Karel Korytář
- Vladimír Novotný, (chairman)
- Jan Volný

The following members were included in the Management Board as at the date of preparing the financial statements:

- Vladimír Novotný, chairman
- Tomáš Drmola
- Milan Feranec, vice-chairman
- Jaroslav Foldyna
- Václav Horák
- Karel Korytář
- Jan Volný

As of 10 January 2014 the Management Board appointed Mr Jiří Matolín as a member of the Audit Committee.

As of 24 March 2014, Mr Lukáš Hampl and Mr Jiří Matolín were recalled from the Audit Committee.

At its meeting held on 21 May 2014 the Management Board recalled Ms Hana Březinová from the Audit Committee with effect from 31 May 2014. Effective from 1 June 2014 the following members of the Audit Committee were appointed:

Tomáš Drmola, chairman

Václav Horák

Vladimír Novotný

Effective from 30 April 2014 the Management Board recalled Mr Jan Blecha as the First Assistant Director General. The position was not filled as at the date of preparing the financial statements.

At its meeting held on 21 May 2014 the Management Board recalled Mr Jiří Kolář as the Director General with effect from 31 May 2014. Effective from 1 June 2014 Pavel Surý was appointed the new Director General.

## 8.2. ČD CARGO

On 15 January 2014 the High Court in Prague issued a judgement ref. No. 12 Cmo 307/2013 – 254 on the ČD Cargo's duty to settle unpaid invoices to SŽDC for the use of railway infrastructure and supplies of electrical energy. The judgement became legally effective on 13 February 2014. Accordingly, a provision established for the lawsuit was derecognised in the 2013 period (refer to Notes 4.4.1. and 6.2.2.).

With the exception of the events discussed in the previous note disclosures, no other significant events occurred after the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

Prague, 28 May 2014



**Jiří Kolář**

Director General

# PERSONS RESPONSIBLE FOR THE ANNUAL REPORT

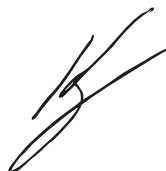
## AFFIRMATION

We affirm that the data and information stated in the annual report for 2013 correspond to reality and that no material circumstances were omitted that were known to us and that might affect the accurate and correct assessment of Správa železniční dopravní cesty, státní organizace.

Prague, on 28 May 2014



**Jiří Kolář**  
Director General



**Aleš Krejčí**  
Assistant Director General  
for Finance



# ANNUAL REPORT ON THE OBLIGATIONS

TO PROVIDE INFORMATION IN COMPLIANCE WITH SECTION 18  
OF ACT NO. 106/1999 COLL., ON FREE ACCESS TO INFORMATION

## SPRÁVA ŽELEZNIČNÍ DOPRAVNÍ CESTY, STÁTNÍ ORGANIZACE

Dlážděná 1003/7  
110 00 Praha 1

### ANNUAL REPORT

on the obligation to provide information in compliance with Section 18 of Act No. 106/1999 Coll.,  
on Free Access to Information

### FOR 2013

In compliance with Section 18 of Act No. 106/1999 Coll., on Free Access to Information, as at 1 March 2014 we released the annual report for 2013 on the obligation to provide information.

Requests made in accordance with the above Act are processed by employees of the Public Relations Department in charge on behalf of SŽDC in cooperation with all organisational units and expert department of SŽDC depending on the nature of the request.

1.	Number of submitted requests for information	20
2.	Number of passed decisions on dismissal of the request	1
3.	Number of submitted remonstrances against the decisions	1
4.	In 2013, there were no legal proceedings	
5.	Number of exclusive licenses provided	0
6.	Number of complaints submitted under Section 16a	0

Prague, on 28 February 2014



**Zbyněk Honys**

Director of the Public Relations Department

# LIST OF ABBREVIATIONS

CFT	contact-free track
CEF	Connecting Europe Facility
CEN	European Committee for Standardisation
CENELEC	European Committee for Electrotechnical Standardization
ERTMS	European Rail Traffic Management System
ETCS	European Train Control System
GP	geometric position
GSM-R	Global System for Mobile Communication Railway
TD	train diagram
KPI	key performance indicators
OPD	Operational Programme Transport (EU)
RFC	Rail Freight Corridors
RISC	Railway Interoperability and Safety Committee
SERAC	Single European Railway Area Committee
SFTI	State Fund for Transport Infrastructure
TEN-T	Trans-European Network – Transport
TSI	Technical specification for Interoperability
RI	railway infrastructure

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# IDENTIFICATION AND CONTACT DETAILS

Name of the organisation:	Správa železniční dopravní cesty
Legal form:	state organisation
Established by:	Czech Republic (establisher's function entrusted to the Czech Ministry of Transport)
Date of incorporation:	1 January 2003
Identification number:	70994234
Registration court:	Prague
Entry details:	Section A, File 48384
Registered office:	Prague 1, Nové Město, Dlážděná 1003/7, post code 110 00
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