

**AN
NUAL
REPO
RT
2014**



Správa železniční dopravní cesty

NUMBER OF TRACK SECTIONS IN TIMETABLES ACCORDING TO CATEGORY (IRRESPECTIVE OF CARRIER)

Indicator	Number
Passenger trains	7,984
Limited-stop trains	357
Express trains	442
Higher-quality trains (EC, EN, Ex, IC, LE, SC, railjet)	173
Express freight trains	315
Through freight trains	680
Slow goods and work-siding trains	828
Trainsets	499
Locomotive trains	500
SŽDC's catalogue (offer) routes	1,926



TRACK SECTION ANNIVERSARIES IN THE PERIOD FROM 1839 TO 2014

6 Jun 1839	Břeclav – Břeclav state border – launch of passenger transport	175
1 Jan 1874	Lysá nad Labem – Ústí nad Labem-Střekov – Ústí nad Labem west – launch of entire transport	140
10 Jan 1874	Hradec Králové – Týniště nad Orlicí – Letohrad – celebration of the track section opening	140
8 Jun 1874	Veselí nad Lužnicí – České Budějovice – launch of entire transport	140
5 Oct 1874	Ústí nad Orlicí – Letohrad – launch of entire transport	140
5 Oct 1874	Ústí nad Labem – Děčín East – Prostřední Žleb – launch of entire transport	140
20 Jul 1884	Kyjov – Bzenec – Moravský Písek – launch of entire transport	130
1 Nov 1884	Hranice na Moravě – Valašské Meziříčí – launch of entire transport	130
18 Jul 1894	Šakvice – Hustopeče u Brna – launch of entire transport	120
1 Sep 1894	Havlíčkův Brod – Humpolec – celebration of the track section opening	120
1 Oct 1894	Olbramovice – Sedlčany – launch of entire transport	120
24 Sep 1904	Rakovník – Louny suburb – Březno u Postoloprts – launch of entire transport	110
12 Nov 1904	Petrov nad Desnou – Kouty nad Desnou – launch of entire transport	110
15 Nov 1904	Mikulášovice lower railway station – Dolní Poustevna – launch of entire transport	110
18 Nov 1904	Dobronín – Polná – launch of entire transport	110
1 Jun 1914	Meziměstí – Meziměstí state border – railway line electrification	100
1 Aug 1914	Senice na Hané – Mladeč – launch of entire transport	100
1 Sep 1914	Prostřední Suchá – Albrechtice u Českého Těšína state border – launch of entire transport	100
3 Nov 1924	Prosenice – Dluhonice turnout – launch of entire transport	90
6 May 1964	Ostrava-Kunčice – Ostrava-Vítkovice – launch of entire transport	50
28 May 1964	Oldřichov u Duchcova – Háj u Duchcova – Louka u Litvínova – railway line electrification	50
30 May 1964	Praha-Radotín – Praha-Vršovice shunting station – celebration of the track section opening	50
1 Jun 1964	Česká Třebová, Parník turning – Česká Třebová upper shunting station – launch of entire transport	50
3 Jun 1984	Praha-Vysočany – Praha-Těšnov – railway line liquidation	30
28 May 1994	Protivín – Putim – railway line electrification	20
28 May 1994	Ražice – Písek – railway line electrification	20
30 Sep 1994	Vyškov – Nezamyslice – railway line electrification	20
17 Apr 2009	Kolín junction – complete renovation	5
1 Mar 2009	Ústí nad Labem junction – complete renovation	5

_CONTENTS

OPENING STATEMENT_3

ORGANISATION'S PROFILE_5

Basic information_5

Management_8

Corporate governance_9

Organisational units_13

STRATEGY_16

OUR ORGANISATION'S ACTIVITIES IN 2014_18

2014 highlights_18

Operability of the railway

infrastructure_20

Operating the railway infrastructure_21

Modernisation and the development

of the railway infrastructure_24

Utilisation of the railway infrastructure

by carriers_28

Rail network and rail transport operation

safety_31

Human resources_33

International cooperation_36

FINANCIAL PERFORMANCE_40

Financial performance of SŽDC_40

Operation and operability of the railway

infrastructure_42

Investment projects_43

Financial outlook for 2015_43

Risk management_43

CORPORATE SOCIAL RESPONSIBILITY_48

FINANCIAL SECTION_53

Independent auditor's report to the

institutor of Správa železniční dopravní

cesty, státní organizace_54

Financial statements_57

Notes to the financial statements_63

Persons responsible for the annual

report_102

ANNUAL REPORT ON THE PROVISION OF

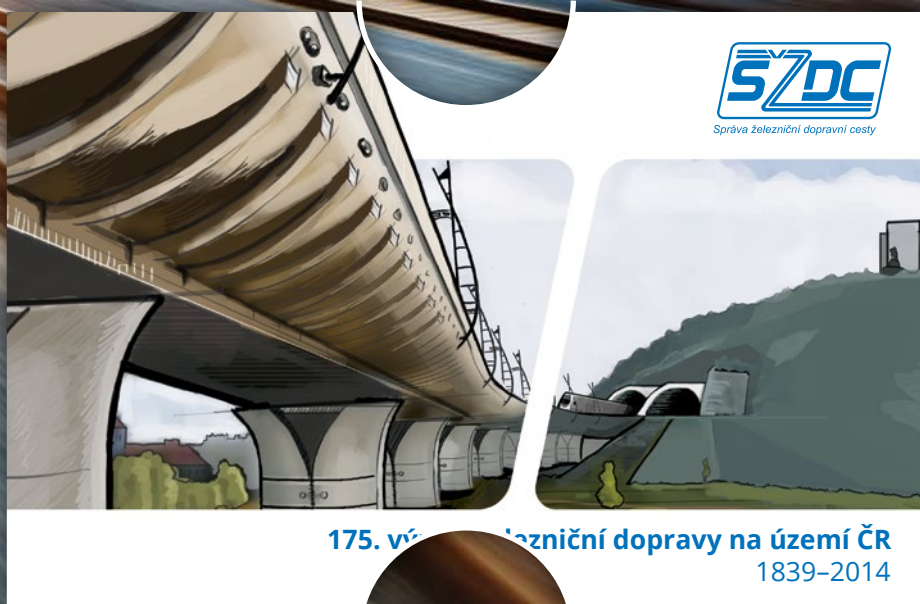
INFORMATION IN COMPLIANCE WITH SECTION

18 OF ACT NO. 106/1999 COLL., ON FREE

ACCESS TO INFORMATION_103

LIST OF ABBREVIATIONS_104

IDENTIFICATION AND CONTACT DETAILS_105



9,458 km

Total length of tracks

3,513,941

Number of applications for path capacity allocation

17,331

Number of employees

18

Number of organisational units

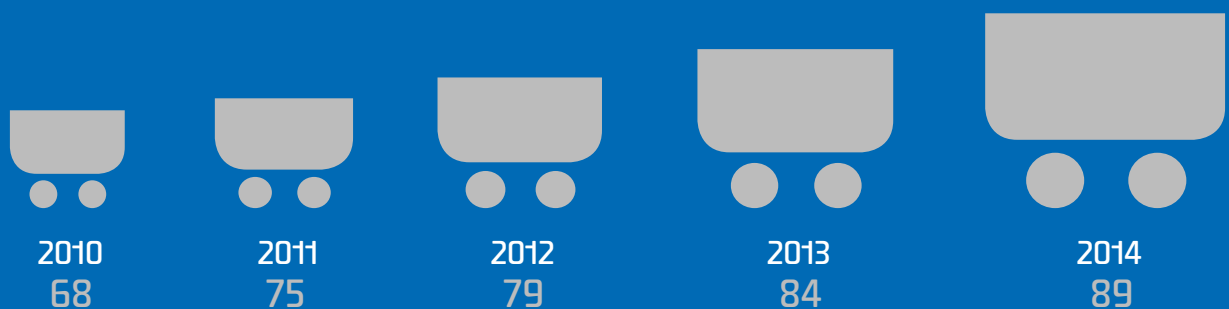
Revenues from use of railway infrastructure (in TCZK) Passenger transport



Revenues from use of railway infrastructure (in TCZK) Freight transport



Number of carriers



The closing date of this annual report was 10 June 2015.

The photographs used in this annual report come from SZDC's photography competition and depict the railway as seen by the public.



_ OPENING STATEMENT

PAVEL SURÝ: NOTHING IS LEFT TO CHANCE IN RESPECT OF INVESTMENTS

PAVEL SURÝ BECAME DIRECTOR GENERAL OF THE RAILWAY INFRASTRUCTURE ADMINISTRATION (SPRÁVA ŽELEZNIČNÍ DOPRAVNÍ CESTY, STÁTNÍ ORGANIZACE, "SŽDC") ON 1 JUNE 2014. CONSIDERING HIS LONG-TERM EXPERIENCE WITH RAILWAYS, HE IS VERY WELL AWARE OF THE TASKS AHEAD OF HIM IN THE POSITION OF DIRECTOR GENERAL OF THE STATE ORGANISATION ADMINISTERING THE ENTIRE CZECH RAILWAY INFRASTRUCTURE.

You are replacing Jiří Kolář in the position of Director General. Do you plan to continue his previous activities?

Jiří Kolář, acting as SŽDC's head, had extensive experience from day-to-day operations that certain managers are lacking and usually need some time before they make competent decisions. He deserves credit for starting to deal with the most pressing issues, both the maintenance of track sections in spite of the persisting lack of funds, and the preparation of an adequate number of new investment projects that would be financed from the existing Transport Operational Programme ("TOP"). He set the grounds which will enable me to continue. Moreover, I can also take advantage of my prior years' experience at the Regional Directorate in Brno.

When you took over the position, the transfer of railway assets was mentioned first and foremost ...

I see the completion of the entire transfer as one of the priorities; this has been a big commitment towards our passengers since 2002. It is sometimes difficult to explain to the general public that, for example, the first platform or the station building belong to ČD and the remaining infra-

structure to SŽDC. This also causes maintenance problems, i.e. winter snow cleaning. Although the precise dates are not yet available, I believe that the assets will be transferred as soon as possible. Accordingly, we continue preparations of the whole process that will involve the sale of station buildings and surrounding land at a total of 1,038 stations. The transfer of certain major railway stations where ČD has concluded contracts with developers needs to be resolved. These include, for example, the Prague Masaryk railway station, the Prague main station, the Smíchov railway station or the railway stations in Brno and České Budějovice.

How do you generally perceive the transformation of Czech railways?

I understand that primarily the old railway generation is greatly worried about the division of railways. They have always felt part of a big family. In this respect we have always adhered to EU regulations, but it is interesting to note that this procedure has not always been followed by others. However, I respect the current situation and believe that where there is a will, there is a way to cooperate. Our goal is surely the same – to offer quality rail services.

However, individual station buildings have already been sold between ČD and SŽDC. What is the reason?

These sales are part of investment construction. These usually involve buildings, warehouses, work-rooms and parts of station buildings that are intended for demolition based on project documentation. We were always able to reach agreements with České dráhy, namely as concerns part of the station building in Veselí nad Lužnicí or various facilities at the premises of the Pilsen main station.

To give another example, I can also mention the preparation of the very much needed modernisation of the upper railway station in Karlovy Vary. It also includes the construction of a new station building which will replace the existing one that is in a state of disrepair. It was conditional on the sale to SŽDC, which had already taken place. If construction works continue well, there should soon be a new, two-storey station building which will be tied together with an underpass connecting individual platforms. Its modern design, which envisages the use of plenty of glass materials, will surely be appreciated by passengers. We will at the same time resolve the existing situation

that does not positively reflect on Czech railways.

When you took the position of Director General, you started to visit the individual regions ...

I am concerned about the problems addressed in the regions. I therefore plan to visit both the regional governors and our organisations active in the regions, as communication with our Regional Directorates, representing us at the particular locations, is crucial. Another issue is investments in railway infrastructure, where investments will have to be made in smaller lines, in addition to major corridor lines. The reason is that modernisation of the smaller lines often has a greater impact and costs less money. The first instance was my visit to the South Moravian region, where we signed a memorandum on the development of rail transport on three prospective regional routes. Since then I have visited a number of other regions and I am going to continue.

The deadline for SŽDC's drawing of funds from TOP 1 is at the end of 2015. Discussions are now in progress on whether the allocated amount will fully be used.

I am not pessimistic, in contrast, I am convinced that we will draw all funds from TOP 1. I feel entitled to claim this, as in previous years there were large-scale project preparations for new constructions and we can now start and complete them within the required deadline. Plenty of other, alternative projects can also be started. We can thus help eliminate the deficiency that was caused by the reduced number of investments in the past.

Needless to say, the preparation of each investment project is a long-term process. How does SŽDC prepare itself for the next TOP programme period?

At present we have a rough estimate of the amount available for investments in the upcoming period. Nothing is left to chance considering our experience of prior years. Project preparation is fully underway so that we may smoothly continue additional constructions. If there are no obstructions regarding the selection of the contractors, there is no need to worry. The fact is that we have learnt a lesson from TOP 1. We learned the rules practically during the process itself – they were new and sometimes very complicated. We were surprised by the numerous problems and obstacles that stood in front of us. Nowadays I dispose of a number of deliberate projects for TOP 2, which only need to be filed. We are far much better prepared than before.

How do you feel about critics complaining that the renovation of railways is unnecessarily costly at the expense of railway and motorway construction?

This is because the preparation of railway corridor construction is easier than the construction of motorways. As a result, every year billions of Czech crowns are transferred within TOP from motorways to railways. We do not face major problems with the purchase of land, as the corridors largely lead through the original routes, neither do we have to face large-scale protests initiated by citizens regarding the construction of new motorways, such as a by-pass road around Pilsen or the D8 motorway across Central Bohemian Uplands. Surely, we also have certain problems, but their number is significantly lower than in respect of motorways. Billions

of Czech crowns from European subsidies may be lost just because road structures cannot be constructed due to legal barriers.

It is necessary to note that all European countries are investing in the repair of their railways. For example, Germany focuses on regional railways, e.g. a rail joining Chemnitz with Leipzig, enabling regional express trains to drive at a speed of almost one hundred and twenty kilometres. The parameters of this route are similar to those on the route between České Budějovice and Jihlava. So it is our aim to improve the quality of railway transport so that it is competitive with road transport, and the regions provide us with support in this respect. At the constructed railway corridors, for example between Prague and Ostrava or between Prague and Brno, a large number of people prefer travelling by train to travelling on often congested motorways. Railways can definitely be the means of transport of the twenty-first century, but they need to be sufficiently modernised. And this is also another reason why the European Union forces its member states to invest 60 per cent of funds available for transport infrastructure in railways.

ORGANISATION'S PROFILE

BASIC INFORMATION

WHO WE ARE

Pursuant to applicable legal regulations, Správa železniční dopravní cesty, státní organizace, 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.



From left: Josef Hendrych, Bohuslav Navrátil, Mojmír Nejezchleb, Pavel Surý, Tomáš Drmola, Aleš



MANAGEMENT

STATUTORY BODY (AS AT 10 JUNE 2015)

Director General

Pavel Surý

(aged 56, graduated from the Jan Perner Transport Faculty at the University of Pardubice, holding the post since 1 June 2014)

Deputy Director General

Bohuslav Navrátil

(aged 57, graduated from the Faculty of Operation and Economy of Transport and Communications at the University of Transport and Operations in Žilina, representing the Director General in his absence since 11 February 2004)

SŽDC MANAGEMENT (AS AT 10 JUNE 2015)

Assistant Director General for Finance

Aleš Krejčí

(aged 55, graduated from the Faculty of Production and Economy of the University of Economics, Prague, holding the post since 1 June 2012)

Assistant Director General for Asset Management

Tomáš Drmola

(aged 51, graduate from the Universität Nürnberg and Institute for Industrial and Financial Management in Prague, holding the post since 1 November 2014)

Assistant Director General for Rail Modernisation

Mojmír Nejezchleb

(aged 52, graduated from the Faculty of Civil Engineering at the Brno University of Technology, holding the post since 1 July 2013)

Assistant Director General for Rail Operability

Bohuslav Navrátil

(aged 57, graduated from the University of Transport and Operations in Žilina, holding the post since 1 June 2012)

Assistant Director General for Traffic Control

Josef Hendrych

(aged 61, graduated from the University of Transport in Žilina, holding the post since 1 August 2014)

CORPORATE GOVERNANCE

STATUTORY BODY

Director General

Pavel Surý

Deputy Director General

Bohuslav Navrátil

CHANGES IN 2014

Director General

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

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.

SŽDC MANAGEMENT

SŽDC MANAGEMENT

AS AT 31 DECEMBER 2014

**Assistant Director General
for Finance**

Aleš Krejčí

**Assistant Director General
for Asset Management**

Tomáš Drmola

**Assistant Director General
for Rail Modernisation**

Mojmír Nejezchleb

**Assistant Director General
for Rail Operability**

Bohuslav Navrátil

**Assistant Director General
for Traffic Control**

Josef Hendrych

SŽDC MANAGEMENT

AS AT 10 JUNE 2015

**Assistant Director General
for Finance**

Aleš Krejčí

**Assistant Director General
for Asset Management**

Tomáš Drmola

**Assistant Director General
for Rail Modernisation**

Mojmír Nejezchleb

**Assistant Director General
for Rail Operability**

Bohuslav Navrátil

**Assistant Director General
for Traffic Control**

Josef Hendrych

CHANGES IN 2014

First Assistant Director General

Jan Blecha until 30 April 2014;
effective from 1 August 2014 the
position was cancelled

**Assistant Director General
for Asset Management**

The position was established effective
from 1 November 2014
Tomáš Drmola from 1 November 2014

**Assistant Director General
for Traffic Control**

Tomáš Nachtman was assigned to
run the Traffic Control division until
31 July 2014
Josef Hendrych from 1 August 2014

MANAGEMENT BOARD

MANAGEMENT BOARD AS AT 31 DECEMBER 2014

Chairman:

Vladimír Novotný

Vice-chairman:

Milan Feranec

Members:

Jaroslav Foldyna

Václav Horák

Karel Korytář

Jan Volný

MANAGEMENT BOARD AS AT 10 JUNE 2015

Chairman:

Vladimír Novotný

Vice-chairman:

Milan Feranec

Members:

Tomáš Čoček

Jaroslav Foldyna

Václav Horák

Karel Korytář

Jan Volný

CHANGES IN 2014

Chairman:

Adolf Jílek until 24 March 2014

Vladimír Novotný from 25 March 2014

Vice-chairman:

Milan Feranec from 30 April 2014

CHANGES IN 2014 AND 2015:

Members:

Jaroslav Deml until 24 March 2014

Lukáš Hampl until 24 March 2014

František Kopecký until 24 March 2014

Jiří Matolín until 24 March 2014

Milán Matoušek until 24 March 2014

Zdeněk Votruba until 24 March 2014

Tomáš Drmola from 25 March 2014 to
31 October 2014 (resignation date)

Milan Feranec from 25 March 2014

Jaroslav Foldyna from 25 March 2014

Václav Horák from 25 March 2014

Karel Korytář from 25 March 2014

Jan Volný from 25 March 2014

Tomáš Čoček from 17 March 2015

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 organisational policies. It also debates the annual report, the financial performance and approves the annual budget.

AUDIT COMMITTEE

AS AT 31 DECEMBER 2014

Chairman:

Position vacant

Members:

Vladimír Novotný
Václav Horák

AS AT 10 JUNE 2015

Chairman:

Milan Feranec

Members:

Vladimír Novotný
Václav Horák

CHANGES IN 2014 AND 2015

Chairman:

Tomáš Drmola from 1 June 2014 to
31 October 2014 (resignation date)
Milan Feranec from 29 May 2015

Members:

Lukáš Hampl until 24 March 2014
Hana Březinová until 31 May 2014
Vladimír Novotný from 1 June 2014
Václav Horák from 1 June 2014

The Audit Committee monitors the process of preparation of the financial statements, assesses the efficiency of the organisation's internal control, internal audit and risk management systems, monitors the process of statutory audit of the financial statements, assesses the independence of the statutory auditor and the auditing company, and the 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 documents and check the data contained in these records.

STRATEGY AND DEVELOPMENT COMMITTEE

AS AT 31 DECEMBER 2014

Chairman:

Václav Horák

Members:

Karel Korytář
Jan Volný

AS AT 10 JUNE 2015

Chairman:

Václav Horák

Members:

Karel Korytář
Jan Volný

CHANGES IN 2014

Chairman:

Zdeněk Votruba until 24 March 2014
Václav Horák from 1 June 2014

Members:

František Kopecký until 24 March 2014
Karel Korytář from 1 June 2014
Jan Volný from 1 June 2014

The Strategy and Development Committee provides opinions and prepares position papers, primarily on SŽDC's strategic materials, on strategic legislative or non-legislative proposals of the Czech Ministry of Transport with an impact on the railway sector, on proposals for the structure of the railway sector, on strategic proposals on the transport policy of the European Union and on directives having a direct impact on SŽDC's activities, on SŽDC's management system and on SŽDC's organisational system and its changes.

ORGANISATIONAL UNITS

SŽDC is organised into the Directorate General and 17 organisational units: Regional Directorates ("RD") (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. The Regional Directors fully carry out approved lock-out projects, prepare station and track technology and basic traffic documentation, organise and carry out specialised tests and trainings for SŽDC's staff, and issue opinions on structures on the railway and in the protected railway zone. Registered offices of the Regional Directors are located in Prague, Ústí nad Labem, Pilsen, Hradec Králové, Ostrava, Olomouc and Brno.

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 State Fund of Transport Infrastructure ("SFTI") budgets, budgetary measures, supporting documentation for co-financing from the operational programmes of the European Union ("EU"), 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 activities, supervises constructions, ensures approvals and hands over completed projects to the administrators for use. It also cooperates in audits and inspections.

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 the 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 the central purchasing of electricity and the distribution services for supplies to external customers using SŽDC's distribution network, and for SŽDC's own electrical and energy equipment needs nationwide. In addition, it is responsible for contracts with

superior distribution system operators and electricity traders as well as the measurement, clearance and billing of electrical energy consumption at all points of supply/delivery of SŽDC's distribution network, including electric traction.

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 SERVICE CENTRE

The Shared Service 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.

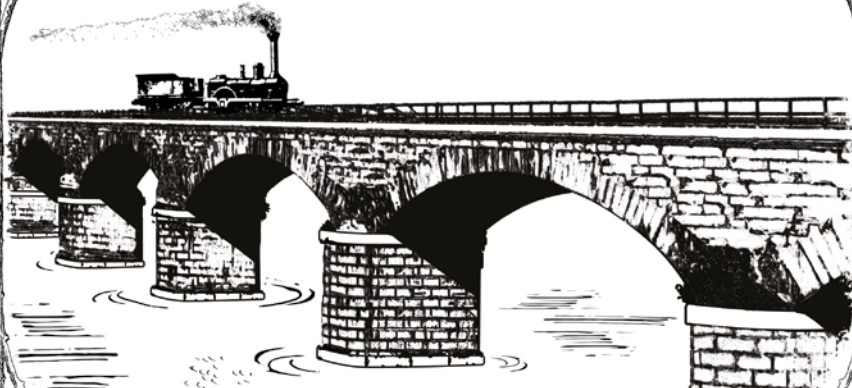
RESEARCH AND DEVELOPMENT ACTIVITIES

SŽDC's employees cooperate with scientific and specialist workplaces in technical development tasks that are financed from the SFTI.

AČESKÁ REPUBLIKA

ČESKÁ POŠTA • VLASTNÍ ZNAMKA • ČESKÁ POŠTA • VLASTNÍ ZNAMKA • ČESKÁ POŠTA • VLASTNÍ ZNAMKA • ČESKÁ POŠTA • VLASTNÍ ZNAMKA

SŽDC - 175. VÝROČÍ ŽELEZNIČNÍ DOPRAVY

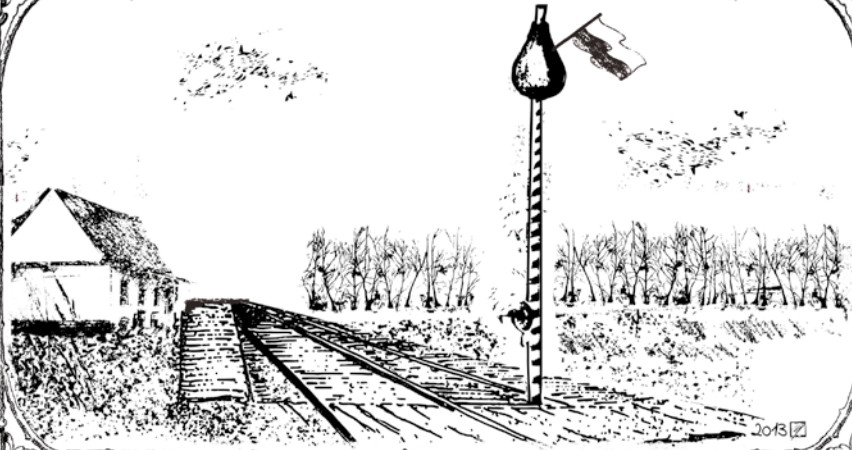


1850 Negrelliho viadukt

AČESKÁ REPUBLIKA

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SŽDC - 175. VÝROČÍ ŽELEZNIČNÍ DOPRAVY



1850 Košové návěstidlo



— NEGRELLI VIADUCT —

The Negrelli viaduct is historically the first Prague railway bridge crossing the Vltava River and the second oldest Vltava River bridge. It is also the longest railway bridge and the third longest bridge in the Czech Republic.

The bridge was under construction since the spring of 1846, completed in 1849 and put into operation on 1 June 1850.

_STRATEGY

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 areas of the Czech Republic's national economy depend.

INCREASE OF THE MARKET SHARE OF 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 face the challenges of the twenty-first 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 focuses on the accelerated completion of railway transit corridors and continues modernising railways on the main TEN-T network for passenger and freight transport, and railways that are part of the freight railway corridor network. We 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, as part of modernising the Prague - Kladno track section. 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 are involved in minor projects in individual regions which are 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 identify tracks with transport potential and 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.

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 possessing unique know-how.

SALE OF PART OF THE ESTABLISHMENT “RAILWAY STATION”

During 2014, numerous negotiations took place between the representatives of SŽDC and České dráhy, a.s. (“ČD”), in connection with the prepared sale of part of the establishment – station buildings and land – to be managed by SŽDC. This transaction is considered necessary to complete the transformation of the entire railway sector, in terms of establishing conditions for the liberalised Czech railway system. It is also the most appropriate way of how to fulfil the duties set out in Directive 2012/34/EU establishing a single European railway area. It is problematic when one of the carriers owns a significant portion of railway infrastructure, a railway station. Once the railway stations belong to SŽDC, the possibilities for financing their operations, recovery and modernisation will be largely extended.

The sale process is prepared in accordance with common business law practice, while the purchase price of the relevant part of the establishment will be set by a court-appointed expert. The transaction is based on the market economy investor principle. On 25 November 2013 the Municipal Court in Prague appointed PricewaterhouseCoopers Česká republika, s.r.o. as an expert responsible for the preparation of an expert appraisal and the valuation of part of the establishment.

The expert’s task is to determine the market value of the part of ČD’s establishment entitled “railway station”, based on the generally accepted market indicators and valuation standards. The appraisal institute is fully independent of the parties to the transaction. A definitive and detailed expert appraisal of the sold part of the establishment will be finally prepared (updated and verified) only as at the sale date set in the respective government resolution. At present, a preliminary indicative valuation is available as a technical (working) paper.

This preliminary indicative valuation is part of a set of underlying documents that were requested by the relevant bodies of the European Commission (“EC”), with which the transaction is being discussed to achieve legal certainty. Owing to the complexity of consultations, it is not possible to currently determine when the EC will present an official statement. However, a positive statement by the EC is expected to be available within a matter of months.

The transaction consisting in the purchase of part of the establishment “railway station”, including the technical and legal aspects, is being prepared by both partners. Once the transaction has been, as mentioned above, successfully discussed in the EC, the Czech government will make a decision on the transfer of station buildings and related ČD’s assets to the state for consideration.

ORGANISATION'S ACTIVITIES IN 2014

2014 HIGHLIGHTS

JANUARY

Prague celebrated the hand-over of a tank recovery vehicle VT 72B to the Prague unit of the SŽDC's Fire Brigade.

The first stage of renovating the Přerov railway junction was completed.

Construction works completed the modernisation of the České Budějovice – Nemanice track section; it also involved the overall refurbishment of the main station in the regional city.

FEBRUARY

Construction works were commenced at the refurbishment of the Veselí nad Lužnicí – Soběslav track section; this also included the construction of the second track.

MARCH

The first stage of modernising the entire Pilsen railway junction was started.

A large renovation of two regional lines was started. The quality of the České Budějovice – Volary and Liberec – Tanvald track sections was improved.

APRIL

In Prague-Balabenka the construction of the Central Traffic Control building for the Bohemian region was commenced.

In Děčín the renovation of a bridge crossing the Elbe River on the route to Jedlová was completed.

A preventive train came to visit the Vsetín region; informing students about safety rules on railways.

In South Bohemia, modernisation of the Ševětín – Horusice track section and renovation of the Strakonice railway station were commenced.

MAY

Renovation of the traction power supply station in Pečky came to an end.

Between Opatovice nad Labem and Stéblová the first part of modernising the Hradec Králové – Pardubice – Chrudim track section was launched. On the same track section, a second rail will also be constructed.

JUNE

After one year, trains returned to the Liberec – Jablonné v Podještědí track section and Pečky – Kouřim (both severely damaged by floods).

The internal project SŽDC's Team was started.

At the Czech Raildays fair in Ostrava a Small Track-Recording Trolley MMD.1 was presented.

SŽDC's Student Cup was held in Prague for the second time.

JULY

After dozens of years, the traffic at the cross-border section with Germany Dolní Poustevna – Sebnitz was renewed.

Installation of a remote control securing the Újezdec u Luhačovic – Vlárský průsmyk track section was started.

The refurbishment of the westernmost part of the third corridor between Cheb and the Germany state border was commenced.

AUGUST

At the main double track crossing Vysočina, renovation of the Sklené nad Oslavou – Ostrov nad Oslavou track section was launched.

SEPTEMBER

Břeclav celebrated the 175th anniversary of railway operations on the Czech territory.

A total of five new stops were opened for passengers at regional routes surrounding Hostivice and Rudná u Prahy.

A preventive train stopped at the railway station in Prague-Bubny and in Břeclav.

SŽDC's Student Cup was for the first time hosted by Brno.

OCTOBER

SŽDC purchased a station building from ČD in Karlovy Vary in order to start a complete renovation of the upper railway station.

NOVEMBER

SŽDC held the first interactive conference for students in the Olšanka hotel in Prague.

Trains started to stop again at the modernised Ústí nad Orlicí railway station.

DECEMBER

A severe frost and iced-over trolleys paralysed operations at a majority of domestic electrified tracks for a few days.

Construction works aimed to modernise a thoroughfare through the Pilsen junction were completed.

A new timetable came into effect. Trains re-appeared at a number of routes in the Pardubice region; and started to stop at new stations.

OPERABILITY OF THE RAILWAY INFRASTRUCTURE

One of the main duties of a rail operator is to ensure the operability of the railway infrastructure, i.e. such a technical condition of the railway infrastructure that guarantees safe and smooth operation.

SŽDC is responsible for 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 any restricting parameters of the railway infrastructure, and promotes 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 related to track administration, automation and electrical engineering.

The operability of the railway infrastructure is facilitated primarily by the managing activities of the individual regional headquarters' technical administration centres, which diagnose the technical condition of the operated railway infrastructure through their operating centres. Based on an analysis of outputs, they prepare repair and maintenance plans to fulfil all rail operator duties in this area. Subsequently, repair and maintenance is carried out internally or outsourced to contractors operating in the respective markets. Such contractors are selected by tender.

One of the indicators of the operability of the railway infrastructure is the number of limited speed sections, aka "slow rides". For 2014, the limit for assessed slow rides in the whole network as at 31 December 2014 was set at 7km. The actual length of assessed slow rides as at that date was 4.983 km. Assessed slow rides are

those that have been introduced due to the unsuitable technical condition of the infrastructure or as a result of inadequate views at level crossings.

Table of selected activities

Indicator	Unit of measurement	Amount
GP modification – rails	km	1,576
GP modification – switches	s.u.	1,010
Track bed cleaning – rails	km	210
Track bed cleaning – switches	s.u.	293
CFT, welding – rails	km	282
CFT, welding – switches	s.u.	298
Replacement of rails	km	292
Replacement of railroad ties	quantity	266,522

Basic characteristics of the railway network

Indicator	Unit of measurement	Amount
Total length of tracks	km	9,458
Length of electrified tracks	km	3,216
Length of standard-gauge tracks	km	9,435
Length of narrow-gauge tracks	km	23
Length of single-track lines	km	7,515
Length of double- and multiple-track lines	km	1,943
Total construction length of tracks	km	15,464
Number of switch units	s.u.	23,756
Bridges	quantity	6,798
Tunnels	quantity	164
Total length of bridges	m	153,687
Total length of tunnels	m	45,732
Level crossings	quantity	8,001

OPERATING THE RAILWAY INFRASTRUCTURE

In accordance with Act No. 77/2002 Coll., SŽDC must ensure the operation of the rail network for the public benefit. Operating the railway infrastructure means ensuring and servicing the rail and organising rail transport. The rules and procedures concerning these activities are specified by internal SŽDC regulations.

In 2014, emphasis continued to be placed on accommodating carriers as much as possible when organising possession activities necessitated by the restoration, maintenance or modernisation of the railway infrastructure.

The scope of rail networks operated by SŽDC is currently stabilised at 9,458 km of track. Changing the categorisation of a rail network from national to regional does not affect its operation.

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

SŽDC noted interest from other entities in the lease of certain regional rail networks, primarily lines that are not used to provide public rail transport.

SŽDC also operates state-owned sidings (sidings owned by the Administration of State Material Reserves) and certain sidings that had been operated by České dráhy, a.s. until 31 August 2011.

Under a memorandum of understanding, SŽDC will operate the newly built Sedlnice – Mošnov, Airport Ostrava line, which is owned by the Moravian-Silesian Region.

APPLICATIONS SUPPORT

Recent years have seen unprecedented growth in information technology. SŽDC's traffic operation is keeping up with the trend. Various new information systems and operating applications have been developed to support traffic control. Systems and the data stored in them are becoming increasingly interconnected, which increases requirements for the quality of IS service provided by operations staff. As a result of this interconnectedness and changes in regulations, existing operating applications are updated on a regular basis.

Trainers of operating applications actively participate in both technical workshops organised by the Traffic Control Department that address the issue of regulations relating to operating applications, as well as in technical workshops held at Regional Directorates, where they in turn familiarise the Regional Directorates' managers with changes in individual operating applications.

THE CENTRAL TRAFFIC CONTROL (CTC) PRAGUE PROJECT

In 2014, as part of the approved timetable, the CTC Prague building project entered the construction stage. Construction work is estimated to be completed in October 2015. Currently, first constructions are being prepared in track sections that are planned

to feature remote control of signalling installations to be connected to CTC Prague as part of the first stage.

A tender has been completed in respect of the following four track sections: Beroun (exclusive) – Rokycany (inclusive), Praha-Uhřetěves (exclusive) – Olbramovice (inclusive), Česká Třebová (inclusive) – Kolín (inclusive), Kolín (exclusive) – Kralupy nad Vltavou (exclusive). Traffic control rooms are planned to be put into operation in late 2015/early 2016. Eventually, track sections of approximately 2,200 km are expected to be connected and centrally controlled from CTC Prague.

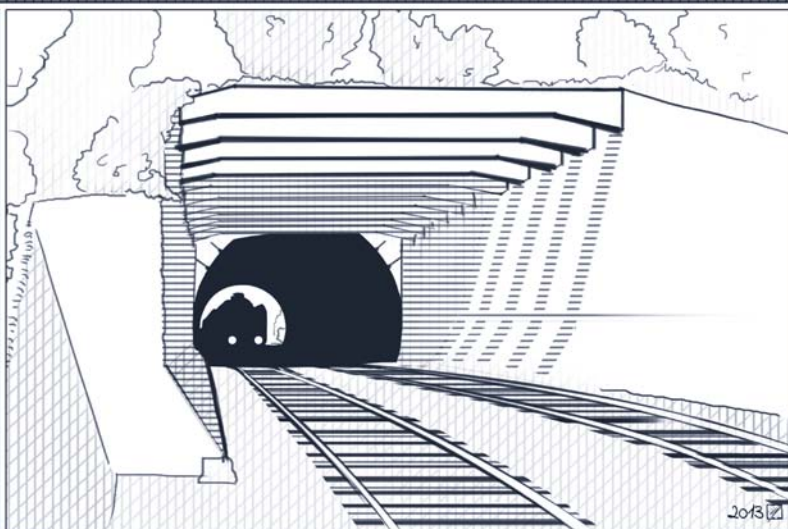
CTC PŘEROV

In 2014 work was underway on transforming control of the track sections Brno – Lanžhot and Veselí nad Moravou – Vlárský průsmyk, where remote control is expected to be introduced in 2015.

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SŽDC - 175. VÝROČÍ ŽELEZNIČNÍ DOPRAVY



1936 Štrelenský tunel

AČESKÁ REPUBLIKA

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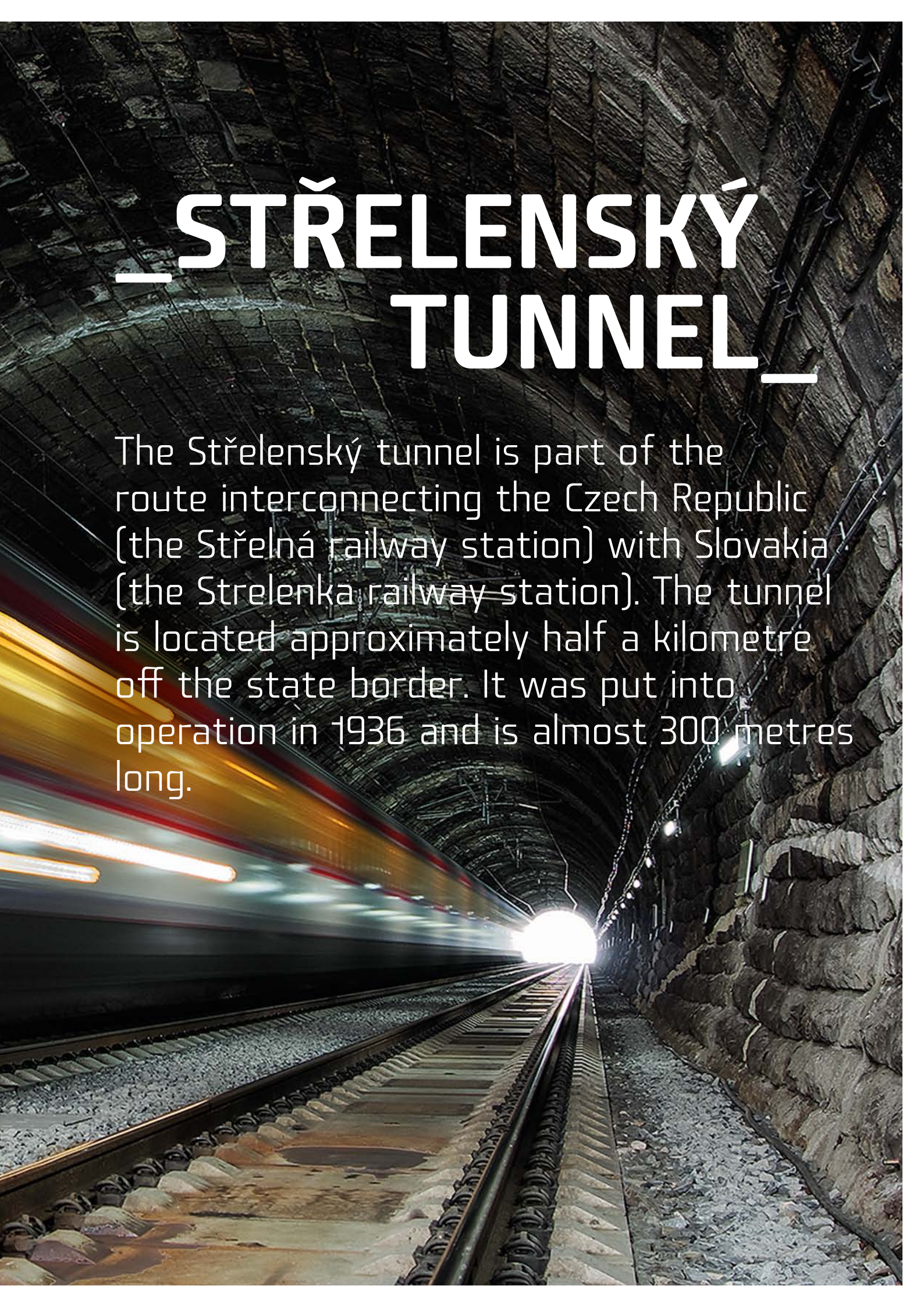
SŽDC - 175. VÝROČÍ ŽELEZNIČNÍ DOPRAVY



1936 Mechanická návěstidla

STŘELENSKÝ TUNNEL

The Střelenský tunnel is part of the route interconnecting the Czech Republic (the Střelná railway station) with Slovakia (the Strelenka railway station). The tunnel is located approximately half a kilometre off the state border. It was put into operation in 1936 and is almost 300 metres long.



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,
- progressive modernisation and renovation of other selected national and regional lines with a view to ensuring high-quality transport services,
- investment in the railway infrastructure to support the development of suburban transport and integrated transport systems,
- electrification of selected railway lines,

- increasing the safety of railway transport, in particular at level crossings,
- gradual preparation for the construction of high-speed connections ("HCs").

MAJOR PROGRESS IN CONSTRUCTION PROJECT PREPARATION

In 2014, SŽDC again increased the volume of funding used for construction preparation (see chart below). Thanks to preparatory work, it achieved a year-on-year increase in completed investments co-financed under the existing EU programming period while ensuring that structures are prepared for the next EU programming period (2014-2020). The vast majority of projects are expected to be co-financed from EU funds (Operational Programme Transport 1, CEF, and Operational Programme Transport 2). As a result of successful construction

preparation, a further increase in the use of funding for railway structures is expected in 2015.

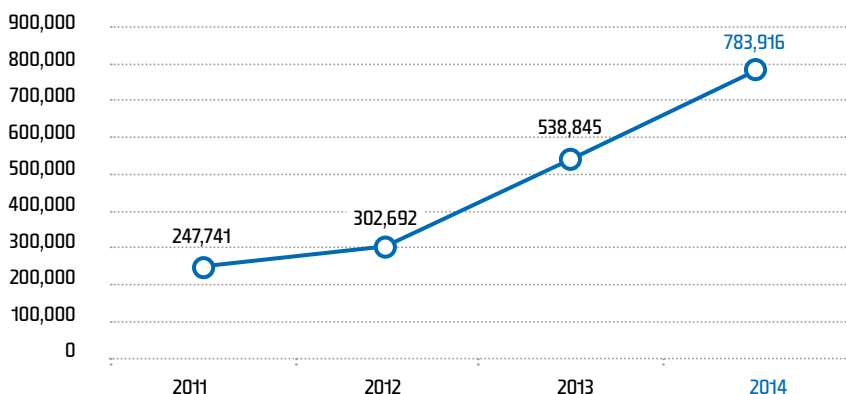
MODERNISATION OF RAILWAY TRANSIT CORRIDORS NEARS CONCLUSION

The territory of the Czech Republic is intersected by four railway transit corridors. The strategic aim of their modernisation is to ensure high-quality international connections with the neighbouring countries while enabling high-speed and high-quality connections between individual Czech regions. The modernisation of transit corridors means higher quality railway transport and a significant reduction of travel times on key lines, especially Prague – Ostrava and Prague – Brno. The completed modernisation of the First Corridor on the Děčín – Prague – Česká Třebová – Brno – Břeclav line and of the Second Corridor on the Břeclav – Přerov – Petrovice u Karviné line was followed by the modernisation of the Third and Fourth Corridors.

The Third Corridor passes via Mosty u Jablunkova, the Slovak/Czech state border – Dětmarovice – Ostrava – Přerov – Česká Třebová – Prague – Pilsen – Cheb, the Czech/German state border. The Prague – Česká Třebová track section was completed as part of the First Corridor, and the Přerov – Dětmarovice track section as part of the Second Corridor. The progress of modernisation works relating to the Third Corridor is shown in the following tables:

Preparation of SŽDC constructions

(total invested volumes as reported for 2011-2014, in TCZK)



Overview of works at the Third Corridor

Project	Length km	Stage of completion	Timeframe	
			start	end
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 Plzeň – Stříbro track section	30.1	completed	3/2006	7/2009
Optimisation of the Slovak state border – Mosty u Jablunkova – Bystřice n. Olší track section	19.3	completed	10/2007	12/2013
Optimisation of the 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 Bystřice nad Olší – Český Těšín track section	11.5	completed	5/2009	11/2013
Optimisation of the Zbiroh – Rokycany track section	20.9	completed	5/2009	6/2014
Passage through the Pilsen junction in the direction of the Third Corridor	3.7	completed	11/2011	11/2014
Modernisation of the Rokycany – Pilsen track section	20.2	ongoing	7/2013	6/2017
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 Cheb – state border track section, first construction – phase 1	9.6	ongoing	6/2014	10/2015
Optimisation of the Český Těšín – Dětmarovice track section	20.9	in preparation	12/2015	12/2018
Optimisation of the Beroun (inclusive) – Králův Dvůr track section	4.9	in preparation	1/2016	8/2018
Optimisation of the Prague Smíchov (exclusive) – Černošice (exclusive) track section	10.9	in preparation	3/2017	12/2019
Optimisation of the Černošice (inclusive) – Beroun (exclusive) track section	24.9	in preparation	7/2017	9/2019

The modernisation of the Fourth Corridor, which spans the Horní Dvořiště – České Budějovice – Prague track section, is due to be fully completed in 2019 (see table).

Overview of works at the Fourth Corridor

Project	Length km	Stage of completion	Timeframe	
			start	end
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	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	4/2009	5/2013
Modernisation of the České Budějovice – Nemanice I track section	2.6	completed	1/2011	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 Veselí n. L. – Tábor track section, part II, Veselí n. L. – Doubí u Tábora track section, stage 1 Veselí n. L. – Soběslav	6.5	ongoing	3/2014	8/2015
Modernisation of the Ševětín – Veselí nad Lužnicí track section, part 1, Ševětín – Horusice	4.4	ongoing	4/2014	5/2016
Modernisation of the Nemanice I – Ševětín track section, first construction, ETCS adjustments, part 1	22.2	design documentation prepared	2016	2016
Modernisation of the Nemanice I – Ševětín track section, first construction, ETCS adjustments, part 2	4.3	design documentation prepared	2017	2018
Modernisation of the Sudoměřice – Votice track section	17.0	design completed	2016	2019
Modernisation of the Veselí n. L. – Tábor track section, part II, Veselí n. L. – Doubí u Tábora track section, stage 2 Soběslav – Doubí	8.6	design completed	2017	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 track sections. Thoroughfares through the railway junctions of Děčín, Ústí nad Labem, Kolín, Choceň, Břeclav, Přerov (first construction project) and Bohumín have been completed. The projects related to the construction of thoroughfares through the junctions of Ústí nad Orlicí, 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 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 projects "Optimisation of the Prague-Holešovice – Prague-Bubeneč track section" and "Modernisation of the Prague-Běchovice – Úvaly track section" are underway, with completion expected in 2015 and 2016, respectively. This will complete the First Corridor's thoroughfare at the Prague junction. Preparatory work continues on construction projects in the track sections Prague-Hostivař – Prague Main Station (the first part of the project has already started) 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 Brno, Přerov (second construction project), Ostrava, Pardubice and Česká Třebová, as well as on the follow-up stages of the modernisation of the Pilsen junction.

MODERNISATION OF OTHER LINES INTEGRATED INTO THE EUROPEAN RAILWAY SYSTEM

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 Kubice are scheduled for implementation in the longer term.

ENSURING THE INTEROPERABILITY OF SELECTED LINES

Other significant investments include construction projects ensuring the interoperability of the railway network. Following the completion of the GSM-R digital radio system at the First Corridor's Děčín – Kolín – Břeclav section and at the Second Corridor's Břeclav – Přerov – Petrovice u Karviné section, the GSM-R in the track sections Ostrava – Mosty u Jablunkova – Slovak border, Přerov – Česká Třebová and Děčín – Všetaty – Kolín was completed in 2013. Installation of the GSM-R is underway in the track sections Kolín – Havlíčkův Brod – Křižanov – Brno, Beroun – Prague – Benešov, Beroun – Pilsen – Cheb and Benešov – Votice. Preparations are being made to install the GSM-R in the track sections České Velenice – České Budějovice – Horní Dvořiště, Pilsen – České Budějovice and Ústí nad Orlicí – Lichkov. After the completion of the ETCS (European Train Control System) pilot project in the Poříčany – Kolín track section, installation of the ETCS is now underway in the track section Kolín – Břeclav – Austrian/Slovak state border, with preparations being made for the

track sections Petrovice u Karviné – Ostrava – Přerov – Břeclav and Kralupy nad Vltavou – Prague – Kolín.

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 the double-tracking of the Stéblová – Opatovice nad Labem section is already in progress; and renovation and electrification of the track sections Brno – Zastávka u Brna, Prague-Vysočany – Lysá nad Labem, Prague – Kladno (with a link to Václav Havel Airport), Otrokovice – Vizovice and many others.

HIGH-SPEED CONNECTIONS (HCS)

Current objectives include the development of an HC network that includes both new high-speed lines as well as modernised and new conventional lines. This will help fulfil the vision of two-way fast links between the country's regional cities and other major economic hubs. HC suburban sections will enable the introduction of very quick suburban transport, allowing passengers from more distant as well as nearby locations to regularly commute. Present tasks include using high-quality preparatory design work to record new HC lines in zoning documentation, and defining the operating parameters and standards of the 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.

FURTHER DEVELOPMENT

A critical rail modernisation task for the immediate future is to ensure utilisation of the remaining EU funds allocated under the Operational Programme Transport by implementing suitable projects. The funding can be utilised no later than 2015. Specific construction and financial procedures have been prepared for the upcoming end of the EU programming period, in particular the so-called phasing of construction projects (applicable to projects spanning two programming periods).

Due to the previous acceleration of construction preparation and the effort to utilise as much available funding under the OPT as possible, a high increase in capital expenditure is expected in 2015. Major investment projects will focus on the modernisation of railway transit corridors, railway junctions and stations, as well as on lines integrated into the TEN-T network and selected regional lines. Finally, numerous technological projects will be carried out. These will involve increasing the traction output of traction supply stations, installing GSM-R systems, introducing remotely controlled signaling installations, and implementing aggregate measures to increase safety at level crossings on many lines.

Another priority for 2015 is the submission of applications to the European Commission for the first group of projects proposed to be financed from the CEF programme, a new EU funding tool. Under the so-called first call, the following projects seeking CEF co-financing will be proposed to the European Commission:

- Pilsen junction, second construction – renovation of the passenger railway station, including Mikulášská bridges,
- Pilsen junction, third construction – Domažlice line crossing,
- Optimisation of the Beroun (inclusive) – Králův Dvůr track section,
- Optimisation of the track section Prague-Hostivař – Prague Main Station, part II – Prague-Hostivař – Prague Main Station,
- ETCS: Petrovice u Karviné – Ostrava – Přerov – Břeclav.

In addition, preparations will continue with respect to projects eligible for the next CEF call or for possible co-financing from the Operational Programme Transport 2 (OPT 2), which is intended to co-finance projects outside the main transport network in the 2014–2020 programming period. Clear priority will be given to completing the modernisation of railway corridors and lines that are part of the European railway network. SŽDC has been working closely with the Czech Ministry of Transport and SFTI on all these projects.

The modernisation of the railway infrastructure also includes technological construction projects resulting from European standards. These primarily relate to implementing the GSM-R and ETCS under the amended ERTMS National Implementation Plan. In the following years, the modernisation of the railway infrastructure forming the main TEN-T network will continue in accordance with applicable technical specifications for interoperability (TSIs). Attention will also be devoted to applying Energy TSI standards and meeting the European Deployment Plan with respect to the control-command and signalling subsystem.

Compliance with the above standards is paramount in developing so-called freight corridors, established under Regulation (EU) No. 913/2010 of the European Parliament and of the Council as a new priority for freight transport. In accordance with this regulation, SŽDC will focus on building related structures and putting the corridors into operation. As part of its future international activities, SŽDC expects to actively support the new structure of the TEN-T network and to participate in the general revision of all TSIs as part of the EU's new approach.

SŽDC'S KEY PRIORITIES RELATING TO THE MODERNISATION AND DEVELOPMENT OF THE RAILWAY INFRASTRUCTURE

Key priorities for 2015

Ensure that the remainder of the existing OPT is fully utilised by suitable projects

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

Ensure preparation of suitable projects for OPT II

Key objectives for the upcoming 2014–2020 programming period

Completion of corridor modernisation

Railway junction modernisation

Interoperability structures (GSM-R + ETCS)

Other major constructions

Preparation of HCs

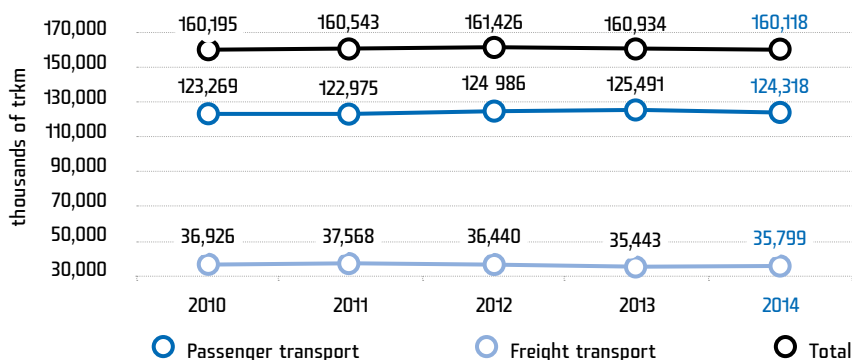
UTILISATION OF THE RAILWAY INFRASTRUCTURE BY CARRIERS

The number of carriers that have concluded a contract with SŽDC for the operation of rail transport using the state-owned national and regional railway infrastructure slightly increased, currently totalling 89. However, this does not mean that all the carriers use the railway infrastructure regularly throughout the year. In 2014, for example, the number of carriers actually using the infrastructure totalled 50 in January, 56 in April, 59 in July, and 55 in December. Having a contract in place is one of the statutory conditions to operate rail transport.

In passenger transport, the output of carriers in 2014 slightly decreased in terms of the number of train kilometres, while gross tonne kilometres remained the same. České dráhy, a.s. continues to maintain the dominating share of output in passenger transport, with 95.3% (trkm) and 93.3% (gtkm). The output of other passenger carriers slightly increased (RegioJet a.s.) or remained the same (LEO Express a.s.).

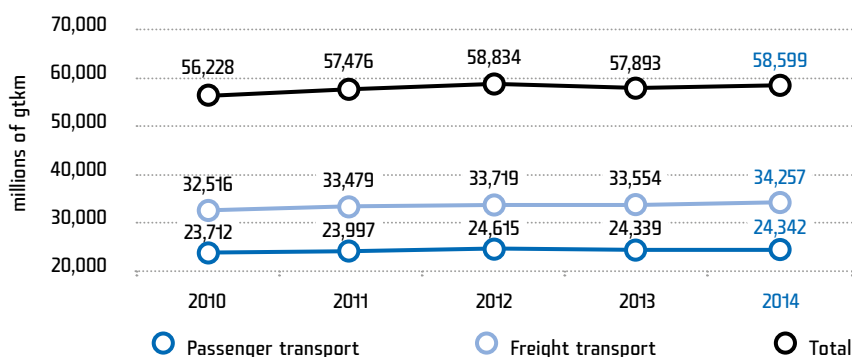
The declining trend in **freight transport** output, as recorded in previous years, was stopped, with the number of gtkm even slightly higher than in 2013. However, a continued decrease in both indicators was recorded by the largest carrier, ČD Cargo, a.s., whose share of total output measured in trkm and gtkm fell to 68.0% and 69.9%, respectively. Nevertheless, this drop in output was fully offset by other carriers. In other words, in 2014 demand for transport in the Czech Republic remained the same as in the previous year, with consignments shifting between carriers.

Output of carriers on network operated by SŽDC in 2010–2014



Train kilometres (trkm) represent the distance travelled by train in kilometres.

Output of carriers on network operated by SŽDC



The number of gross tonne kilometres (gtkm) is the product of the gross weight of the rolling stock (tractive units, railway carriages and other wheeled vehicles) integrated into the train and the distance travelled in kilometres.

Number of carriers (as at 31 December of each respective year):

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Number of carriers	50	52	53	56	53	62	68	75	79	84	89

Output of carriers on network operated by SŽDC in 2010–2014

Indicator/year	2010	2011	2012	2013	2014
Total trkm (thousands)	160,195	160,543	161,426	160,934	160,118
Passenger transport trkm (thousands)	123,269	122,975	124,986	125,491	124,318
Freight transport trkm (thousands)	36,926	37,568	36,440	35,443	35,799
Total gtkm (millions)	56,228	57,476	58,834	57,893	58,599
Passenger transport gtkm (millions)	23,712	23,997	24,615	24,339	24,342
Freight transport gtkm (millions)	32,516	33,479	33,719	33,554	34,257

Carriers' percentage share of passenger transport production (2013 versus 2014)

Carrier/indicator, year	trkm 2013	gtkm 2013	trkm 2014	gtkm 2014
České dráhy, a.s.	95.61	94.87	95.34	93.27
RegioJet a.s.	1.94	3.40	2.09	5.01
LEO Express a.s.	1.65	1.47	1.68	1.45
GW Train Regio a.s.	0.34	0.08	0.35	0.08
Vogtlandbahn-GmbH, organizační složka	0.32	0.13	0.32	0.13
Other carriers	0.14	0.05	0.22	0.06

Carriers' percentage share of freight transport production (2013 versus 2014)

Carrier/indicator, year	trkm 2013	gtkm 2013	trkm 2014	gtkm 2014
ČD Cargo, a.s.	73.47	76.33	67.97	69.90
Advanced World Transport a.s.	6.02	7.78	9.48	12.43
UNIPETROL DOPRAVA, s.r.o.	3.56	3.87	3.82	4.21
IDS CARGO a.s.	1.85	2.06	1.57	2.99
SD – Kolejová doprava a.s.	1.40	1.92	1.90	1.88
Rail Cargo Austria Aktiengesellschaft	1.21	1.77	1.41	2.26
LTE Logistik a Transport Czechia s.r.o.	0.93	1.18	0.91	1.23
METRANS Rail s.r.o.	0.79	0.95	1.16	1.51
BF Logistics s.r.o.	0.71	0.92	0.80	0.94
PKP CARGO SPÓŁKA AKCYJNA	0.71	0.89	0.72	0.95
Other carriers	9.35	2.33	10.26	1.70

PATH CAPACITY ALLOCATION

Pursuant to the Railway Act, SŽDC allocates path capacity on the state-owned national and regional networks. As part of the capacity allocation process, SŽDC is required to ensure equal access to the railway infrastructure for all carriers. In this respect and in accordance with the Railway Act, SŽDC issues the National and Regional Network Statement, which describes the process of path capacity allocation, including the data required to be disclosed in applications and the timetable for submitting applications.

Applications for path capacity allocation are classified into the following categories:

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

Movement in allocated path capacity (in path days)

Year	2010	2011	2012	2013	2014
Application for path capacity allocation as part of preparing the annual timetable (ordinary or delayed application)	3,759,730	3,599,600	3,579,854	3,310,034	3,164,124
Application for path capacity allocation as part of a change to the annual timetable	128,949	90,347	80,806	85,096	92,687
Application for ad hoc path capacity allocation	246,789	248,935	218,281	231,665	257,130
Total	4,135,468	3,938,882	3,878,941	3,626,795	3,513,941

A path day represents one path on one day. The number of path days is the number of days for which capacity is allocated to the respective path.

Movement in the number of processed applications

Year	2010	2011	2012	2013	2014
Number of processed applications	163,166	166,767	163,685	180,579	206,195

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

On 12 December 2012, SŽDC published the National and Regional Network Statement valid for the 2014 timetable in the Transportation and Tariff Bulletin. During the preparation of the 2014 timetable, a total of 25 carriers submitted applications for path capacity allocation, 12 of which related to passenger transport. After a coordination process, carriers were allocated capacity and their requests were incorporated into the 2014 timetable, which was valid from 15 December 2013 to 13 December 2014.

Similarly, carriers were asked to submit their applications for capacity allocation for the 2015 timetable (the National and Regional Network Statement valid for the 2015 timetable was published on 4 December 2013).

In today's digital world, the **timetable** can be flexibly tailored to the changing needs of clients and carriers as well as to the current state of the rail infrastructure. We use modern communication channels to promptly inform all our passenger and freight transport customers of any changes in the timetable.

RAIL NETWORK AND RAIL TRANSPORT OPERATION SAFETY

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

RAIL NETWORK AND RAIL TRANSPORT OPERATION SAFETY SYSTEM

SŽDC holds a rail operator safety certificate 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, has a rail network and rail transport operation safety management system in place 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 the 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 to avoid the occurrence of accidents focus on monitoring and prevention, and on the issuance of instructive handouts. The inspections performed in 2014 identified no systemic deficiencies. The deficiencies that were identified were discussed with the employees involved and their line managers. Instructive handouts were issued as guidance for employees.

ISO 9001 QUALITY MANAGEMENT CERTIFICATE

As part of an effort to continuously 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 attests that the management system

is properly and effectively implemented, as required by applicable standards and regulations, and that documentation is managed appropriately.

INVESTIGATION OF ACCIDENTS AND WORK INJURIES

The duties of rail operators and carriers include the investigation of accidents and work injuries in terms of identifying the causes and circumstances of their occurrence, and the adoption of measures to prevent such accidents and work injuries.

Thanks to network-wide coverage and non-stop emergency service, SŽDC has been successful in minimising the time necessary to arrive at the site of accident or work injury, thus also minimising the losses incurred by carriers.

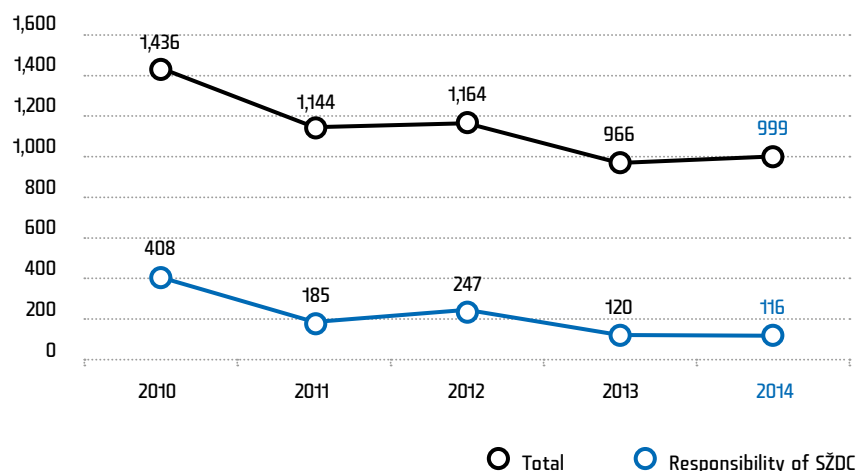
To further improve its financial results and to achieve the required quality and consistency of investigations, SŽDC also conducts contractual investigations of the causes and circumstances of accidents and work injuries for other carriers and rail operators. At present, SŽDC has concluded 68 such contracts.

ACCIDENT RATE

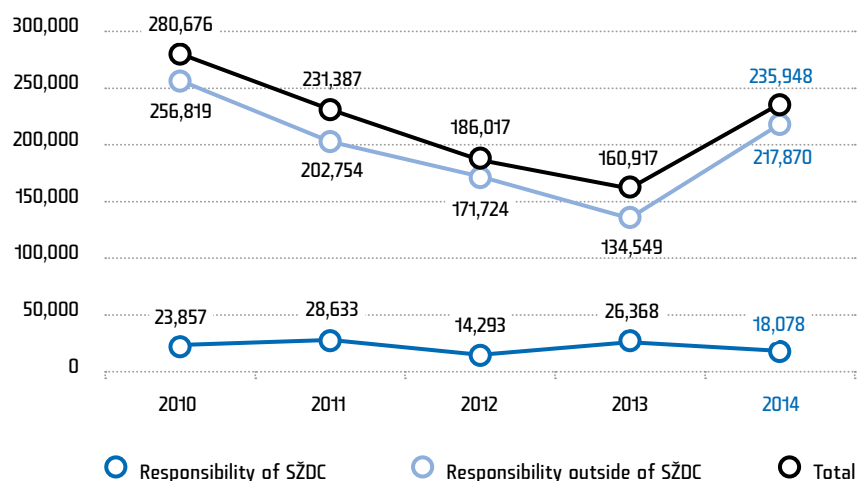
An analysis of accident rates for the past five years shows that despite a slight increase in the total number of accidents, the number of accidents caused by SŽDC has decreased. The material damage caused by SŽDC has also fallen, in spite of a relatively sharp increase in total material damage compared with 2013 (up 46.6%).

The 2014 accident rate figures show that SŽDC operates the infrastructure safely and in full compliance with TSI and other regulations and requirements of the EU.

Comparison of the total number of accidents in 2010–2014



Comparison of material damage in 2010–2014 (TCZK)



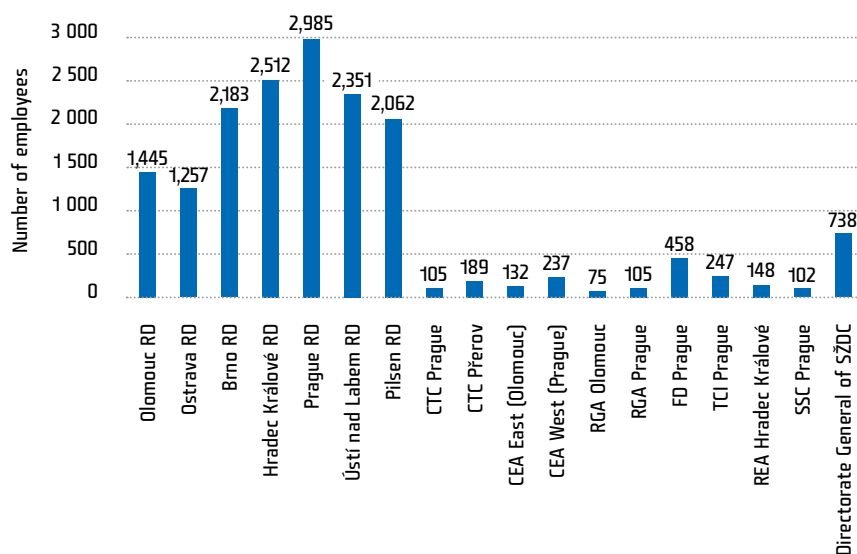
HUMAN RESOURCES

EMPLOYEES

As at 1 January 2014, SŽDC had 17,157 employees working in 203 professions across its 17 organisational units, which operate in the individual regions of the Czech Republic, and at the Directorate General. Since its inception 11 years ago, when it had just 61 employees, SŽDC has become a major employer in the Czech Republic and the largest employer in the rail transport sector.

Based on the decision of the Management Board of 5 September 2014, employee recruitment was started in the fourth quarter of 2014 in order to achieve the optimal number of operational staff in technical administration centres (specialising in the railway infrastructure, electrical engineering, power engineering, and communication and signalling equipment). As a result, the number of employees increased by 131 (0.8%) year-on-year.

Number of employees by organisational unit at 31 December 2014

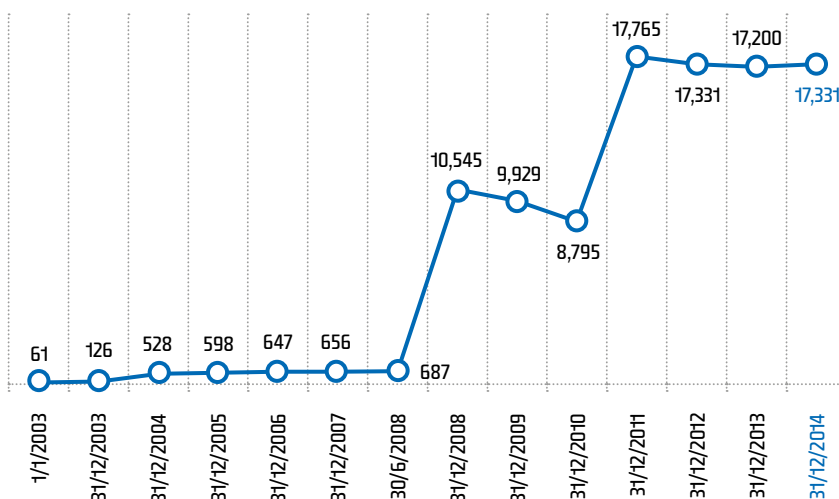


(RD – Regional Directorate, CTC – Central Traffic Control, CEA – Civil Engineering Administration, RGA – Railway Geodesy Administration, FD – Fire Department, TCl – Technical Centre of Infrastructure, REA – Railway Energy Administration, SSC – Shared Service Centre.)

The age structure of employees did not change significantly year-on-year. As at 31 December 2014, the aver-

age age of SŽDC's employees was 47.36 years.

Number of SŽDC's employees

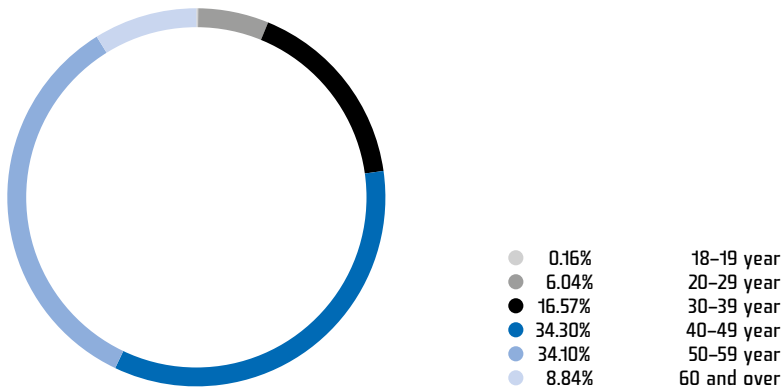


Since rail transport is a male-dominated industry, the share of male employees – at 74% – continued to prevail as at 31 December 2014. Compared with the situation as at 31 December 2013, the share of female employees thus decreased slightly year-on-year.

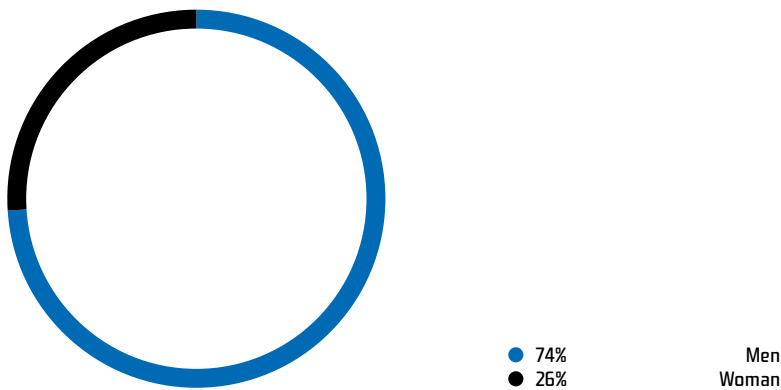
The year 2014 saw an improvement in the employee structure by educational attainment. The proportion of employees with incomplete education, primary education or vocational training decreased year-on-year by 6%, while the percentage of those with a high school diploma increased by the same amount. The percentage of employees with a college, university or doctorate degree remained the same at 11%.

There were no significant changes in the structure of the organisational units in 2014.

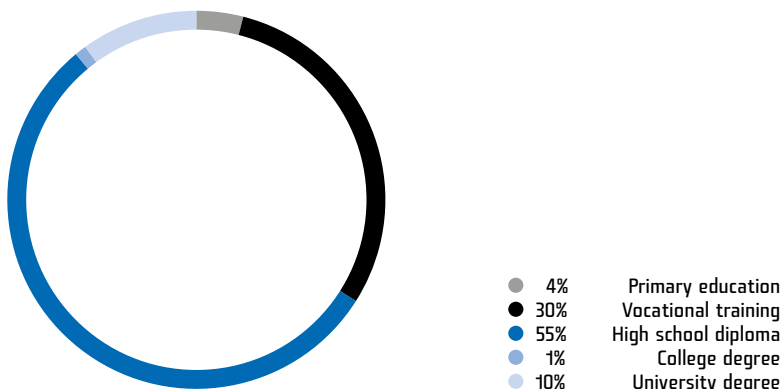
Age structure of employees as at 31 December 2014



Gender structure of employees as at 31 December 2014



Employee structure by educational attainment as at 31 December 2014



REMUNERATION AND EMPLOYEE BENEFITS

The remuneration policy and the extent of employee benefits provided were negotiated in SŽDC's Collective Agreement for 2014. Rules for the remuneration of SŽDC's employees for the period from 1 January 2014 to 31 December 2014 formed Appendix 2 to the Collective Agreement. A uniform payroll system continued to be applied. The tariff wage component was increased and new rules were set for certain bonuses. In 2014 SŽDC met all of the obligations towards its employees in terms of remuneration and employee benefits.

The range of employee benefits, which are provided to stabilise and motivate employees, did not change in 2014. In addition to transportation benefits and benefits relating to working hours and holidays, SŽDC continued to provide, among other things, contributions towards its employees' supplementary pension insurance and life insurance schemes. A total of 2,118 employees performing selected professions determined by the Collective Agreement to be exhausting attended a reconditioning treatment programme at one of the four designated spa facilities (Jeseník Priessnitz Spa, Teplice nad Bečvou Spa, Lúčky Spa and Rajecké 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 and cultural and sports activities, including participation in international railway events and regional and national qualifiers. Employees and their family members could also use employer-contributed holiday packages.

COOPERATION WITH TRADE UNION ORGANISATIONS

As keeping social peace is the priority of its social policy, SŽDC places great emphasis on cooperation with trade union organisations. As at 31 December 2014, nine trade union organisations – both multi-profession organisations as well as organisations representing a single profession – continued to operate at SŽDC. During 2014, representatives of the employer and the trade unions held regular joint meetings, where information was provided and discussed with the social partners in accordance with the Labour Code and SŽDC's Collective Agreement in force. From 10 March 2014, collective bargaining about the first amendment to SŽDC's Collective Agreement for 2014 was held to address the method of remuneration of selected groups of infrastructure and traffic control staff in selected workplaces. As of 26 August 2014 this was superseded by the negotiation of a new collective agreement, culminating in the conclusion of SŽDC's Collective Agreement for 2015 on 1 December 2014.

TRAINING

The main training objective was the consolidation of technical training for rail maintenance and repair and traffic control staff. On 1 September 2014 a new regulation on the professional qualification and knowledge of rail operation personnel entered into force, setting rules for both in-house employees and contractors. In addition, the in-house psychological centre in Česká Třebová was used to full capacity, as psychological evaluation is a necessary requirement for the 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. Additionally, workshops on amended and new legal regulations were organised. SŽDC maintained and further developed its contractual cooperation with selected high schools and universities.

MEDICAL CARE AT WORK

Occupational medical care was provided to SŽDC employees through a contractual healthcare provider. In addition to the prescribed types of medical examinations (entry, regular, extraordinary and exit check-ups), it also focused on workplace monitoring as part of occupational safety and health inspections. Job applicants and SŽDC employees used these occupational medical care services throughout 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 as well as on updating the classification of jobs and occupational medical check-ups.

In 2014 we recorded a total of 400 work injuries, including one fatal injury. The fatal injury was caused by a car crash and was not related to rail operation. Three work injuries required hospitalisation for more than five days; 144 work injuries were classified as other work injuries with subsequent sick leave longer than three calendar days; one injury was included in other work injuries with subsequent sick leave of up to three calendar days; and 251 injuries were classified as other work injuries without subsequent sick leave.

INTERNATIONAL COOPERATION

Our objective in terms of international cooperation is to support and promote the interests of the Czech railway infrastructure in Europe with the aim of creating a functional and reliable network for passenger and, most importantly, freight transport. The incorporation of Czech paths into the main European routes is a necessary condition for the development of Czech railways and for 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 that is interoperable from an international point of view. Meeting this objective is conditional on intensive Europe-wide cooperation.

In 2014, SŽDC continued to negotiate effectively with its international partners on all levels, both within international railway organisations and through direct involvement in European Commission committees (RISC and SERAC). As in previous years, experts also continued working with CEN and CENELEC on the development of standards.

RAIL FREIGHT CORRIDORS

SŽDC got actively involved in the emerging bodies of rail freight corridors ("RFCs") as defined by Regulation (EU) No. 913/2010 of the European Parliament and of the Council concerning a European rail network for competitive freight. Relevant to the Czech Republic are four of the nine defined RFCs, namely: RFC 5 Baltic – Adriatic, RFC 7 Orient, RFC 8 North Sea – Baltic, and RFC 9 – the so-called Czech-Slovak corridor. Under the original Regulation, RFC 7 Orient started in Prague and continued to Constanta and Athens,

without any connection to North Sea ports. In accordance with Regulation No. 1316/2013, the main TEN-T corridor network was integrated with the RFC network. Representatives of RFC 7 are therefore preparing the corridor's extension from Prague to the North Sea ports of Hamburg, Rostock, Wilhelmshaven and Bremerhaven. Similarly, preparations are underway with respect to integrating the Czech-Slovak corridor (RFC 9) with the new Rhine – Danube corridor (also RFC 9), which will provide the Czech Republic with rail connections to Strasbourg, Baden-Württemberg and Bavaria. SŽDC also strives for full membership of RFC 8 so as to ensure better access to the ports of Rotterdam, Amsterdam and Antwerp. This is a very important step for the Czech Republic's integration into the European freight transport network.

In 2014, a single contact point – a so-called Corridor One Stop Shop ("C-OSS") – in Budapest was assigned to the entire RFC 7, which was put into operation on 10 November 2013; for RFC 9 (Prague – Čierna nad Tisou), the C-OSS duties in 2014 were performed by SŽDC in Prague. The Baltic-Adriatic corridor (RFC 5), connecting Polish Gdynia with Koper in Slovenia and Italian ports, is to commence operation on 10 November 2015.

INTERNATIONAL RAILWAY ORGANISATIONS

INTERNATIONAL UNION OF RAILWAYS (UIC)

Since its inception, the UIC has strived to harmonise technical railway standards and, in cooperation with the European Railway Agency

(ERA), to create conditions for an interoperable railway system. SŽDC's experts continue to actively participate in various working groups and are also involved in individual projects, primarily within the Rail System Forum. We succeeded in incorporating SŽDC's comments and influencing several new guidelines, while sharing experience related to railway superstructure and substructure, artificial structures, communication and signalling equipment, energy systems and electric traction. SŽDC also participated in projects within the UIC's Environment Forum. The issues of rising crime levels (primarily metal theft), secure operation and potential cyber attacks were the topics of various negotiations within the UIC's Security Forum, with which SŽDC actively cooperated. Also related to rail operation and the maintenance of relations with other European railways was our experts' activity in the Assessment of Capacity Calculation Values (ACCVA) working group, which addressed the principles of evaluating the calculated capacity of lines and stations.

COMMUNITY OF EUROPEAN RAILWAY AND INFRASTRUCTURE COMPANIES (CER)

The CER brings 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 CER. SŽDC appreciates the CER's activities primarily with regard to negotiations with EU institutions (the European Commission, the European Parliament and the European Council), and actively participates in

preparing opinions on EU draft legislation affecting rail transport. SŽDC's experts are members of many of the CER's working groups, focusing on infrastructure, energy, corridors, safety, human resources, rail traffic management, etc. As in the previous year, the majority of work in 2014 related to updating relevant TSIs and expanding them outside the defined TEN-T network.

RAILNETEUROPE (RNE)

SŽDC actively participated in the activities of RNE, a major international non-profit association of rail infrastructure managers and path capacity allocators. In 2014, the association continued to concentrate on providing support to carriers with respect to their cross-border activities (both in terms of passenger and freight transport) and on improving the processes of infrastructure managers, primarily by further harmonising the conditions for cross-border rail transport, coordinating the preparation of timetables across Europe and unifying the marketing and sale of international paths (including the Network Statement). Of particular note was the cooperation of infrastructure managers with regard to railway operation. RNE's tasks were carried out by permanent working groups and ad hoc project groups.

NORTH ATLANTIC TREATY ORGANISATION (NATO)

SŽDC was actively involved in the work of NATO's Civil Emergency Planning Committee, specifically in the work of the Planning Board for Inland Surface Transport. One of the main tasks of this board is to ensure that the host country provides support to NATO troops, and to coordinate the transfer of troops to individual NATO missions.

EUROPEAN TELECOMMUNICATIONS STANDARDS INSTITUTE (ETSI)

SŽDC is a member of ETSI, a non-profit organisation which produces globally applicable telecommunications standards for Europe. Thanks to its membership, SŽDC has access to all published standards and specifications relating to this area.

ORGANISATION FOR COOPERATION BETWEEN RAILWAYS (OSJD)

SŽDC's experts participated in the activity of OSJD's Commission V – Infrastructure and Rolling Stock, primarily in the groups working on issues concerning superstructure (List of rail defects), substructure and track diagnostics.

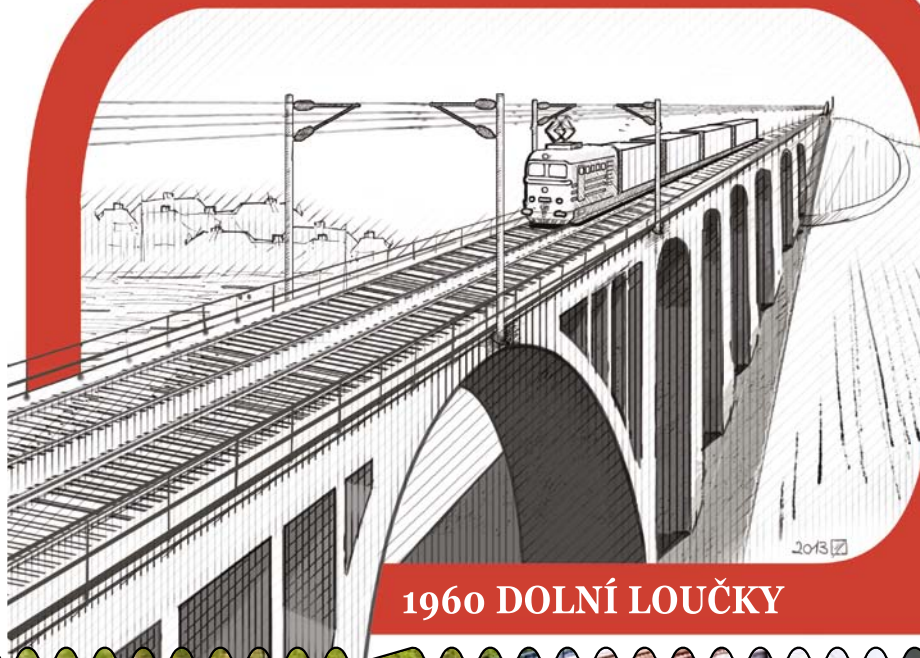
BILATERAL AND MULTILATERAL RELATIONS

In 2014 SŽDC negotiated with neighbouring and other European railways, e.g. with the managing director of Polish railways PKP Polskie Linie Kolejowe S.A. ("PKP PLK S.A.") at a transport conference in Ostrava and with the managing director and management of Slovak railways Železnice Slovenskej republiky ("ŽSR") in Bratislava. Bilateral talks were held with Administrador de Infraestructuras Ferroviarias, a Spanish infrastructure company, regarding further cooperation.

In 2014, bilateral and multilateral international contractual relations included the commencement of the amendment of local cross-border arrangements between SŽDC and PKP PLK S.A. and between SŽDC and ŽSR. The opening of the border crossing Dolní Poustevna – Sebnitz, which involved the preparation of an amendment to an agreement on the integration of infrastructure concluded between SŽDC and DB Netz AG on 17 June 2014, can be considered a significant achievement. Without such amendments, it would be impossible to operate traffic between stations in the border region.

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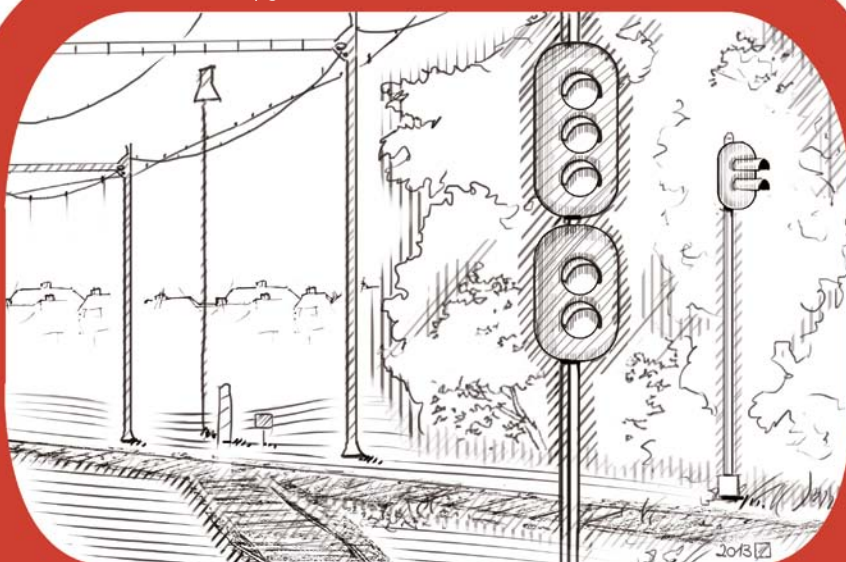
SŽDC - 175. VÝROČÍ ŽELEZNIČNÍ DOPRAVY



1960 DOLNÍ LOUČKY

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SŽDC - 175. VÝROČÍ ŽELEZNIČNÍ DOPRAVY



1960 SVĚTELNÁ NÁVĚSTIDLA



RAILWAY VIADUCT IN DOLNÍ LOUČKY

The railway viaduct in Dolní Loučky is one of the major ferro-concrete arches in Eastern Europe. The span of the main arch is 110 metres and the bridge is 40 metres high. It was put into operation in 1953 and a picture of this unique construction put on a twenty-heller postage stamp bearing an inscription typical for that period: the Structure of Socialism.

_FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE OF SŽDC

An accounting loss of CZK 2,364 million was generated for the 2014 accounting period. The accounting loss is primarily a result of accounting depreciation and revenue from the remission of SŽDC's liabilities ("debt remission"). Both items are only accounting transactions, not affecting the balance of income and expenses. The amount of depreciation charged will exceed the amount of debt remission both this year and in the following years.

SŽDC aims to stabilise the cash inflows and outflows resulting from its operations so that its operating cash flows are balanced.

Revenue from use of railway infrastructure represents payments for track access by carriers. For SŽDC, this is a significant source of income, which is used to cover expenses related to rail network maintenance and railway transport organisation.

Revenue from allocated railway infrastructure capacity represents SŽDC's income pursuant to the Railway Act, which stipulates that SŽDC is the institution in charge of capacity allocation. For more information about capacity allocation, see the National and Regional Network Statement.

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

SFTI subsidies constitute the most significant revenue and cash-generating item of SŽDC, and are used to cover expenses relating to the operation of the railway infrastructure. The SFTI provides, on a contractual basis, non-investment funds for the repair and maintenance of the state-owned national and regional networks managed by SŽDC.

SŽDC's financial performance for 2014 was primarily influenced by the following items:

	(in millions of CZK)
Revenue from use of railway infrastructure	4,194
Revenue from allocated railway infrastructure capacity	91
Subsidies for railway infrastructure not paid from SFTI	549
Subsidies from SFTI for repairs and maintenance	11,662
Subsidies from SFTI for repairs and maintenance related to June 2013 floods	534
Subsidies from SFTI co-financed from OPT	120
Other subsidies	28
SŽDC debt remission as per Czech Government Resolution No. 1553 from 2005	2,087
Purchase and sale of energy and distribution services	339
Materials, energy consumption and services	-10,077
Personnel expenses	-8,460
Accounting depreciation	-4,132
Other operating revenues and expenses	1,032
Operating profit/loss	-2,033
Interest expense/interest income	-268
Exchange rate differences	-54
Other financial revenues and expenses	-4
Profit/loss from financial operations	-326
Profit/loss before tax	-2,359
Deferred tax	-5
Profit/loss after tax for the year	-2,364

Subsidies from SFTI for repairs and maintenance related to floods are intended to cover expenses relating to the removal of damage caused by the June 2013 floods.

Subsidies from SFTI co-financed from OPT are intended to remove speed drops in selected track sections, focusing on speed-limiting repairs of signalling equipment and changes in the geometric position of tracks, including modifications to drainage and artificial structures. In 2014, construction plans and projects were developed and submitted.

Other subsidies primarily comprise subsidies from OPT (wage reimbursement – EU Funds Section), operational subsidies from SFTI for studies, and subsidies from OPE pre-financed from SFTI for the restoration of biotopes along the railway infrastructure in the Vysočina Region.

A significant item with a substantial effect on SŽDC's revenues is the **revenue resulting from the remission of SŽDC's liabilities** ("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 through the accounting remission of SŽDC's debt. 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 relating to the purchase of distribution services and electricity (low- and high-voltage transfer points outside electric traction to cover SŽDC's internal consumption and to supply electricity to external customers connected to the local distribution network of the railways) and expenses relating to the purchase of distribution services and electricity for the supply and transfer points of electric traction. The item also includes revenue from the sale of distribution services and electricity as well as revenue from the sale of distribution services for electric traction.

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.

Significant operating expenses also include **accounting depreciation**, i.e. the recognition of the depreciation of fixed assets in expenses.

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

Interest expense primarily results from bank loans relating to capital expenditures that were taken over from the former state organisation České dráhy (Czech Railways). As stated in the notes to the financial statements, interest owed to the banks is paid by the Czech Ministry of Finance on behalf of SŽDC. Only in the case of the loan provided by Česká spořitelna, a. s. for railway infrastructure improvement projects does SŽDC use its own resources to pay all expenses related to the loan agreement, 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 2014. Most loans taken over from the former state organisation České dráhy (Czech Railways) are denominated in euros. As the Czech crown depreciated against the euro in 2014, the Czech crown value of these liabilities increased. The resulting difference was recognised as an expense in accordance with applicable regulations.

OPERATION AND OPERABILITY OF THE RAILWAY INFRASTRUCTURE

OPERATING THE RAILWAY INFRASTRUCTURE

Total expenses incurred in ensuring the operational control of the railway infrastructure amounted to CZK 4,889 million in 2014. They primarily included track operation activities ensured by the Regional Directorates and Central Traffic Controls, as well as centrally recorded expenses relating to the division of the Assistant Director General for Traffic Control. 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. Expenses related to these activities are mainly covered by: SŽDC's own resources, comprising primarily revenue from the use of railway infrastructure paid by rail transport operators; contributions from 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. In the accounting system, expenses related to ensuring railway infrastructure capacity and preparing the timetable are identified via an order system and covered by revenues from path capacity allocation and timetable preparation.

OPERABILITY OF THE RAILWAY INFRASTRUCTURE

SŽDC ensures the operability of the national and regional rail infrastructure managed by SŽDC, comprising the following sectors: railroad tracks (superstructure and substructure), rail substructures, bridges and tunnels, buildings and structures, electrical and energy equipment, and communication and signalling equipment under its management. To ensure operability, it uses both its own HR, engineering and technical capacity (primarily the capacity of its own organisational units – the Regional Directorates and

specialised units) and contractual relations with suppliers operating in the respective market. In 2014, work continued on the removal of the aftermath of the flood damage caused in June 2013 to the railway infrastructure primarily in the Labe (Elbe) and Vltava (Moldau) river basins. The operability of the railway infrastructure is ensured using the budget of SFTI, which provides SŽDC with non-investment funds to finance the repair and maintenance of the state-owned national and regional networks. In addition, construction plans and projects co-financed from OPT were developed and submitted in 2014. The total expenses incurred in ensuring the operability of the railway infrastructure, excluding depreciation and including the allocation of centrally recorded expenses relating to the division of the Assistant Director General for Rail Operability, amounted to CZK 12,350 million in 2014.

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)
Revenues from use of railway infrastructure	4,194
– freight transport (České dráhy, a.s., ČD Cargo, a.s.)	1,515
– passenger transport (České dráhy, a.s.)	1,785
– freight transport – other carriers	775
– passenger transport – other carriers	119
Revenue from allocated railway infrastructure capacity	91
Subsidies for railway infrastructure not paid from SFTI	549
Subsidies from SFTI for repairs and maintenance	11,662
Subsidies from SFTI for repairs and maintenance related to floods	534
Subsidies from SFTI co-financed from OPT	120
Subsidies from OPE pre-financed from SFTI	2

INVESTMENT PROJECTS

Funding for investment projects came mostly from public sources. Subsidies from EU funds continued to be the most significant source of investment funding in 2014. 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.

Subsidies from OPT accounted for the largest share of funding. Other sources of financing included funds from the Czech Ministry of Transport, SFTI and the TEN-T fund.

The volume of investment subsidies received in 2014 for the preparation and implementation of investment

projects relating to the railway infrastructure totalled CZK 12,649 million.

For the sources of investment subsidies received for the preparation and implementation of investment projects relating to the railway infrastructure, see the notes to the financial statements.

FINANCIAL OUTLOOK FOR 2015

SŽDC's goal is to work closely with relevant state administration bodies in order to keep cash inflows and outflows in balance while not increasing SŽDC's requirements for state budget funds. SŽDC's sources of income must fully cover its operating cash outflows in any given year. The main limiting factor is the amount of subsidy allocated from SFTI and the

pricing policy applied to the use of the railway infrastructure.

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

SŽDC's objective is to operate efficiently and to provide a railway infrastructure enabling 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 organisation's plans and objectives and on the organisation's financial performance.

The activities of SŽDC, a state-run organisation, are governed by laws and regulations applicable to the public sector, which significantly influences the organisation's approach to risk

management. At SŽDC, risk management is a continuous, systematic and methodical activity organised by the organisation's management in conjunction with the Internal Audit Department as part of the internal control system. The process includes mapping all potential risks, assessing the materiality of risks based on the probability of their occurrence and potential impact, adopting a set of measures to eliminate or minimise risks or to mitigate their adverse effects, and

monitoring the implementation and effectiveness of such measures. This is enabled by internal policies, whose observance is monitored as part of management controls and internal audits.

The most significant risks to which SŽDC is potentially exposed include operational and financial risks as well as risks relating to information technology, human resources and corruption.

OPERATIONAL RISK

The primary objective of operational risk management is to ensure the safe and failure-free operation of the railway infrastructure. With regard to traffic control and operability, risks are minimised as early as in the phase of recruiting new employees, with significant emphasis placed on their physical – and for selected professions, mental – fitness. New employees undergo training and take exams set for their future position by internal policy. For selected professions, periodic training sessions and exams are organised. Risk management also involves developing and constantly maintaining a system of internal policies that define the requirements for the individual components of the railway infrastructure as well as the correct procedures for performing work related to the railway infrastructure. In addition, regular inspections and measurements are carried out to assess the technical condition of the railway infrastructure. The monitoring activity is performed in accordance with internal guidelines and current priorities as determined at the beginning of each year.

In the event of accidents, the cause and circumstances of their occurrence are investigated, and corrective measures to prevent such accidents, including implementation deadlines, are proposed. The implementation of corrective measures is subsequently monitored and documented. Where an accident is proven to have been caused by an employee, relevant penalties and compensation of damage are 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 related to modernisation and ensuring the operability of the railway infrastructure are financed almost exclusively from subsidies, liquidity in these areas is managed in relation to the respective grants for the relevant fiscal period. In other areas, financed primarily from revenues, the key liquidity management tool comprises the continuous monitoring of cash flows and the utilisation of the appropriate volume of suitable loan products.

Up to a certain extent, the liquidity risk is also managed by issuing, and monitoring compliance with, 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 the construction and reconstruction of rail corridors denominated both in foreign currencies and Czech crowns taken over from České dráhy, státní organizace (Czech Railways, a state-owned entity). With one exception, all loans are guaranteed by the state, which eliminates any potential risk. Given the low interest rates that are prevailing and expected, the interest rate risk from the non-guaranteed loan denominated in Czech crowns is not currently hedged.

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

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.

ANTI-CORRUPTION MEASURES

In 2014, SŽDC issued the Employee Code of Conduct and the Internal Anti-Corruption Programme. These documents and the rules and procedures specified in them not only serve as a preventive tool but also ensure a prompt and effective response to suspected corruption while eliminating or mitigating related risks to which SŽDC is exposed as part of its activities.

AČESKÁ REPUBLIKA

ČESKÁ POŠTA • VLASTNÍ ZNAMKA • ČESKÁ POŠTA • VLASTNÍ ZNAMKA • ČESKÁ POŠTA • VLASTNÍ ZNAMKA • ČESKÁ POŠTA • VLASTNÍ ZNAMKA

SŽDC - 175. VÝROČÍ ŽELEZNIČNÍ DOPRAVY

2010 NOVÉ SPOJENÍ

2013

AČESKÁ REPUBLIKA

ČESKÁ POŠTA • VLASTNÍ ZNAMKA • ČESKÁ POŠTA • VLASTNÍ ZNAMKA • ČESKÁ POŠTA • VLASTNÍ ZNAMKA • ČESKÁ POŠTA • VLASTNÍ ZNAMKA

SŽDC - 175. VÝROČÍ ŽELEZNIČNÍ DOPRAVY

2010 STOŽÁR GSM-R

2013



NEW CONNECTION

The New Connection is a construction of parts of the Prague railway junction, at the periphery of Žižkov and in Libeň, built gradually during 2004–2010. The railway two-track ferro-concrete scaffold bridge has become the winner of the Bridge Work of the Year 2008 award, in the “New Structure” category.

CORPORATE SOCIAL RESPONSIBILITY

AS ONE OF THE LARGEST COMPANIES IN THE CZECH REPUBLIC, SŽDC IS COMMITTED TO CORPORATE SOCIAL RESPONSIBILITY (“CSR”) VIS-À-VIS ITS EMPLOYEES, PARTNER ENTITIES AND THE GENERAL PUBLIC. ITS PRINCIPAL ACTIVITIES FULFIL ALL THREE PILLARS (SOCIAL, ECONOMIC AND ENVIRONMENTAL) OF THE EUROPEAN CSR STRATEGY. AS PART OF ITS INTERNAL PROGRAMMES, SŽDC CREATES CONDITIONS FOR THE PERSONAL AND PROFESSIONAL DEVELOPMENT OF EMPLOYEES, AND COOPERATES WITH INTEREST GROUPS AND ORGANISATIONS FROM THE TRANSPORTATION SECTOR AS WELL AS WITH SECONDARY SCHOOLS AND UNIVERSITIES SPECIALISING IN SUBJECTS RELATING TO TRANSPORTATION.

COOPERATION WITH SCHOOLS

In 2014, SŽDC continued its cooperation with selected technical and business secondary schools and universities, whose graduates may find employment with SŽDC in the future. This cooperation gives students the opportunity of on-the-job training under the supervision of experienced professionals. In addition, SŽDC’s employees give lectures and teach certain technical subjects, define topics for students’ theses, and attend professional conferences organised by partner schools. For more information on SŽDC’s cooperation with schools, including a list of student events, visit www.szdc.cz/studenti.

PREVENTIVE TRAIN

2014 saw the continuation of a joint project of České dráhy, a. s. (Czech Railways), SŽDC, the Rail Safety Inspection Office, BESIP (a road safety organisation), the Czech Ministry of Transport, the Police of the Czech Republic and ČD Cargo, a.s. The objective of the project, which is aimed at primary and secondary school students, is to use films and discussions with professionals dealing with railway accidents to raise public awareness of the main risks of inappropriate railway and train behaviour. The project also included demonstration of rescue work by rail firefighters, and gave participants the chance to test their

ability to provide first aid correctly and ask firefighters about their experience of responding to rail accidents.

STUDENT CUP

In 2014, the second year of the project, which focuses mainly on 8th and 9th grade primary school pupils, was organised both in Prague and, for the first time, in Brno. At the two events, SŽDC presented selected railway professions and highlighted the issue of safety at level crossings. In addition, partner schools and their programmes related to SŽDC’s activities were presented to the pupils.

STUDENT CONFERENCE

In 2014 SŽDC held the first interactive conference aimed at talented and motivated secondary school and university students specialising in technical subjects who wish to get actively involved in the development of Czech railways. The purpose of the event was to present the latest news in rail transport and familiarise students with job opportunities at SŽDC and other partner organisations. Professional lectures were supplemented with discussions that students could join via a web interface.

Cooperation with the Labour Office
At the end of 2014, SŽDC and the Czech Labour Office signed a memorandum on cooperation with respect to promoting employment. SŽDC thus acted on the decision of its Management Board, which for 2014–2015 approved the recruitment of 469 operational employees specialising in railway infrastructure administration, electrical engineering, power engineering, and communication and signalling equipment. The goal is to ensure the necessary maintenance and repair of the railway infrastructure. As a socially responsible employer, SŽDC also offers new positions to applicants under 30 and over 50 years of age in regions with a high unemployment rate. In addition, it works with regional labour offices to pre-select suitable candidates. Using support from the POVEZ project, which supports employee professional training, SŽDC also organises retraining courses. These are attended by both job applicants and SŽDC’s existing employees, who can thus retrain to work in a profession not jeopardised by loss of employment.

RESPONSIBLE MANAGEMENT OF HUMAN RESOURCES

SŽDC has formulated a strategy defining its long-, medium- and short-term objectives and tasks related to human resources management. The strategy is updated annually. In cooperation with the trade union organisations, SŽDC ensures that health and safety procedures are followed and that its employees are in good health. For more information, please read the chapter on human resources.

ORGANISATION PERIODICALS

Being a modern and promising organisation, SŽDC publishes two periodicals for internal and external communication purposes. The in-house bulletin *My Railways (Moje železnice)* is intended for all employees. Featuring articles on rail transport, it focuses on supporting employees' professional and personal development. The professional quarterly *Modern Railways (Moderní železnice)* is primarily aimed at business partners as well as state and local government officials.

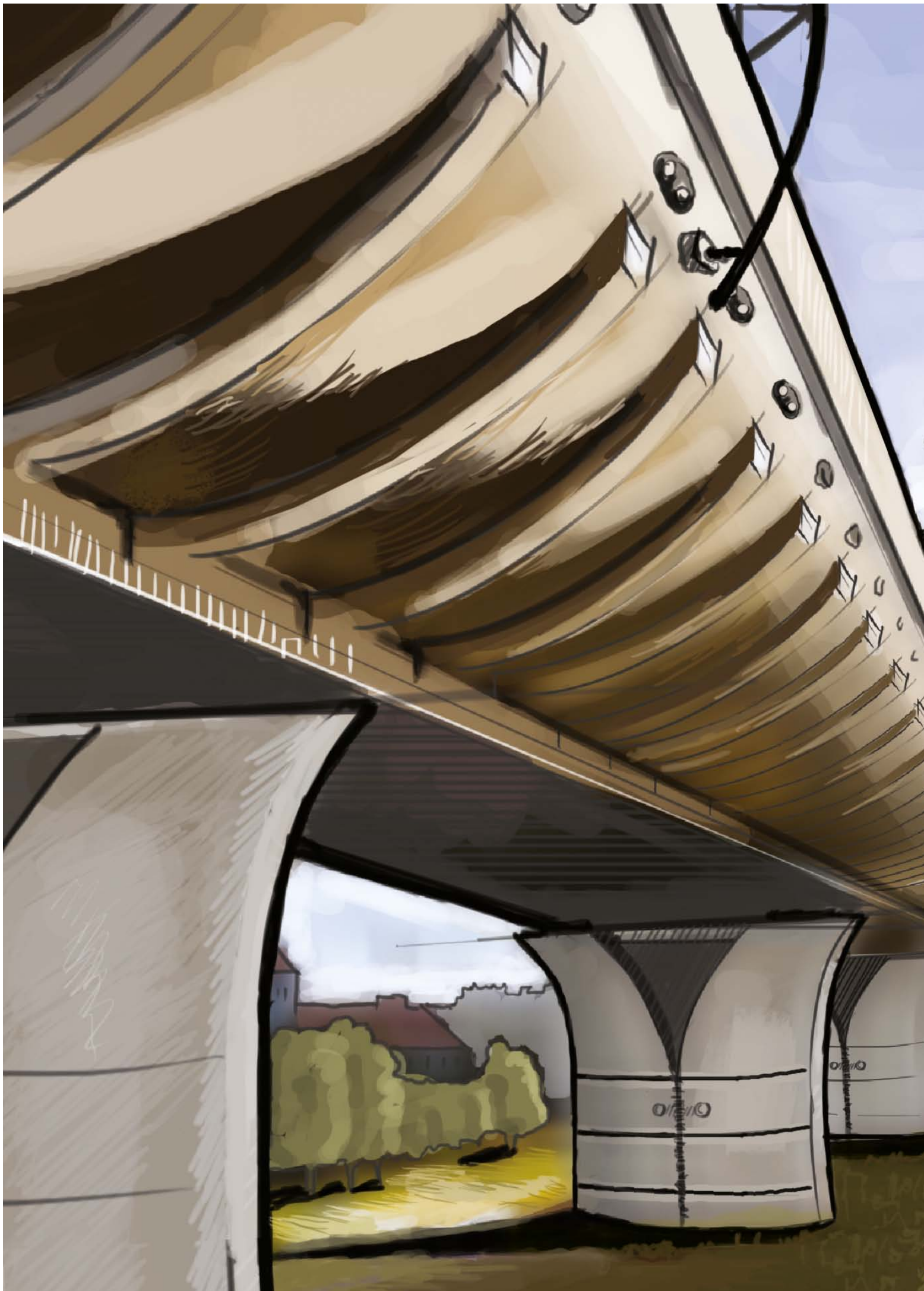
RAILWAYS FOR THE FUTURE ENVIRONMENT

That was the subtitle of the third annual SŽDC photo competition, organised in 2014 to commemorate the 175th anniversary of Czech railways. The contest was open to both amateur and professional photographers who captured the modernisation of the railway infrastructure in an original manner. SŽDC used the winning photos to create a 2015 wall calendar and to compile a photo archive that will be utilised in preparing future professional publications.

THE SŽDC TEAM

In 2014, SŽDC launched a unique internal communication project, entitled the SŽDC Team, whose purpose is to increase employee engagement, connect individual employees and professions, and develop the ability to communicate and cooperate within the organisation beyond the call of duty. In addition, SŽDC wants to use the project to shape its corporate culture so that employees are proud of the SŽDC brand. The project, which is aimed at all employees, offers a number of ways to get involved in the organisation's affairs. People voluntarily participate in a knowledge quiz and internal communication via discussions with members of management or colleagues, and through activities such as the posting of messages, comments, pictures or videos, motivate their colleagues to get involved and share their own story as well.

In 2014 a new methodology was approved regarding the maintenance of surrounding vegetation, enabling the removal of trees (mostly non-indigenous species of low environmental and aesthetical value) whose fall could threaten the safety of rail transport and impede traffic. SŽDC successfully implemented a pilot project involving the replacement of unsuitable vegetation along selected track sections in the Vysočina Region with small-growth shrubs that will not endanger the railway infrastructure. Instead, they will help stabilise embankments, support biodiversity and reduce the risk of snow covering the tracks in winter. SŽDC is fully aware of its environmental role and plans to continue working with the EU in this area.





2013 ☑



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT TO THE INSTITUTOR
OF SPRÁVA ŽELEZNIČNÍ DOPRAVNÍ CESTY, STÁTNÍ ORGANIZACE_54

FINANCIAL STATEMENTS_57

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013_63

PERSONS RESPONSIBLE FOR THE ANNUAL REPORT_102

ANNUAL REPORT ON THE PROVISION OF INFORMATION IN COMPLIANCE
WITH SECTION 18 OF ACT NO. 106/1999 COLL., ON FREE ACCESS TO INFORMATION_103

LIST OF ABBREVIATIONS_104

IDENTIFICATION AND CONTACT DETAILS_105

INDEPENDENT AUDITOR'S REPORT

TO THE INSTITUTOR OF SPRÁVA ŽELEZNIČNÍ DOPRAVNÍ CESTY,
STÁTNÍ ORGANIZACE



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This document is an English translation of the Czech auditor's report. Only the Czech version of the report is legally binding.

Financial statements

On the basis of our audit, on 10 June 2015 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 2014, 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 2014, 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.

IČ 49619187, DIČ CZ699001996, Obchodní rejstřík vedený Městským soudem v Praze, oddíl C, vložka 24185



Emphasis of matter

We draw attention to following facts stated in the notes to the financial statements.

Going concern basis

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 Správa železniční dopravní cesty, státní organizace 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. For 2015 Správa železniční dopravní cesty, státní organizace has contractually ensured funding from the State Fund of Transport Infrastructure for investment and non-investment activities of TCZK 46 795 951 and from the Ministry of Transport for non-investment activities of TCZK 550 000. The amount of funds should enable the Company to provide its activities within the same scope as in 2014. Správa železniční dopravní cesty, státní organizace will continue as a going concern and therefore the financial statements 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.

The Transformation Act

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 the presentation of tangible fixed assets and the sources of their funding in the balance sheet. Our opinion is not qualified in respect of this matter.

Settlement of bank liabilities and debt remission

As stated in note 7.1 to the financial statements, 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 3.14 and 4.10.2 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. Once settled, they are transferred to long-term payables to the State and they are subject to debt remission. 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 2014, the payables totalling CZK 2.09 billion (CZK 2.45 billion in 2013) were waived and this amount was recorded as a part of other operating revenues. 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.



Tangible fixed assets under construction acquired from subsidies

As stated in notes 4.2.1 and 3.10 to the financial statements, Správa železniční dopravní cesty, státní organizace recognised assets with a net book value of CZK 2.8 billion in tangible fixed assets under construction. This item also includes tangible fixed assets under construction acquired from subsidies costing CZK 2.55 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. Our opinion is not qualified in respect of this matter.

Tangible fixed assets acquired free-of-charge

As stated in note 4.2.7 to the financial statements, a 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 10 June 2015

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

Pavel Závitkovský
Partner
Registration number 69

FINANCIAL STATEMENTS

BALANCE SHEET IN FULL FORMAT AS AT 31 DECEMBER 2014 (IN THOUSANDS OF CZECH CROWNS „TCZK“)

Ident.	Assets	line	Current period			Prior period
			Gross	Adjust.	Net	Net
a	b	c	1	2	3	4
	TOTAL ASSETS (L.02+03+31+63)	001	178,034,183	-104,168,403	73,865,780	76,920,892
A.	Receivables for subscribed registered capital	002				
B.	Fixed assets (L.04+13+23)	003	173,810,222	-103,361,307	70,448,915	73,489,947
B.I.	Intangible fixed assets (L.05 to 12)	004	565,533	-406,589	158,944	151,826
B.I.1.	Incorporation expenses	005				
2.	Research and development	006				
3.	Software	007	519,629	-403,366	116,263	135,947
4.	Intellectual property rights	008				
5.	Goodwill	009				
6.	Other intangible fixed assets	010	4,489	-3,223	1,266	1,188
7.	Intangible fixed assets under construction	011	40,969		40,969	14,648
8.	Advance payments for intangible fixed assets	012	446		446	43
B.II.	Tangible fixed assets (L.14 to 22)	013	173,244,689	-102,954,718	70,289,971	73,338,121
B.II.1.	Land	014	6,559,072	-6,648	6,552,424	6,556,420
2.	Buildings	015	135,060,052	-84,462,209	50,597,843	53,253,874
3.	Plant and equipment	016	20,158,354	-14,879,310	5,279,044	5,814,510
4.	Cultivated areas	017				
5.	Adult livestock	018				
6.	Other tangible fixed assets	019	913	-26	887	496
7.	Tangible fixed assets under construction	020	2,902,361	-66,445	2,835,916	2,226,043
8.	Advance payments for tangible fixed assets	021	204,703		204,703	110,341
9.	Adjustments to acquired fixed assets	022	8,359,234	-3,540,080	4,819,154	5,376,437
B.III.	Long-term investments (L.24 to 30)	023				
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				
6.	Long-term investments (provisional value)	029				
7.	Advance payments for long-term investments	030				

FINANCIAL STATEMENTS

Ident.	Assets	line			Current period	Prior period
			Gross	Adjust.	Net	Net
a	b	c	1	2	3	4
C.	Current assets (L.32+39+48+58)	031	4,191,924	-807,096	3,384,828	3,390,994
C.I.	Inventories (L.33 to 38)	032	391,469	-19,990	371,479	325,910
C.I.1.	Raw materials	033	391,054	-19,990	371,064	325,849
2.	Work-in-progress and semi-finished products	034	342		342	39
3.	Finished goods	035				
4.	Young and other livestock	036				
5.	Goods for resale	037	6		6	8
6.	Advance payments for inventories	038	67		67	14
C.II.	Long-term receivables (L.40 to 47)	039	75,977		75,977	1,663
C.II.1.	Trade receivables	040	74,351		74,351	239
2.	Receivables – group undertakings	041				
3.	Receivables – associated companies	042				
4.	Receivables from shareholders/members	043				
5.	Long-term advances paid	044	1,626		1,626	1,349
6.	Estimated receivables	045				
7.	Other receivables	046				75
8.	Deferred tax asset	047				
C.III.	Short-term receivables (L.49 to 57)	048	2,819,311	-787,106	2,032,205	2,075,277
C.III.1.	Trade receivables	049	2,202,656	-714,393	1,488,263	1,537,482
2.	Receivables – group undertakings	050				
3.	Receivables – associated companies	051				
4.	Receivables from shareholders/members	052				
5.	Social security and health insurance	053				
6.	Tax receivables	054	223,312		223,312	117,063
7.	Short-term advances paid	055	131,494		131,494	139,946
8.	Estimated receivables	056	174,248		174,248	275,722
9.	Other receivables	057	87,601	-72,713	14,888	5,064
C.IV.	Short-term financial assets (L.59 to 62)	058	905,167		905,167	988,144
C.IV.1.	Cash	059	2,547		2,547	2,495
2.	Bank accounts	060	902,620		902,620	985,649
3.	Short-term securities and ownership interests	061				
4.	Short-term investments (provisional value)	062				
D.I.	Deferrals (L. 64+65+66)	063	32,037		32,037	39,951
D.I.1.	Prepaid expenses	064	31,462		31,462	26,571
2.	Complex prepaid expenses	065				
3.	Accrued revenues	066	575		575	13,380

Ident.	LIABILITIES	line	Current period	Prior period
a	b	c	5	6
	TOTAL LIABILITIES AND EQUITY (L.68+89+122)	067	73,865,780	76,920,892
A.	Equity (L.69+73+80+83+87+88)	068	55,432,059	57,876,357
A.I.	Registered capital (L.70+71+72)	069	54,025,970	53,996,770
A.I.1.	Registered capital	070	54,025,970	53,996,770
2.	Own shares and ownership interests (-)	071		
3.	Changes in registered capital	072		
A.II.	Capital contributions (L.74 to 79)	073	997,065	981,590
A.II.1.	Premium	074		
2.	Other capital contributions	075	997,065	981,590
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		
A.III.	Funds from profit (L.81+82)	080	847,084	971,305
A.III.1.	Reserve fund	081	840,852	957,843
2.	Statutory and other funds	082	6,232	13,462
A.IV.	Retained earnings (L.84+85+86)	083	1,926,058	4,128,073
A.IV.1.	Retained profits	084	1,932,431	4,133,812
2.	Accumulated losses	085		
3.	Other retained earnings	086	-6,373	-5,739
A.V.1.	Profit (loss) for the current period (+/-)	087	-2,364,118	-2,201,381
A.V.2.	Approved advance profit distribution (-)	088		
B.	Liabilities (L.90+95+106+118)	089	18,277,154	18,871,180
B.I.	Provisions (L.91 to 94)	090	2,532,802	2,237,653
B.I.1.	Tax-deductible provisions	091		
2.	Provision for pensions and other similar payables	092		
3.	Income tax provision	093		
4.	Other provisions	094	2,532,802	2,237,653
B.II.	Long-term liabilities (L.96 to 105)	095	5,101,911	4,767,980
B.II.1.	Trade payables	096	564,620	200,146
2.	Liabilities – group undertakings	097		
3.	Liabilities – associated companies	098		
4.	Liabilities to shareholders/members	099		
5.	Long-term advances received	100		
6.	Debentures and bonds issued	101		
7.	Long-term bills of exchange payable	102		
8.	Estimated payables	103		
9.	Other payables	104	1,018,110	1,053,652
10.	Deferred tax liability	105	3,519,181	3,514,182

FINANCIAL STATEMENTS

Ident.	LIABILITIES	line	Current period	Prior period
a	b	c	5	6
B.III.	Short-term liabilities (L.107 to 117)	106	4,391,699	4,058,757
B.III.1.	Trade payables	107	2,684,079	2,439,454
2.	Liabilities – group undertakings	108		
3.	Liabilities – associated companies	109		
4.	Liabilities to shareholders/members	110		
5.	Payables to employees	111	442,918	459,718
6.	Payables to social security and health insurance	112	234,735	244,005
7.	Tax liabilities and subsidies	113	537,161	413,668
8.	Short-term advances received	114	103,448	100,166
9.	Debentures and bonds issued	115		
10.	Estimated payables	116	389,028	401,417
11.	Other payables	117	330	329
B.IV.	Bank loans and overdrafts (L.119 to 121)	118	6,250,742	7,806,790
B.IV.1.	Long-term bank loans	119	4,749,517	6,549,774
2.	Short-term bank loans	120	1,501,225	1,257,016
3.	Short-term financial liabilities	121		
C.I.	Accruals (L.123+124)	122	156,567	173,355
C.I.1.	Accrued expenses	123	82,376	90,980
2.	Deferred revenues	124	74,191	82,375

INCOME STATEMENT CLASSIFICATION BY NATURE FOR THE YEAR ENDED 31 DECEMBER 2014 (IN THOUSANDS OF CZECH CROWNS „TCZK“)

Ident.	TEXT	Line	Accounting period	
			Current	Prior
a	b	c	1	2
I.	Revenue from goods	01	3	2
A.	Cost of goods sold	02	2	2
+	Gross profit (L.01-02)	03	1	
II.	Revenue from production (L.05+06+07)	04	6,919,028	7,111,914
II.1.	Revenue from own products and services	05	6,592,766	6,804,977
II.2.	Change in inventory of own production	06	303	-197
II.3.	Own work capitalised	07	325,959	307,134
B.	Cost of sales (L.09+10)	08	11,357,933	9,192,592
B.1.	Materials and consumables	09	2,680,503	2,971,825
B.2.	Services	010	8,677,430	6,220,767
+	Added value (L.03+04-08)	011	-4,438,904	-2,080,678
C.	Personnel expenses (L.13 to 16)	012	8,459,703	8,405,640
C.1.	Wages and salaries	013	6,004,242	5,954,089
C.2.	Remuneration of board members	014	2,656	2,158
C.3.	Social security and health insurance expenses	015	2,014,853	1,998,573
C.4.	Social expenses	016	437,952	450,820
D.	Taxes and charges	017	38,356	40,756
E.	Depreciation of intangible and tangible fixed assets	018	4,131,548	4,193,945
III.	Proceeds from disposals of fixed assets and raw material (L.20+21)	019	259,826	302,971
III.1.	Proceeds from disposals of fixed assets	020	19,090	112,519
III.2.	Proceeds from disposals of raw material	021	240,736	190,452
F.	Net book value of fixed assets and raw material sold (L.23+24)	022	248,489	229,145
F.1.	Net book value of fixed assets sold	023	7,966	39,053
F.2.	Raw materials sold	024	240,523	190,092
G.	Change in provisions and adjustments relating to operating activity and change in complex prepaid expenses	025	222,682	-317,295
IV.	Other operating revenues	026	15,419,406	13,162,698
H.	Other operating expenses	027	172,499	165,996
V.	Transfer of operating revenues	028		
I.	Transfer of operating expenses	029		
*	Operating profit (loss) (L.11-12-17-18+19-22-25+26-27+28-29)	030	-2,032,949	-1,333,196

FINANCIAL STATEMENTS

Ident.	TEXT	Line	Accounting period	
			Current	Prior
a	b	c	1	2
VI.	Proceeds from sale of securities and ownership interests	031		
J.	Securities and ownership interests sold	032		
VII.	Revenue from long-term investments (L.34+35+36)	033		
VII.1.	Revenue from investments in group undertakings and associated companies	034		
VII.2.	Revenue from other long-term securities and ownership interests	035		
VII.3.	Revenue from other long-term investments	036		
VIII.	Revenue from short-term financial investments	037		
K.	Financial assets expenses	038		
IX.	Revenue from revaluation of securities and derivatives	039		
L.	Expenses for revaluation of securities and derivatives	040		
M.	Change in provisions and adjustments relating to financial activity	041		
X.	Interest revenue	042	2,442	2,968
N.	Interest expense	043	270,060	340,805
XI.	Other financial revenues	044	24,471	126,945
O.	Other financial expenses	045	83,023	632,245
XII.	Transfer of financial revenues	046		
P.	Transfer of financial expenses	047		
*	Profit (loss) from financial operations (L.31-32+33+37-38+39-40-41+42-43+44-45+46-47)	048	-326,170	-843,137
Q.	Income tax on ordinary profit (loss) (L.50+51)	049	4,999	25,048
Q.1.	- current	050		
Q.2.	- deferred	051	4,999	25,048
**	Profit (loss) on ordinary activities after tax (L.30+48-49)	052	-2,364,118	-2,201,381
XIII.	Extraordinary revenues	053		
R.	Extraordinary expenses	054		
S.	Income tax on extraordinary profit (loss) (L.56+57)	055		
S.1.	- current	056		
S.2.	- deferred	057		
*	Extraordinary profit (loss) (L.53-54-55)	058		
T.	Transfer of profit or loss to shareholders/members	059		
***	Profit (loss) for the accounting period (L.52+58-59)	060	-2,364,118	-2,201,381
****	Profit (loss) before tax (L.30+48+53-54)	061	-2,359,119	-2,176,333

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

CONTENTS

1.	GENERAL INFORMATION	66
1.1.	General information	66
1.2.	Principal activities	66
1.3.	SŽDC's organisational structure and bodies	67
1.4.	Changes in the Commercial Register	68
1.5.	SŽDC's organisational structure as at 31 December 2014	69
2.	ACCOUNTING POLICIES AND GENERAL ACCOUNTING PRINCIPLES	70
3.	SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES	70
3.1.	Tangible and intangible fixed assets	70
3.2.	Inventories	72
3.3.	Receivables	72
3.4.	Payables	72
3.5.	Loans and long-term payables	72
3.6.	Equity	73
3.7.	Provisions	73
3.8.	Foreign currency transactions	74
3.9.	Income tax	74
3.10.	Grants	74
3.11.	Revenues	75
3.12.	Use of estimates	75
3.13.	Change in accounting policies	75
3.14.	Debt remission	75
3.15.	Privatisation	76
3.16.	Sale of assets	76
3.17.	Lease of assets	76
4.	ADDITIONAL INFORMATION ON THE BALANCE SHEET AND INCOME STATEMENT	77
4.1.	Intangible fixed assets	77
4.2.	Tangible fixed assets	78
4.2.1.	Continuity schedule in tangible fixed assets	78
4.2.2.	Investment grants	79
4.2.3.	Assets not recorded in the balance sheet	80
4.2.4.	Continuity schedule in assets financed from grants and reported in the sub-ledger accounts	80
4.2.5.	Pledged assets	80
4.2.6.	Assets held under finance and operating leases	80
4.2.7.	Assets acquired free of charge	81

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

4.3.	Inventory	81
4.4.	Short-term receivables	82
4.4.1.	Trade receivables	82
4.4.2.	Tax receivables	82
4.4.3.	Other receivables	83
4.5.	Estimated receivables	83
4.6.	Short-term financial assets	84
4.7.	Deferred expenses	84
4.8.	Equity	85
4.9.	Provisions	86
4.10.	Long-term payables	86
4.10.1.	Trade payables	86
4.10.2.	Other payables	87
4.11.	Short-term payables	87
4.11.1.	Trade payables	87
4.11.2.	Social security and health insurance liabilities	87
4.11.3.	Tax liabilities and subsidies	88
4.11.4.	Short-term advances received	88
4.11.5.	Estimated payables	88
4.12.	Bank loans and overdrafts	89
4.12.1.	Long-term bank loans	89
4.12.2.	Summary of loan maturities	90
4.12.3.	Short-term bank loans	90
4.13.	Deferred tax	90
4.14.	Accruals and deferrals	91
4.15.	Income from own products and services	91
4.16.	Consumption of materials and energies	92
4.17.	Purchased services	92
4.18.	Personnel expenses	93
4.19.	Change in adjustments and provisions	93
4.20.	Other operating income	94
4.21.	Other operating expense	94
4.22.	Other financial income	94
4.23.	Other financial expense	94

5.	EMPLOYEES, EXECUTIVES AND STATUTORY BODIES	95
5.1.	Personnel expenses and number of employees	95
5.2.	Provided loans, borrowings and other remuneration	95
6.	CONTINGENT LIABILITIES AND OTHER OFF BALANCE SHEET COMMITMENTS	96
6.1.	Off balance sheet commitments	96
6.1.1.	Environmental liabilities	96
6.2.	Legal disputes	96
6.2.1.	ČEZ Prodej, s.r.o.	96
6.2.2.	ČD Cargo	97
6.3.	Property relations	97
6.4.	Projected commitments associated with corridor construction	97
7.	OTHER INFORMATION	98
7.1.	Formation and incorporation of SŽDC	98
7.2.	Significant factors impacting SŽDC's activities and operations	98
7.3.	Transactions with ČD and ČD Cargo	99
7.4.	Privatisation	100
7.5.	Sale of assets	100
7.5.1.	Sale of redundant assets – the Railway Infrastructure Assets circle	100
7.5.2.	Sale of redundant assets – the Assets for Remission of Debts circle	100
7.6.	Leased assets	100
7.6.1.	Lease of assets kept within the Assets for Remission of Debts circle	100
7.6.2.	Lease of assets kept within the Railway Infrastructure Assets circle	100
8.	SUBSEQUENT EVENTS	101
8.1.	Change in the organisational structure	101
8.2.	Changes in SŽDC's bodies	101
8.3.	ČD Cargo	101
8.4.	ČEZ Prodej	101
8.5.	Inspection of specialised tax authority	101

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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, Dlážděná 1003/7, postcode 110 00.

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 2014 have been prepared as at 31 December 2014.

These notes have been prepared for the period starting 1 January 2014 and ending 31 December 2014 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 including rail servicing and ensuring its operability, maintenance, modernisation and development.

Throughout 2014 the operability 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 3.10.

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 3.14.).

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, through the purchase of a part of a business, 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 purchased by SŽDC from ČD. In connection with this purchase, SŽDC also took over 9,336 employees. These activities, whose cost was invoiced to SŽDC prior to the above date, are now 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 Pavel Surý, 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 2014 were:

Name	Position	Date
Pavel Surý	Director General	since 1 Jun 2014
Bohuslav Navrátil	Deputy Director General	since 11 Feb 2004
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
Josef Hendrych	Assistant Director General for Traffic Control	since 1 Aug 2014
Tomáš Drmola	Assistant Director General for Asset Management	since 1 Nov 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

The members of the Management Board as at 31 December 2014 were:

Name	Position	Date
Vladimír Novotný	Chairman	since 25 March 2014
Milan Feranec	Vice-chairman	since 30 Apr 2014
Jaroslav Foldyna	Member	since 25 March 2014
Václav Horák	Member	since 25 March 2014
Karel Korytář	Member	since 25 March 2014
Jan Volný	Member	since 25 March 2014

The members of the Audit Committee as at 31 December 2014 were:

Name	Date
Václav Horák	since 1 Jun 2014
Vladimír Novotný	since 1 Jun 2014

Changes in the SŽDC's bodies after the balance sheet date are described in Note 8.

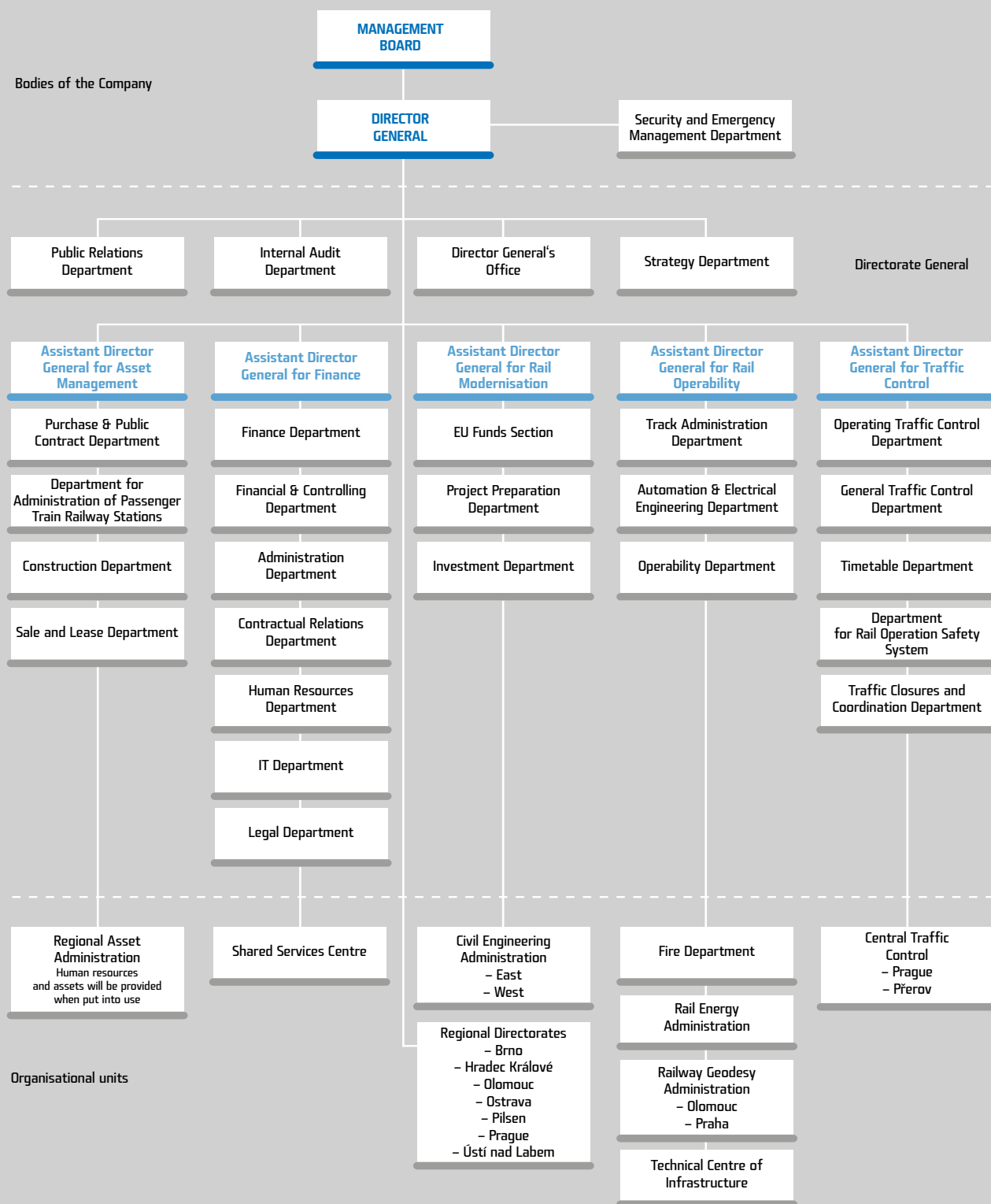
1.4. CHANGES IN THE COMMERCIAL REGISTER

The appointment of a new Director General (since 1 June 2014), Pavel Surý, was recorded in the Commercial Register.

No other significant changes were recorded in the Commercial Register in 2014.

1.5. SŽDC'S ORGANISATIONAL STRUCTURE AS AT 31 DECEMBER 2014

The following chart shows the organisational structure of SŽDC as at 31 December 2014:



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 AND PROCEDURES

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 TCZK 40 for plant and equipment (tangible fixed assets) or TCZK 60 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 TCZK 40 and intangible assets costing up to TCZK 60 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 tangible fixed assets, irrespective of their cost.

Technical improvements totalling more than TCZK 40 in respect of an 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 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.

Depreciation expense is calculated based on the acquisition cost and the estimated useful lives of the relevant assets. During the fixed asset use, the depreciation plan is updated based on the estimated useful lives and the expected residual value of the asset. The estimated useful lives were set as follows:

Number of years (from-to)	
Software	3
Buildings	10-50
Machinery and equipment	4-20
Motor vehicles	8-25

The useful lives of the fixed assets forming the railway infrastructure are dependent upon the availability of funding for their renovation, modernisation and performance improvement. The Company's management expects the amount of subsidies for the renovation, modernisation and performance improvement of fixed assets promised for the subsequent accounting period is in line with the assumptions used in determining the useful lives.

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.

Considering the Organization's principal activities and the method of their funding by means of subsidies, the Organization does not create adjustments for fixed assets based on an assessment of the economic benefits of fixed assets using the discounted cash flow method.

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 the purchase of operation of the railway infrastructure as at 1 July 2008 was prepared by PricewaterhouseCoopers Česká republika, s.r.o. The expert opinion for the valuation of the purchase of rail servicing 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 2014

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 uniforms, personal protective equipment, solid fuels, fuels, electrical materials, safety installations, prefabricated components, sleepers 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 for Determining the Income Tax Base, 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.

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 4.12.2.

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 of the Czech Republic to SŽDC, were recorded in the registered capital account. In addition, subsidies granted by the Ministry of Transport for the purchase of parts of business from ČD as at 1 July 2004 were 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 3.15.), 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 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., severance pay associated with a loss of employees' work capability, unpaid payroll expenses and other personnel expenses; 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. A similar method is applied in establishing a provision for severance pay associated with a loss of employees' work capability.

A provision for unpaid payroll expenses and other personnel expenses comprises salaries estimated to be paid to the management primarily 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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.

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. 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 (“EU”) and the state budget. Investment grants are accounted for as a reduction in the cost of the respective fixed asset(s).

SŽDC does not account for an entitlement to a grant as a receivable from the grant provider. 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. 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 replaced with 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. Once the payment is received from SFTI and payments are made to the contractors, the amount of the expected grant from EU funds reduces the cost of the respective asset(s) and increases estimated receivables.

3.11. REVENUES

Revenues are recognised on an accruals basis i.e. in the period to which they relate in terms of substance and timing.

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.

3.12. 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.

3.13. CHANGE IN ACCOUNTING POLICIES

No changes were made to accounting policies in 2014.

3.14. 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; these are presented in long-term bank loans. 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 and are presented in other payables.

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”.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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 the relevant period is submitted for approval to the Czech Government annually by each 30 September.

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

3.15. PRIVATISATION

In accordance with the Transformation Act, as at 1 July 2004 SŽDC took over from the Ministry of Transport of the Czech Republic 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 of the Czech Republic, 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 2014 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.

3.16. 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.

3.17. 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 fixed assets	Intangible fixed assets under construction	Advances paid	Software	Total
Acquisition cost					
Balance at 1/1/2014	4,163	14,648	43	472,584	491,438
Additions	532	33,758	423	42,164	76,877
Disposals	-172	-637	-20	-485	-1,314
Transfers to off balance sheet	--	-1,468	--	--	-1,468
Transfers	-34	-5,332	--	5,366	--
Balance at 31/12/2014	4,489	40,969	446	519,629	565,533
Accumulated depreciation					
Balance at 1/1/2014	2,975	--	--	336,637	339,612
Depreciation expense	334	--	--	67,215	67,549
Disposals	-91	--	--	-486	-577
Transfers	5	--	--	--	5
Balance at 31/12/2014	3,223	--	--	403,366	406,589
Net book value 1/1/2014	1,188	14,648	43	135,947	151,826
Net book value 31/12/2014	1,266	40,969	446	116,263	158,944

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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 fixed assets under constr.	Other tangible fixed assets	Advances paid	Total
Acquisition cost									
Balance at 1/1/2014	6,562,480	135,527,596	19,363,255	726,104	8,359,234	2,291,459	496	110,341	172,940,965
Additions	7,412	59,979	73,628	144,889	--	12,213,101	417	110,062	12,609,488
Disposals	-27,271	-599,697	-152,921	-5,539	--	-2,338	--	-15,700	-803,466
Transfers to off balance sheet	--	--	--	--	--	-11,502,298	--	--	-11,502,298
Transfers	16,451	72,174	8,823	115	--	-97,563	--	--	--
Balance at 31/12/2014	6,559,072	135,060,052	19,292,785	865,569	8,359,234	2,902,361	913	204,703	173,244,689
Accumulated depreciation									
Balance at 1/1/2014	--	82,121,395	13,787,644	479,451	2,982,797	--	--	--	99,371,287
Depreciation expense ⁽¹⁾	--	2,741,158	706,716	58,842	557,283	--	--	--	4,063,999
Disposals	--	-535,027	-153,531	-4,362	--	--	26	--	-692,894
Transfers	--	-2,559	2,349	205	--	--	--	--	-5
Balance at 31/12/2014	--	84,324,967	14,343,178	534,136	3,540,080	--	26	--	102,742,387
Adjustments									
Balance at 1/1/2014	6,060	152,327	7,355	399	--	65,416	--	--	231,557
Change in adjustments	588	-15,085	-5,534	-224	--	1,029	--	--	-19,226
Balance at 31/12/2014	6,648	137,242	1,821	175	--	66,445	--	--	212,331
Net book value 1/1/2014	6,556,420	53,253,874	5,568,256	246,254	5,376,437	2,226,043	496	110,341	73,338,121
Net book value 31/12/2014	6,552,424	50,597,843	4,947,786	331,258	4,819,154	2,835,916	887	204,703	70,289,971

⁽¹⁾ Depreciation expense includes depreciation in accounts 551/*, 553/1000 and 557/1000 in accordance with the income statement.

Major addition to tangible fixed assets put into use in 2014 includes the modernisation of a motor coach (a rail powered vehicle), series 851, including the supply and assembly of diagnostic systems of safety installations at the replacement cost of TCZK 97,655. Additions also consist of free-of-charge asset transfers at the replacement cost of TCZK 51,044. For example, this concerns a level crossing with a safety installation and an electric connection Tržnice-Trnkova from the town of Olomouc and building structures at the railway infrastructure as part of the induced investment "I/49 Malenovice Otrokovice Road" from the Road and Motorway Directorate.

The most important tangible asset disposals in 2014 include the liquidation of assets as a result of new constructions related to the modernisation of railway corridors with an acquisition cost of TCZK 534,934 and net book value of TCZK 56,383 and the sale of immovable assets with an acquisition cost of TCZK 20,631 and net book value of TCZK 6,384.

As at 31 December 2014 the Organization records tangible fixed assets under construction of TCZK 2,835,916. This item also comprises tangible fixed assets under construction acquired as part of grants, with an acquisition cost of BCZK 2,55.

The balance of tangible assets under construction mainly 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 2014. For example, this concerns the modernisation of the Rokycany – Plzeň line, a thoroughfare through the Ústí nad Orlicí railway junction, the renovation of the Olomouc railway station, and optimisation of the Praha-Bubeneč – Praha-Holešovice 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 2014 where the grant used to finance the constructions has not been accounted for before 31 December 2014. Transfers to off-balance sheet are made once the investment grant that decreases the asset's acquisition cost is recorded. In 2014, subsidised assets totalling TCZK 11,503,766 (2013 – TCZK 8,288,145) were included in the off balance sheet records.

4.2.2. Investment grants

Investment grants received in 2013 and 2014 were as follows:

(TCZK)	1/1 – 31/12/2013	1/1 – 31/12/2014
State Fund of Transport Infrastructure for construction and modernisation, state share, Transport Operational Programme, EIB	8,677,669	12,376,110
Pre-financing	20,264	67,744
Total investment grants from the SFTI including pre-financing	8,697,933	12,443,854
EU funds	50,084	202,787
Contributions from municipalities, regions and other entities	2,700	--
State Fund of Environment including pre-financing	528	2,668
Total investment grants	8,751,245	12,649,309

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.

In 2014, funds provided from the Transport Operational Programme amounted to TCZK 6,553,495 (2013 – TCZK 3,723,316).

In 2014, grants received from the State Fund of Transport Infrastructure amounted to TCZK 67,744 (2013 – TCZK 20,264).

EU funds totalling TCZK 202,787 include an amount of TCZK 3,622. At the beginning of 2015 the amount was remitted to the bank account of the German partner, who is in charge of funding the German part of the VTR Drážďany – Litoměřice project.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

4.2.3. Assets not recorded in the balance sheet

The amount of fixed assets financed from grants and other sources recorded off-balance sheet is TCZK 169,133,580 and TCZK 157,823,724 as at 31 December 2014 and 31 December 2013, respectively.

The aggregate amount of low-value tangible assets not reported in the balance sheet is TCZK 808,450 and TCZK 809,350 as at 31 December 2014 and 31 December 2013, 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.

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
Acquisition costs									
Balance at 1/1/2014	38,203	25,678	2,970	567,830	96,075,180	25,596,416	330,989	35,186,458	157,823,724
Additions (Transfers from the balance sheet)	--	28	1,440	18,211	38,431	40,605	--	11,405,051	11,503,766
Disposals	--	--	--	-46	-122,445	-41,067	--	-30,352	-193,910
Transfers	4,717	-28	-346	31,352	4,785,312	1,768,784	6,439	-6,596,230	--
Balance at 31/12/2014	42,920	25,678	4,064	617,347	100,776,478	27,364,738	337,428	39,964,927	169,133,580

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 Rokycany – Pilsen line", "Modernisation of the Tábor – Sudoměřice line", "Modernisation of the Ševětín – Veselí nad Lužnicí line – second part, the Horusice – Veselí line", "Renovation of the Olomouc railway station", and "Optimisation of the Bystřice nad Olší – Český Těšín line – second part of the Český Těšín railway station".

Major disposal of tangible assets under construction in the off-balance sheet represents the liquidation of constructions due to new construction works.

4.2.5. Pledged assets

SŽDC held no pledged assets as at 31 December 2014 and 31 December 2013.

4.2.6. Assets held under finance and operating leases

As at 31 December 2014, SŽDC reports fixed assets acquired on an operating lease or leaseback basis in the aggregate acquisition cost of TCZK 418,109 (2013 – TCZK 386,509). 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.

4.2.7. Assets acquired free of charge

In 2014, SŽDC acquired free of charge tangible fixed assets at the replacement cost of TCZK 51,044 (2013 – TCZK 1,274,744) and acquired fixed assets by donation at the replacement acquisition cost of TCZK 13,201 (2013 – TCZK 0). Over its entire existence, SŽDC has acquired fixed assets free of charge or by donation, the balance of which is TCZK 2,670,867 (2013 – TCZK 2,606,622). 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 31/12/2013	Balance at 31/12/2014
Material in stock	328,272	390,994
Material in transit	116	60
Work in progress	39	342
Goods in stock	8	6
Advances paid for inventory	14	67
Adjustment to inventory	-2,539	-19,990
Total inventory	325,910	371,479

The total balance of inventory was affected by an increase in material in stock of TCZK 62,722 (2013 – a decrease of TCZK 58 333). There was a decrease in supplies of the superstructure material of TCZK 3,299 (2013 – a decrease of TCZK 40,600) and also an increase in inventories of other organisational units of TCZK 69,049 (2013 – a decrease of TCZK 12,447) and a decrease in inventories held in the Hradec Králové uniform and gear storage of TCZK 3,028 (2013 – a decrease of TCZK 5,286).

Adjustments of TCZK 19,990 were established for certain types of materials at the Regional Directorates in Olomouc and Hradec Králové stored in superstructure material centres in Hranice na Moravě and Hradec Králové primarily in respect of idle inventories and the relevant spare parts of switches.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

4.4. SHORT-TERM RECEIVABLES

4.4.1. Trade receivables

The ageing structure of short-term trade receivables:

(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	931,503	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

(TCZK)								
31/12/2014	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	1,351,507	22,040	64,409	6,583	99,461	658,656	851,149	2,202,656
Adjustment	--	--	--	-1,317	-54,420	-658,656	-714,393	-714,393
Net	1,351,507	22,040	64,409	5,266	45,041	--	136,756	1,488,263

The total balance of receivables as at 31 December 2014 showed a slight decrease by approximately 4% 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. However, the balance of receivables past their due date dropped by almost 9%.

Adjustments include an amount of TCZK 348,086 (2013 – TCZK 473,609) 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 2014 (2013 – TCZK 112,981), to which an adjustment of TCZK 112,981 (2013 – TCZK 112,981) has been created.

4.4.2. Tax receivables

Tax receivables as at 31 December 2014 predominantly include a receivable relating to value added tax of TCZK 223,251 (2013 – TCZK 117,009).

4.4.3. Other receivables

The structure of other receivables:

(TCZK)	Balance at 31/12/2013	Balance at 31/12/2014
Type of receivables		
Receivables assumed from ČD, s.o.	9,934	7,685
Of which:		
Damage to assets of ČD, s.o.	7,422	5,551
Other	2,512	2,134
Receivables arising from damages	73,164	49,129
Receivables from the purchase of a part of a business	22,390	--
Other	3,765	30,787
Total other receivables	109,253	87,601
Adjustments	-104,189	-72,713
Total other receivables, net	5,064	14,888

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 (2013 – TCZK 3,708) which has been submitted for legal recovery; damage arising from a train derailing during construction works of TCZK 6,114 (2013 – TCZK 9,302), a claim regarding the non-functional ultrasound rail inspection module of TCZK 9,400 (2013 – TCZK 9,400); claiming damages relating to the security equipment of TCZK 2,888 (2013 – TCZK 2,888) and damage of TCZK 4,553 (2013 – TCZK 4,364) for unlawful wood extraction along the track.

4.5. ESTIMATED RECEIVABLES

(TCZK)	Balance at 31/12/2013	Balance at 31/12/2014
Anticipated grant from EU funds (see Note 3.10.)	133,315	69,884
Estimated receivable for the share of the ČD network transition	1,154	1,201
Unbilled consumption of electricity	8,576	7,054
Entitlement for insurance benefits	9,104	8,018
Fire Department services for ČD	15,000	30,000
Fire Department services for ČD Cargo	1,042	--
Estimated receivables from damages claimed	69,607	24,579
Heat consumption by lessees	4,885	6,016
Leased railway cable networks	25,642	26,001
Other items	7,397	1,495
Total estimated receivables	275,722	174,248
Adjustments	--	--
Total estimated receivables, net	275,722	174,248

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

The entitlement for receiving grants from EU in 2014 of TCZK 69,884 (2013 – TCZK 133,315) primarily relates to TEN-T projects (Veselí – Doubí II), technical assistance under the Transport Operational Programme (Sudoměřice – Votice, Brno railway station, etc.) and the Environment Operational Programme (Studenec – Křižanov, Zbečno – Rostoky, Křižanov – Sklené, second round, etc.). The grants were received in 2015.

The Fire Department services for ČD were provided in 2014 based on an association contract and were invoiced in 2015 based on the actual costs.

Major claimed damages reported in estimated receivables relate to the damage incurred upon train derailments between the Blansko – Adamov railway stations and between the Přerov – Prosenice railway stations, etc.

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

4.6. SHORT-TERM FINANCIAL ASSETS

(TCZK)	31/12/2013	31/12/2014
Cash on hand and cash in transit	2,058	1,997
Stamps and vouchers	437	550
Cash at bank	985,649	902,620
Total financial assets	988,144	905,167

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 1,501,225 (2013 – TCZK 1,257,016) (refer to Note 4.12.3.). Reflecting the impact of the drawn overdraft facility, as at 31 December 2014 the total balance of the SŽDC's net position to the banks is represented by an overdraft of TCZK 598,623 (2013 – TCZK 271,367).

4.7. 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.).

4.8. EQUITY

Analysis of movements in equity from 1 January 2014 to 31 December 2014

	Registered capital	Capital contrib.	Reserve fund	Statutory and other funds	Retained profits	Other retained earnings	Current year profit or loss	Total
Balance at 1/1/ 2014	53,996,770	981,590	957,843	13,462	4,133,812	-5,739	-2,201,381	57,876,357
Assets identified during stock counts	--	2,274	--	--	--	--	--	2,274
Free-of-charge transfers of assets and other transfers	30,621	13,201	--	--	--	--	--	43,822
Privatised assets	-1,421	--	--	--	--	--	--	-1,421
Distribution of profit or loss	--	--	--	--	-2,201,381	--	2,201,381	--
Use of the culture and social needs fund	--	--	--	-124,221	--	--	--	-124,221
Creation of the culture and social needs fund	--	--	-116,991	116,991	--	--	--	--
Other profit or loss	--	--	--	--	--	-634	--	-634
Current year profit or loss	--	--	--	--	--	--	-2,364,118	-2,364,118
Balance at 31/12/2014	54,025,970	997,065	840,852	6,232	1,932,431	- 6,373	-2,364,118	55,432,059

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 2014.

The registered capital in 2014 was influenced by fluctuations – assets added free-of-charge total TCZK 51 044 (2013 – TCZK 1,274,744) and handed over of TCZK 19,934 (2013 – TCZK 1,321). Other reduction in the registered capital due to restitution and a court's decision amounts to TCZK 489.

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 2014 or in 2013. Based on the physical count and examination of assets in 2014, land with a replacement cost of TCZK 2,274 (2013 – TCZK 14,956) was included in SŽDC's assets.

An increase in the value of capital contributions by TCZK 13,201 was caused by free-of-charge transfers – asset donations. The major donation was the transfer of assets relating to the induced investment from the statutory town of Olomouc totalling TCZK 11,003.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

4.9. PROVISIONS

(TCZK)	Balance at 31/12/2013	Additions	Utilisation	Balance at 31/12/2014
Provision for legal disputes with ČEZ Prodej	2,072,008	123,276	--	2,195,284
Provision for other legal disputes	31,244	19,484	27,022	23,706
Provision for compensation for job-related accidents and occupational illness	60,828	52,516	60,828	52,516
Provision for extra pension payments	33,573	27,927	33,573	27,927
Provision for unpaid payroll and other expenses	40,000	50,000	40,000	50,000
Provision for violating budget discipline	--	183,369	--	183,369
Total provisions	2,237,653	456,572	161,423	2,532,802

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.).

4.10. LONG-TERM PAYABLES

4.10.1. Trade payables

(TCZK)	31/12/2013	31/12/2014
Type of payables		
Retention	181,528	544,362
Bid-bonds, security deposits, sureties	3,000	3,000
Cash deposits received from customers	15,618	17,258
Total	200,146	564,620

An increase in retention arising from supplier invoices relating to construction guarantees is attributable to increased investment activities during 2014.

4.10.2. Other payables

(TCZK)		
Creditor	31/12/2013	31/12/2014
Czech Ministry of Finance – payment under the state guarantee for loan interest, after the remission	166,855	124,660
Czech Ministry of Finance – payment under the state guarantee for loan principal, after the remission	886,797	893,450
Total	1,053,652	1,018,110

This concerns payables to the state (the Czech Ministry of Finance) arising 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 3.14.). In 2014 and 2013, payables of MCZK 2,087 and MCZK 2,446 were remitted.

4.11. SHORT-TERM PAYABLES

4.11.1. Trade payables

The ageing structure of trade payables:

(TCZK)								
Balance at	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		
31/12/2013	2,421,957	16,818	280	375	111	-87	17,497	2,439,454
31/12/2014	2,603,052	76,831	1,082	3,030	37	47	81,027	2,684,079

Payables before their due dates predominantly relate to Metrostav a.s., AŽD Praha s.r.o., SIGNALBAU a.s. and S u b t e r r a a.s regarding their construction works.

4.11.2. Social security and health insurance liabilities

Social security and health insurance liabilities total TCZK 234,735 (2013 – TCZK 244,005). None of these liabilities are overdue.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

4.11.3. Tax liabilities and subsidies

(TCZK)	Balance at 31/12/2013	Balance at 31/12/2014
Undrawn investment subsidies from the SFTI	5,914	80,532
SFTI – TEN-T recoverable subsidy	61,217	27,958
SFE – Environment Operational Programme recoverable subsidy	1,292	18,727
SFTI – Cohesion fund recoverable subsidy	4,717	--
Transport Operational Programme recoverable subsidy	70,469	70,421
TEN-T investment grants	198,509	136,120
Undrawn non-investment subsidy TEN-T	--	2,457
Undrawn non-investment subsidy for repair and maintenance	--	112,181
Undrawn non-investment subsidy for certain Transport Operational Programme projects	--	26,228
Undrawn non-investment subsidy for Environment Operational Programme projects	--	200
Investment contributions of municipalities, regions and other entities	4,622	--
Income tax withheld on behalf of employees	65,649	61,320
Other taxes	1,279	1,017
Total tax liabilities and subsidies	413,668	537,161

The bulk of the balance of investment subsidies as at 31 December 2014 includes the payable from undrawn EU – TEN-T funds amounting to TCZK 136,120 (2013 – TCZK 198,509). 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 3.10.) for constructions co-financed from EU funds, in the amounts of TCZK 137,695 and TCZK 117,106 as at 31 December 2013 and 2014, respectively.

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

4.11.4. Short-term advances received

Short-term advances received amount to TCZK 103,448 and TCZK 100,166 as at 31 December 2014 and 2013, 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.

4.11.5. Estimated payables

(TCZK)	Balance at 31/12/2013	Balance at 31/12/2014
Unbilled supplies	365,675	365,065
Unbilled supplies related to acquisition of fixed assets	5,610	151
Estimated payable for interest expenses in respect of corridors	17,167	11,333
Other	12,965	12,479
Total estimated payables	401,417	389,028

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, primarily costs of heat as well as estimated internal electricity consumption costs.

4.12. BANK LOANS AND OVERDRAFTS

4.12.1. 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 3.14). The debt portfolio includes also a non-guaranteed loan from Česká spořitelna, a.s. for performance improvements where SŽDC pays for all expenses associated with the loan agreement including interest.

(TCZK)						
Bank	Currency	Balance at 31/12/2013	Drawing in 1-12/2014	Repayments 1-12/2014	FX differences	Balance at 31/12/2014
The 1st corridor:						
KfW Frankfurt	EUR	70,111	--	35,180	508	35,439
EIB Lucemburk	EUR	226,877	--	227,808	931	--
Japon. EXIM bank	JPY	152,391	--	158,905	6,514	--
EIB Lucemburk	EUR	484,331	--	138,915	4,319	349,735
Komerční banka, a.s.	CZK	173,000	--	173,000	--	--
KfW Frankfurt	EUR	420,517	--	84,402	3,979	340,094
The 2nd corridor:						
EIB Lucemburk	EUR	1,097,000	--	367,647	9,980	739,333
EIB Lucemburk	EUR	2,193,999	--	314,515	21,659	1,901,143
KfW Frankfurt	EUR	981,553	--	281,441	8,666	708,778
Subtotal		5,799,779	--	1,781,813	56,556	4,074,522
Performance improvements						
Česká spořitelna, a.s.	CZK	749,995	--	75,000	--	674,995
Subtotal		749,995	--	75,000	--	674,995
Total		6,549,774	--	1,856,813	56,556	4,749,517

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 2014

4.12.2. Summary of loan maturities

(TCZK)	Payable in 2015	Due in subsequent years	Total
Long-term loans	1,392,596	3,356,921	4,749,517
Total	1,392,596	3,356,921	4,749,517

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 1,781,813 (2013 – TCZK 1,743,906) in the year ended 31 December 2014.

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 75,000 (2013 – 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.

4.12.3. Short-term bank loans

(TCZK)	31/12/2013	31/12/2014
Overdraft	1,257,016	1,236,902
Payable from cash-pool account	--	264,323
Short-term bank loans	1,257,016	1,501,225

At the end of 2014, 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).

4.13. DEFERRED TAX

SŽDC has determined deferred tax as follows:

(TCZK)	31/12/2013	31/12/2014
Tangible and intangible fixed assets	-4,036,332	-4,103,285
Adjustments to fixed assets	42,845	39,080
Adjustments to inventory	482	3,798
Trade receivables	53,669	59,993
Provisions	425,154	481,233
Total deferred (asset +, liability -)	-3,514,182	-3,519,181

SŽDC reports tax losses of TCZK 2,905,939 (2013 – TCZK 2,920,467). As at 31 December 2014 and as at 31 December 2013, 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% (2013 – 19%) was used to calculate deferred tax.

4.14. ACCRUALS AND DEFERRALS

(TCZK)	Balance at 31/12/2013	Balance at 31/12/2014
Settlement agreement – lump-sum compensation of future expenses	78,787	70,688
Rent collected upfront	929	615
Accrued expenses for the payment for non-compliance with the obligatory number of employed disabled people	28,418	30,438
Accrued expenses – documents received after the annual VAT reconciliation	5,713	8,357
Acquisition of software	48,771	23,642
Other	10,737	22,827
Total accrued expenses and deferred income	173,355	156,567

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.

4.15. INCOME FROM OWN PRODUCTS AND SERVICES

(TCZK)	2013	2014
Income from use of the railway infrastructure by ČD – freight transport	34,538	33,877
Income from use of the railway infrastructure by ČD – passenger transport	1,652,148	1,784,869
Income from use of the railway infrastructure by ČD Cargo, a.s. – freight	1,791,625	1,481,260
Income from use of the railway infrastructure by external carriers – freight	641,426	774,716
Income from use of the railway infrastructure by external carriers – passenger	92,238	118,604
Income from allocated capacity	86,630	91,122
Rental income	234,503	233,326
Income from other external services	415,896	452,337
Income from the sales of electricity	1,853,610	1,620,116
Income from foreign carriers for provided services (extraordinary shipments, etc.)	2,363	2,539
Total income from own products and services	6,804,977	6,592,766

All income was generated in the Czech Republic.

While the volume of services (train kilometres, gross tonne kilometres) showed a slight decrease in passenger transport in 2014; income with ČD and other passenger transport carriers increased by a total of MCZK 159, which resulted in an increase in prices for the use of railway infrastructure by 3.3% as at 1 January 2014.

The volume of services dropped in respect of ČD Cargo; this was, however, offset with a growth in volume of services of other carriers. As at 1 January 2014, the prices for the use of railway infrastructure in freight transport dropped by 7%.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

4.16. CONSUMPTION OF MATERIALS AND ENERGIES

Item	2013	2014
Costs of material consumption	749,738	771,401
Costs of energy consumption	471,216	404,305
Costs of water consumption	8,009	8,310
Costs of heat consumption	90,395	71,242
Costs of of gas consumption	36,230	25,125
Costs of energy purchase	1,495,870	1,280,841
Costs of fuel consumption	113,399	112,422
Other	6,968	6,857
Total consumption	2,971,825	2,680,503

4.17. PURCHASED SERVICES

(TCZK)		
Item	2013	2014
Costs of construction repairs and maintenance excluding outsourced activity	29,580	31,070
Costs of repairing apartments	29,531	26,099
Costs of services provided by the statutory auditor	3,811	3,352
Of which: – statutory audit of the financial statements	1,250	850
– other non-audit services provided by the statutory auditor	2,561	2,502
Costs of cooperation in allocating the capacity of the railway infrastructure	540	496
Activity that can be done by outsourcing	4,642,946	6,863,773
Of which: – repair and construction maintenance	3,766,176	5,357,104
– other	876,770	1,506,669
Other	1,514,359	1,752,640
Of which: – repair and maintenance	780,331	1,358,017
– lease, software under TCZK 60, platform cleaning, etc.	734,028	394,623
Total services	6,220,767	8,677,430

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 2013	Wages and salaries	Social security and health insurance	Other expenses	Total personnel expenses in 2014
Current expenses	8,301,111	5,894,663	2,014,853	440,608	8,350,124
Other	104,529	109,579	--	--	109,579
Total	8,405,640	6,004,242	2,014,853	440,608	8,459,703

Current personnel expenses represent costs of SŽDC's employees for the year ended 31 December 2014. The "social security and health insurance" column shows payments made by the employer.

The item "Other" includes 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 ADJUSTMENTS AND PROVISIONS

(TCZK)	2013	2014
Item		
Change in provisions	-489,402	295,149
Change in adjustments to receivables	244,289	-70,692
Change in adjustments to tangible fixed assets	-69,628	-19,226
Change in adjustments to inventory	-2,555	17,451
Total change in provisions and adjustments relating to operating activities	-317,295	222,682

In 2014, 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

4.20. OTHER OPERATING INCOME

(TCZK)		
Item	2013	2014
Subsidies from the SFTI for repairs and maintenance of the railway infrastructure	9,231,940	11,413,263
Subsidies from the SFTI for repairs and maintenance after floods	180,439	534,376
Non-investment subsidies from the state budget	550,000	548,760
Non-investment subsidies from the SFTI – special purpose	8,739	18,191
Non-investment subsidies – Transport Operational Programme	5,197	6,443
Subsidies from the SFTI for the selected non-investment projects	390,925	249,103
Subsidies for the selected projects co-financed from the Transport Operational Programme	--	120,098
Subsidies from the SFTI for non-investment projects co-financed from the Environment Operational Programme	--	2,054
Other subsidies	652	873
Remission of debt	2,445,707	2,087,251
Proceeds from recovered material	230,564	290,889
Received contractual penalties and default interest	7,517	51,147
Claims for compensation of shortages and damage	48,038	30,406
Other	62,980	66,552
Total other operating income	13,162,698	15,419,406

4.21. OTHER OPERATING EXPENSE

(TCZK)		
Item	2013	2014
Non-investment and investment default interest	1	--
Fines and penalties	6,980	429
Write-off of receivables	10,428	31,080
Write-off of failed investments	1,155	73
Retirement pension	13,020	10,471
Costs arising from the failure to employ the disabled	28,418	30,438
Insurance of assets and liability insurance	63,913	63,991
Membership contributions	6,430	7,258
Shortages and damage	2,290	-330
Liability for damage to third party assets	20,443	13,992
Other	12,918	15,097
Total other operating expense	165,996	172,499

4.22. OTHER FINANCIAL INCOME

Financial income principally includes foreign exchange gains arising from foreign currency translation and bank interest.

4.23. OTHER FINANCIAL EXPENSE

Financial expenses predominantly include foreign exchange losses from the translation of foreign currency loans 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 2013 and 2014:

(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
Total	17,227	5,954,089	1,998,573	452,978	8,405,640

(TCZK)					
2014	Average headcount	Wages and salaries	Social security and health insurance	Other expenses	Total personnel expenses
Employees	17,111	5,916,021	1,992,397	438,499	8,346,917
Executives ¹⁾	44	88,221	22,456	2,109	112,786
Total	17,155	6,004,242	2,014,853	440,608	8,459,703

¹⁾ Wages and salaries for 2012 and 2013 drawn from the provision created in 2013 amount to TCZK 21 224

As at 1 January 2014, SŽDC had 17,157 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.

During 2014, the organisational structure of organisational units did not change significantly. In order to reach an optimum number of operational staff in the infrastructure segment, based on the decision of the SŽDC's Management Board, the recruitment of employees dealing with specialised track administration, electrical technology and power engineering, and communications and safety engineering, was commenced in the fourth quarter of 2014.

As at 31 December 2014, SŽDC had 17,331 employees; as a result of hiring operational staff, the number of employees increased by 131 as compared with the balance as at 31 December 2013.

5.2. PROVIDED LOANS, BORROWINGS AND OTHER REMUNERATION

In 2013 and 2014, members of the SŽDC's management did not receive any borrowings, loans or any other bonuses in addition to their basic salaries and bonuses agreed in management contracts or agreements on wages and salaries.

In 2014, bonuses totalling TCZK 2,656 were paid to members of the SŽDC's Management Board (2013 – TCZK 2,158).

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 2014, total non-capital expenditures related to environment were approx. MCZK 365.7 (2013 – MCZK 258.4). Capital expenditures related to sound protection when modernising tracks were MCZK 80.2 (2013 – MCZK 36.8).

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 MCZK 6.1 in 2014.

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. As concerns the damages equalling the difference between expected and realised complementary sales for 2010, on 19 March 2015 the High Court in Prague satisfied the action and SŽDC was obliged to settle the damage claimed. The judgement of the High Court has not become legally effective.

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. Based on these facts, a provision established for this litigation was derecognised in the 2013 period. In the 2014 accounting period, based on an agreement to pay instalments, adjustments were cancelled and short-term and long-term receivables from ČD Cargo were recognised.

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 (2013 – 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 (2013 – 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 digitalised. 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.

Expenses that are projected to be incurred are as follows:

(TCZK)			
Balance at 31/12/2014	Construction work undertaken to date	The estimate of the remaining expenses	Total estimated expenses
1 st corridor	40,759,568	--	40,759,568
2 nd corridor	39,016,291	--	39,016,291
3 rd corridor	40,193,973	20,871,618	61,065,591
4 th corridor	22,153,411	23,903,245	46,056,656
Total	142,123,243	44,774,863	186,898,106

Implementation of the 3rd 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 4th Transit Railway Corridor from the state border Horní Dvořiště – České Budějovice – Prague was approved by Government Resolution No. 1317 of 10 December 2001.

3rd and 4th corridor are planned to be completed in 2019.

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 and liabilities, alternative interpretations of certain provisions of the Transformation Act remain. This specifically relates to tangible fixed assets and their source of funding. 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 FACTORS 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 2015, SŽDC has contractually ensured funding from the State Fund of Transport Infrastructure for investment and non-investment activities of TCZK 46,795,951 (2014 – TCZK 28,364,263) and from the Ministry of Transport for non-investment activities of TCZK 850,000 (2014 – TCZK 550,000). These funds will enable SŽDC to provide services in the same extent as in 2014, accordingly, the financial statements have been prepared on a going concern basis. The financial statements therefore do not include adjustments to valuation and classification of assets and liabilities that would be necessary if the Company were not able to continue as a going concern.

7.3. TRANSACTIONS WITH ČD AND ČD CARGO

Significant revenues resulting from the transactions carried out with ČD:

(TCZK)	2013	2014
Revenues from using the railway infrastructure – passenger transport	1,652,148	1,784,869
Revenues from using the railway infrastructure – freight transport	34,538	33,877
Revenues from allocated railway infrastructure capacity	50,537	50,273
Revenues from electricity	1,613,409	1,412,535
Fire Department services	20,237	30,000
Telecommunication network operation services	62,648	59,725
Total	3,433,517	3,371,279

As at 31 December 2014, SŽDC recorded amounts due from and to ČD at the net amount of TCZK 585,010 (2013 – TCZK 661,007). The amount that is reported in the balance sheet as part of trade receivables and advanced paid from ČD is TCZK 628,471 (2013 – TCZK 681,747). Trade payables including received prepayments amount to TCZK 43,461 (2013 – TCZK 20,740).

Revenues resulting from the transactions carried out with ČD Cargo:

(TCZK)	2013	2014
Revenues from using the railway infrastructure – freight transport	1,791,625	1,481,260
Revenues from allocated railway infrastructure capacity	18,479	21,912
Revenues from electricity	332	240
Fire Department services	5,301	3,800
Telecommunication network operation services	46,229	39,971
Total	1,861,966	1,547,183

As at 31 December 2014, SŽDC recorded amounts due from and to ČD Cargo at the net amount resulting in a receivable of TCZK 956,911 (2013 – TCZK 1,018,470). The amount that is reported in the balance sheet as part of trade receivables from ČD Cargo is TCZK 959,762 (2013 – TCZK 1,025,178). Trade payables including received prepayments amount to TCZK 2,851 (2013 – TCZK 6,708). Part of receivables from ČD Cargo are currently subject to arbitral proceedings (refer to Note 4.4.1.).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

7.4. PRIVATISATION

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

In 2014, SŽDC completed 16 privatisation projects for assets within the MOZ accounting circle in the aggregate amount of TCZK 1,421 (2013 – TCZK 5,242).

Of the 16 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 14 projects related to the complete privatisation of land following the privatisation of the residential living fund.

As at 31 December 2014, 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 601,179. As at 31 December 2013, the net book value of these assets amounted to TCZK 604,486.

7.5. SALE OF ASSETS

7.5.1. Sale of redundant assets – the Railway Infrastructure Assets circle

In 2014, a total of 119 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 17,728 (2013 – TCZK 67,268).

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

In 2014, a total of 1 sale of assets was carried out within the Assets for Remission of Debts circle. As a motion to register was filed in January 2015, the related revenues are treated as deferred revenues of TCZK 169 (2013 – TCZK 44,105).

7.6. LEASED ASSETS

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

As at 31 December 2014, SŽDC reports 69 contracts for the lease of apartments. Revenues from these leases were TCZK 1,919 (2013 – TCZK 2,871).

With respect to assets not included in the residential living fund, SŽDC records 201 lease contracts with total revenues of TCZK 44,378 (2013 – TCZK 42,680).

Total revenues from the lease of real estate were TCZK 46,297 (2013 – TCZK 45,551).

7.6.2. Lease of assets kept within the Railway Infrastructure Assets circle

As at 31 December 2014, SŽDC reports 1,311 contracts for the lease of apartments. Revenues from these leases were TCZK 38,594 (2013 – TCZK 40,551).

With respect to assets not included in the residential living fund, SŽDC records 4,804 lease contracts with total revenues of TCZK 141,557 (2013 – TCZK 141,424).

Total rental revenues were TCZK 180,151 (2013 – TCZK 181,975).

8. SUBSEQUENT EVENTS

8.1. CHANGE IN THE ORGANISATIONAL STRUCTURE

Effective from 1 January 2015, based on the approval of the SŽDC's Management Board, the Chief Executive position was established in the Director General division – he was assigned to run the Director General's office and the Human Resources Department, the Internal Audit Department, the Public Relations Department and the Strategy Department. The Administration Department was assigned under the Assistant Director responsible for Asset Management.

8.2. CHANGES IN SŽDC'S BODIES

Pursuant to Government Resolution No. 187 dated 16 March 2015, Mr Tomáš Čoček was appointed a member of the SŽDC's Management Board with effect from 17 March 2015.

8.3. ČD CARGO

On 12 February 2015 SŽDC and ČD Cargo concluded a joint proposal of parties for the approval of court settlement, in which ČD Cargo undertook to repay SŽDC's receivables from ČD Cargo for electricity purchased in 2009 by means of monthly instalments. The proposal was submitted to the High Court in Prague. It has not yet become legally effective (refer to Notes 4.4.1. and 6.2.2.).

8.4. ČEZ PRODEJ

Regarding the matter of damages equalling the difference between the agreed and realised alternative sale of electrical energy for 2010 the High Court in Prague on 19 March 2015 satisfied the action and ruled that SŽDC should be obliged to pay the claimed damages totalling TCZK 805,474 with related interest and charges. A written version the judgement of the High Court was delivered to SŽDC on 22 May 2015 and the judgement has become legally effective. SŽDC settled the claimed damages with related interest and charges immediately on 22 May 2015. SŽDC also considers filing an appeal. The potential appeal does not have a suspensive effect on the payment.

8.5. INSPECTION OF SPECIALISED TAX AUTHORITY

On 24 February 2015 the Organization received a conclusion from the tax inspection of the specialised tax authority intended to verify the occurrence of a payment duty due to the breach of budgetary discipline in connection with the project financed from SFTI's funds – Optimisation of the Lysá nad Labem – Praha Vysočany line, first construction. Based on the inspection, the specialised tax authority issued a payment order of TCZK 182,049 and a penalty up the maximum amount of 1 ‰ per day.

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 notes to the financial statements.

Prague, 10 June 2015



Pavel Surý
Director General

PERSONS RESPONSIBLE FOR THE ANNUAL REPORT

AFFIRMATION

We affirm that the information stated in the annual report for 2014 is accurate and that no material circumstances known to us that may affect the accurate and proper assessment of Správa železniční dopravní cesty, státní organizace have been omitted.



Pavel Surý
Director General



Aleš Krejčí
Assistant Director General for Finance

ANNUAL REPORT ON THE PROVISION OF 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 provision of information in compliance with Section 18 of Act No. 106/1999 Coll., on Free Access to Information

FOR 2014

In compliance with Section 18 of Act No. 106/1999 Coll., on Free Access to Information, as at 1 March 2015 we released the annual report for 2014 on the provision of information.

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

1.	Number of submitted requests for information	46
2.	Number of issued decisions on dismissal of the request	8
3.	Number of submitted appeals against the decisions	2
4.	There were no legal proceedings in 2014	
5.	Number of exclusive licenses provided	0
6.	Number of complaints submitted under Section 16a	4

Prague, 28 February 2015



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
TT	timetable
KPI	key performance indicator
LV	low voltage
OPT	Operational Programme Transport (EU)
OPE	Operational Programme Environment (EU)
DD	design documentation
RISC	Railway Interoperability and Safety Committee
SERAC	Single European Railway Area Committee
SFTI	State Fund for Transport Infrastructure
CEA	Civil Engineering Administration
TEN-T	Trans-European Network – Transport
TSI	technical specifications for interoperability
HV	high voltage
RI	railway infrastructure

IDENTIFICATION AND CONTACT DETAILS

Organisation name:	Správa železniční dopravní cesty
Legal form:	state organisation
Established by:	Czech Republic (represented by the Ministry of Transport)
Date of incorporation:	1 January 2003
Identification number:	70994234
Registration court:	Prague
Registered under:	Section A, File 48384
Registered office:	Praha 1 – Nové Město, Dlážděná 1003/7, postcode 110 00
Phone:	222 335 911
Email:	szdc@szdc.cz
Website:	www.szdc.cz

NOTES

