



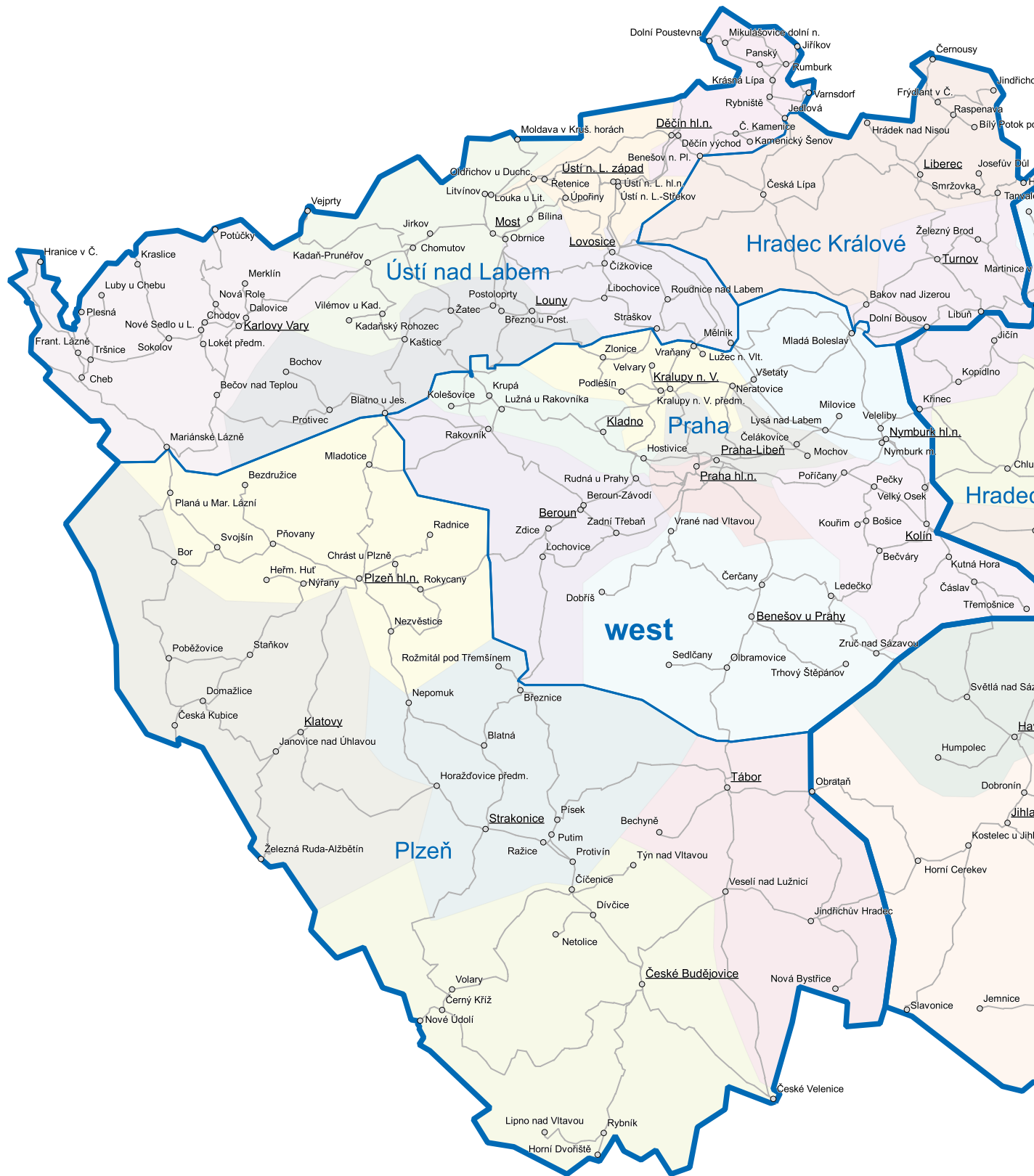
“Rail, as we see it”



2012

Annual Report

Scope of civil engineering administrations, regional directorates and operating districts SŽDC



Civil Engineering Administrations

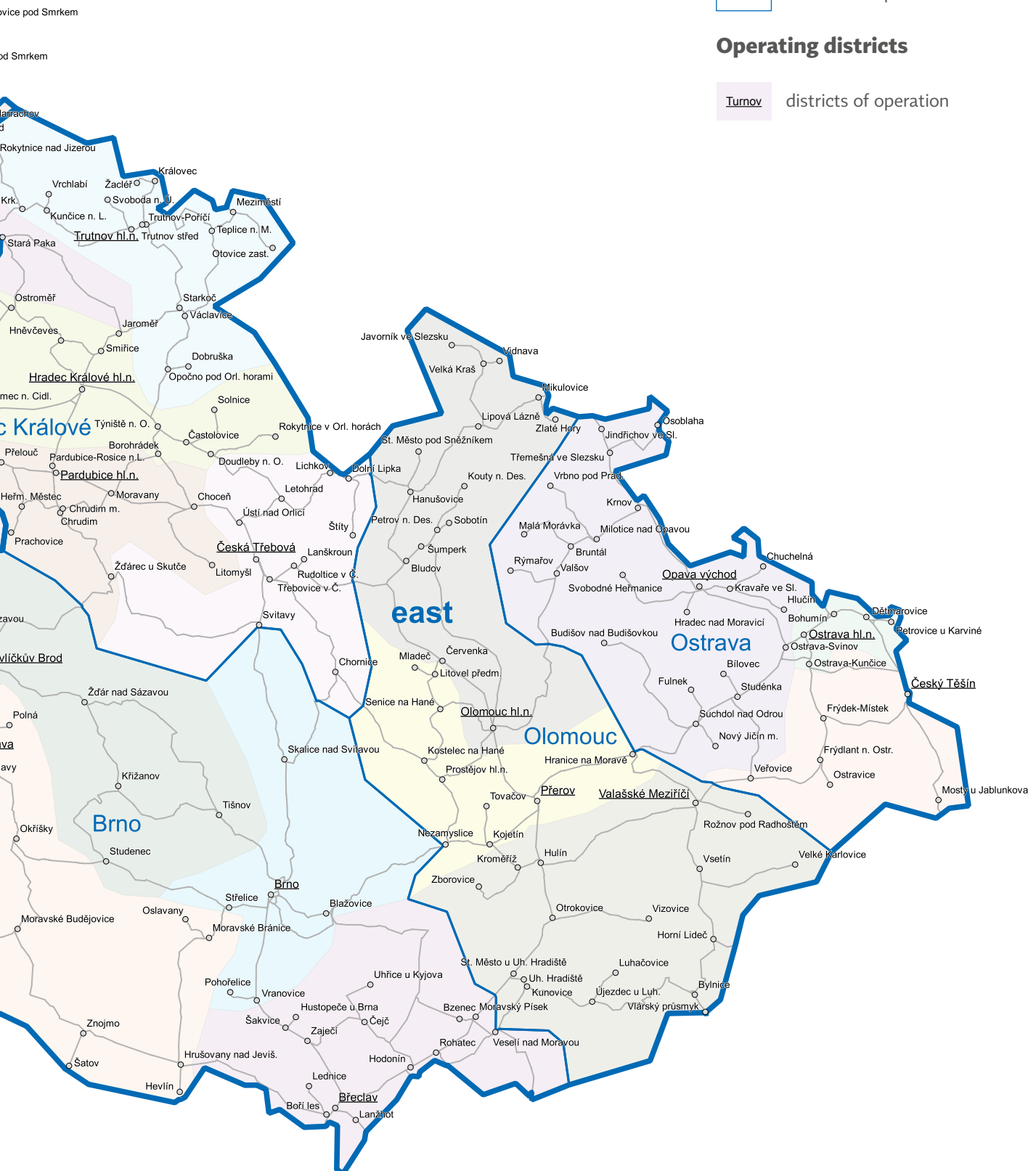
west districts of operation

Regional Directorates

Brno districts of operation

Operating districts

Turnov districts of operation



Basic characteristics of SŽDC's rail network

Indicator	Unit of Measurement	Amount
Total length of tracks	km	9,469
Length of electrified tracks	km	3,217
Length of standard-gauge tracks	km	9,446
Length of narrow-gauge tracks	km	23
Length of single-track lines	km	7,541
Length of double and multiple-track lines	km	1,928
Total construction length of tracks	km	15,532
Number of switch units	s.u.	24,271
Bridges	quantity	6,735
Tunnels	quantity	158
Total length of bridges	m	150,945
Total length of tunnels	m	42,744



Jan Fichtner
Hares' tracks

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The closing date of this annual report is 6 June 2013.



Tomáš Drvota
Works of our ancestors

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State organisation profile

Správa železniční dopravní cesty, státní organizace (the Railway Infrastructure Administration, state organisation) was established on 1 January 2003 pursuant to Act No. 77/2002 Coll., on Czech Railways, joint-stock company, the Railway Infrastructure Administration, 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 two legal successors of Czech Railways, state organisation.

Scope of operations

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

SŽDC

- operates the railway infrastructure,
- ensures the railway infrastructure is operable,
- maintains and repairs the railway infrastructure,
- ensures modernisation and development of the railway infrastructure,
- prepares documents to meet public service obligations,
- supervises the use of railway infrastructure, and of rail operation and operability

SŽDC manages

- state-owned assets comprising the railway infrastructure,
- assets listed in the Amendment to the Transformation Act,
- specified payables and receivables of Czech Railways, state organisation, that existed as at 31 December 2002

and **carries out** business activity in accordance with the Trades Licensing Act.

SŽDC does not carry out any research and development activities.

9,469
Total length of tracks (km)



1 Nikola Liberďová
The railway station at night

2 Vladislav Holoubek
82.1

3 Radovan Kremlička
When parallels meet



Opening statement



The year 2012 was also marked with the arrival of new rail carriers, both in passenger and freight transport. For us at SŽDC this means increased demand for reliable, safe and professional services, and for state-of-the-art technologies.



Jiří Kolář
Director General

Dear Ladies and Gentlemen,

I am pleased to have the opportunity to present the annual report for 2012, a document which marks the tenth anniversary of our state organisation's establishment.

No doubt this was a very demanding year, full of unexpected changes and turning points. Despite this, our results in this difficult period indicate that we have been successful and that we can be proud. I believe that we will also be successful in the years to come.

During 2012 a number of changes occurred. These changes were not made only in management positions; for example, a new minister of transport was appointed. Obviously, new teams have brought changes in direction and priorities in individual measures related to rail infrastructure. The issue of drawing EU funds and implementation of co-financed projects has gained importance. Greater emphasis was placed on passenger safety. All the steps aimed towards a single objective – to strengthen the position of rail on the market and to increase its competitiveness. Looking back, we can say that the goals have been fully met. However, there is still a lot of hard work ahead of us.

The year 2012 was also marked with the arrival of new rail carriers, both in passenger and freight transport. For us at SŽDC this means increased demand for reliable, safe and professional services, and for state-of-the-art technologies. This is no easy task – it cannot be achieved without the hard work of all our employees and the trust of our business partners.

We have launched numerous strategic projects that will bring results in future years. These include, for example, centralisation of service and support activities or initiating a pricing change process to unify prices for passenger and freight transport. We have again focused on systematic modernisation and purchases of special rolling stock, resulting in benefits such as a higher security, reliability and operability. We have also managed to establish important partnerships – this includes strategic cooperation with Lesy České republiky, s.p., focused on co-ordinating the extraction of lumber from forest land situated in a protective zone of the rail system. And there are many more examples. I believe that the coming periods will show that starting these difficult tasks was the right decision.

In conclusion, let me thank all our customers for their trust throughout the year, and, above all, to all our employees for their work at SŽDC.

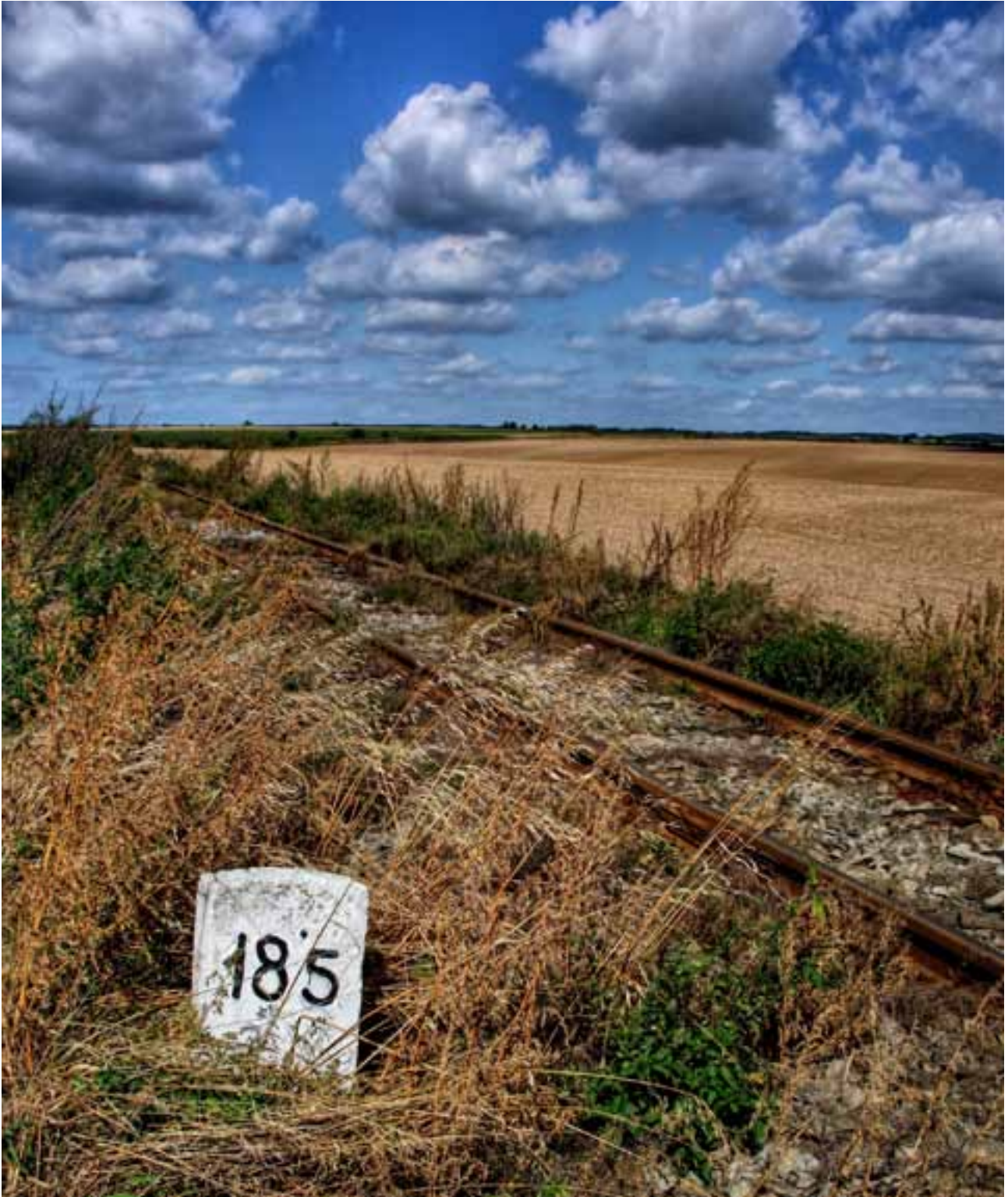
I am convinced that SŽDC is entering a period of success and that we will continue to be a reliable partner, offering traditional quality service to all carriers operating on czech tracks.



Jiří Kolář

Director General

2012 Highlights



Jan Fichtner
On an old track

January

Extensive construction activities take place: remotely operated signalling installations (“ROSI”) ROSI Česká Třebová – Přerov; renovation of Střelenský tunnel including tracks Nos. 1 and 2 at 22.480–23.610 km and track No. 1 at 21.110–27.261 km of the Horní Lideč – Slovak state border line; renovation of track No. 1 at 30.650–38.616 km of the Brno – Havlíčkův Brod line; renovation of the Stará Paka railway station for ROSI; ROSI Františkovy Lázně – Aš; a thoroughfare through the Pilsen railway junction in the direction of the Third Railway Transit Corridor.

February

The Management Board of SŽDC introduced stricter conditions for management and approval processes in order to stabilise SŽDC as a full-fledged organisation. Among others, old rules in SŽDC’s decision-making policies were removed. Decision-making powers and responsibilities were divided among a number of SŽDC’s managers.

March

SŽDC held its 17th conference, entitled “2012 Railway Infrastructure”. As part of the conference, ways to increase speed on railway lines were presented.

A new selection procedure for the position of SŽDC’s Director General was launched.

April

Regional Traffic Centres and Regional Infrastructure Administrations were unified into new organisational units – Regional Headquarters.

The European Commission has approved so far the largest project as part of the Operational Programme Transport (“OPT”), the 2007–2013 Votice – Benešov u Prahy, with a subsidy of CZK 4,081 million.

Jiří Kolář was appointed as SŽDC’s Director General.

May

A new application was launched for SŽDC’s employees and passengers, providing information on train arrivals and departures on the “Rail Operation” portal, displaying data from the information boards of individual stations.

In Central Traffic Control (“CTC”) in Přerov a hall was opened enabling remote control of the Přerov (excluding) – Dluhonice (excluding) – Olomouc (excluding) – Česká Třebová (excluding) line.

The optimisation of the Stříbro – Planá u Mariánských Lázní line was awarded the title Transport Construction of the Year 2011.

June

SŽDC took part in International Level Crossing Awareness Day.

Investment priorities were defined for railway infrastructure in the Czech republic and a draft budget for 2013, including medium-term projections for 2014–2015, was presented to the State Fund for Transport Infrastructure (“SFTI”).

The GSM-R Děčín – Všetaty – Kolín project celebrated its launch.

July

VIAMONT a.s. terminated operations on the rented regional routes Trutnov – Svoboda nad Úpou and Sokolov – Kraslice, and was replaced by PDV RAILWAY a.s. as lessee.

August

The Ministry of Transport approved preparations for SŽDC's investment projects for the period 2013–2015.

Following the modernisation of the Votice – Benešov u Prahy route, trains started to use the new section.

September

The ETCS [European Train Control System] project – First Railway Transport Corridor, the Kolín – Břeclav – Austrian/Slovak state border track section (Corridor E: ERTMS in the Czech Republic).

The LUBAHN project was approved, which includes modifications to significant railway stations on the Liberec – Zittau – Varnsdorf – Seifhennersdorf line and is co-financed from the Cíl 3/Ziel 3 Programme to support cross-border cooperation between the Czech Republic and the Free State of Saxony 2007–2013.

October

SŽDC celebrated the completion of the “ROSI Česká Třebová – Přerov” and Renovation of track No. 1, 30.650–38.616 km of the Brno – Havlíčkův Brod line.

November

Renovations of bridges at 2.089 km of the Děčín – Jedlová line and at 9.531 km of the Čerčany – Skochovice line were launched and the first phase of the optimisation of the Lysá nad Labem – Prague - Vysočany line, first construction, was completed.

December

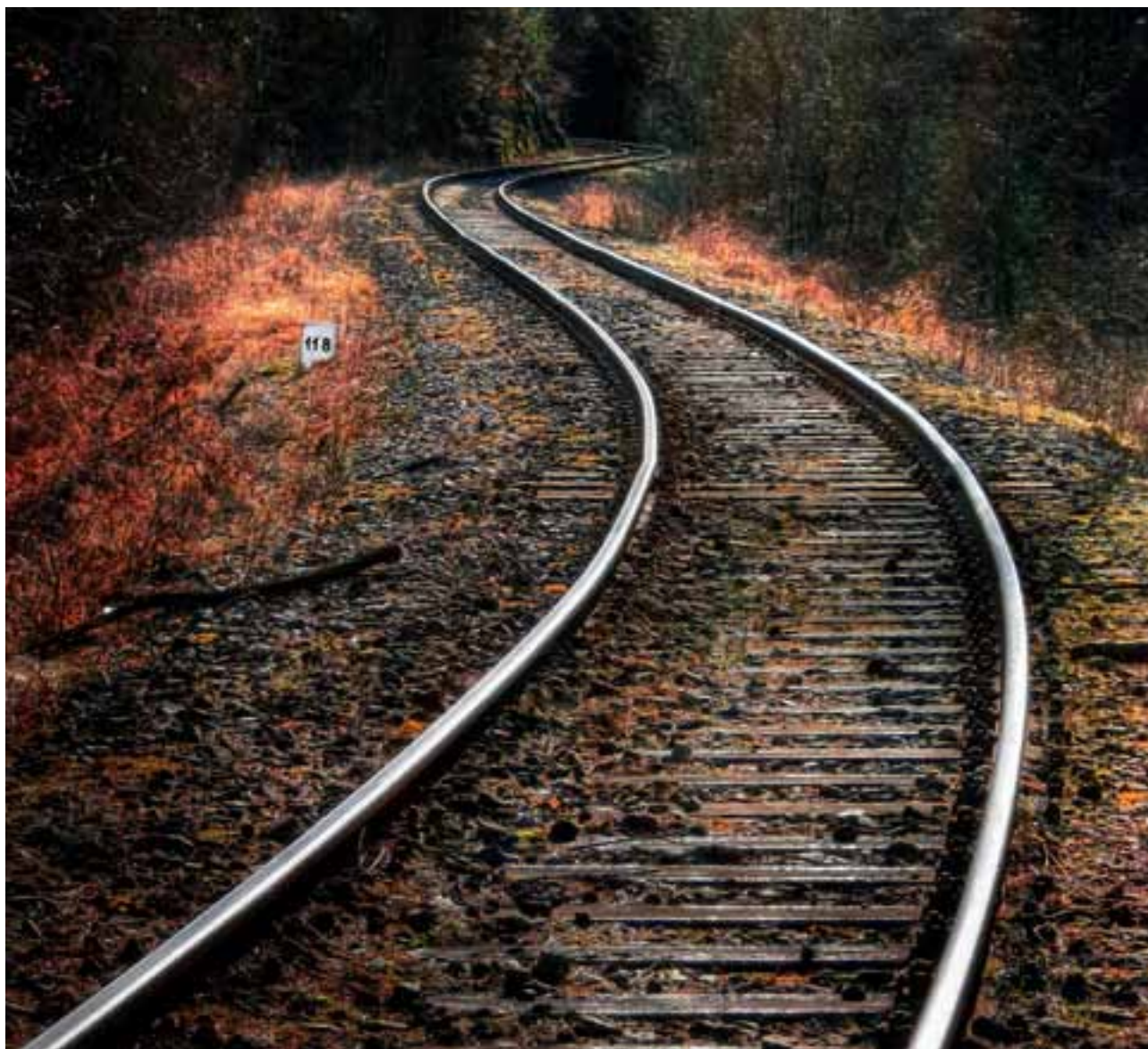
The Central Traffic Control Prague, responsible for controlling traffic in Bohemia, was established.

Left-hand traffic was terminated on the Bohumín–Břeclav track section.

LEO Express a.s., a new carrier, started operating regular passenger transport on the Prague – Ostrava line.

The European Commission approved significant OPT projects at the national level: Renovation began on Olomouc railway station (using an EU subsidy of CZK 2,189 million) and on Frýdlant nad Ostravicí railway station (EU subsidy of CZK 345 million).

3,217
Length of electrified tracks (km)



Jan Fichtner
On an old track 2

Corporate Governance in 2012

Statutory body (as at 31 December 2012)

Director General
Jiří Kolář

Deputy Director General
Bohuslav Navrátil

SŽDC Management (as at 31 December 2012)

First Assistant Director General
Jan Blecha

Assistant Director General for Finance
Aleš Krejčí

Assistant Director General for Rail Modernisation
Petr Šlegr

Assistant Director General for Rail Operability
Bohuslav Navrátil

Assistant Director General for Traffic Control
Jiří Špička

Management Board (balance as at 31 December 2012)

Chairman
Adolf Jílek

Vice-chairman
Roman Jurečko

Members
Ivan Adamec
Lukáš Hampl
Jakub Hodinář
Libor Joukl
Radim Vysloužil

Audit Committee (balance as at 31 December 2012)

Hana Březinová
Lukáš Hampl
Jakub Hodinář

Changes in 2012

Statutory body

Director General

Position not filled until 18 April 2012,
Since 19 April 2012 – Jiří Kolář

1. Deputy Director General, Executive Director

Pavel Habarta, until 18 April 2012;

- Cancelled by the Management Board as at 19 April 2012,
- Position cancelled on 31 May 2012 as a result of an organisational change

2. Deputy Director General

Bohuslav Navrátil until 18 April 2012

Deputy Director General

Bohuslav Navrátil recorded as a Deputy Director General in the Commercial Register on 3 May 2012

SŽDC Management

Assistant Director General for Operations

Bohuslav Navrátil from 1 April 2012 to 31 May 2012;

- Position established on 1 April 2012 as a result of an organisational change,
- Position cancelled on 31 May 2012 as a result of an organisational change

First Assistant Director General

Jan Blecha since 1 June 2012;

- Position established as at 1 June 2012 as a result of an organisational change

Assistant Director General for Finance

Vladimír Filip until 8 February 2012;
 From 16 February 2012 to 31 March 2012 Jiří Svoboda assigned to run the division;
 Jiří Kohout from 1 April 2012; resigned on 19 April 2012;
 Jiří Svoboda assigned to run the division from 20 April 2012 to 30 April 2012;
 Jan Blecha from 1 May 2012 to 31 May 2012;
 Aleš Krejčí since 1 June 2012

Assistant Director General for Rail Modernisation

Jiří Martínek until 30 April 2012;
 Petr Šlegř since 1 May 2012

Assistant Director General for Rail Operability

Vojtěch Kocourek, Ph.D., until 8 February 2012;
 Bohuslav Navrátil from 9 February 2012 to 31 March 2012;

- Position cancelled on 31 March 2012 as a result of an organisational change,
- Position established as at 1 June 2012 as a result of an organisation change;

Bohuslav Navrátil since 1 June 2012

Assistant Director General for Rail Operation

Pavel Skála assigned to run the division from 1 January 2012 to 31 March 2012;

- Position cancelled as at 31 March 2012 as a result of an organisational change

Assistant Director General for Traffic Control

- Position established as at 1 June 2012 as a result of an organisation change;

Bohuslav Navrátil assigned to run the division from 1 June 2012 to 31 July 2012;
 Jiří Špička since 11 September 2012

Management Board

Vice-chairman

Roman Jurečko appointed on 15 November 2012 by a decision of the Management Board No. 58/2012

Audit Committee

Radim Vysloužil until 18 October 2012;
 Jakub Hodinář by decision of the Management Board No. 55/2012 since 18 October 2012

Changes in 2013

Management Board

Based on resolution No. 224 of the Czech Government, dated 27 March 2013

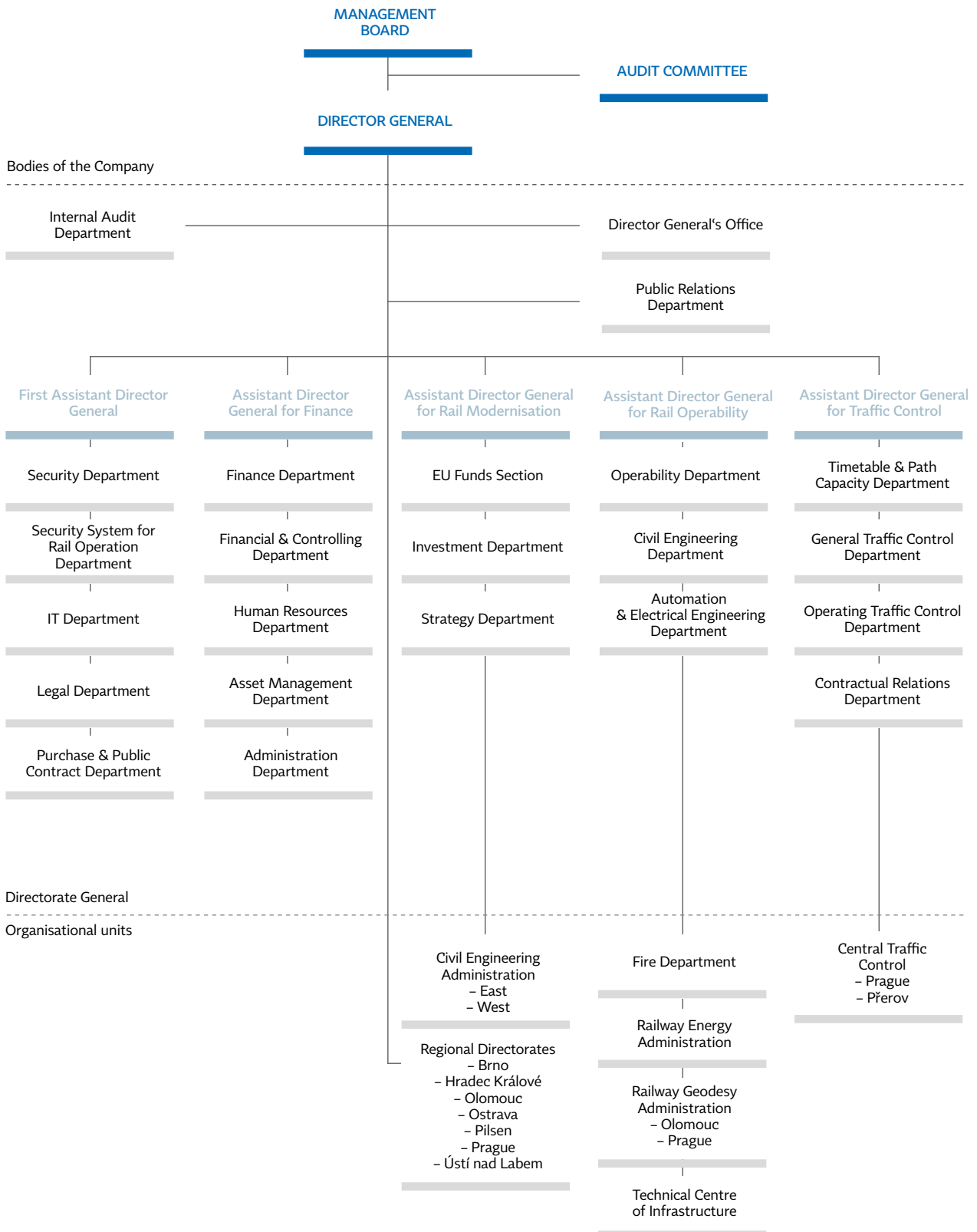
- On 27 March 2013 the following members of the Management Board were recalled:
 Ivan Adamec
 Libor Joukl
 Jakub Hodinář
 Roman Jurečka
 Radim Vysloužil
- Effective from 28 March 2013 the following members of the Management Board were appointed:
 Jaroslav Deml
 Jiří Žák

Audit Committee

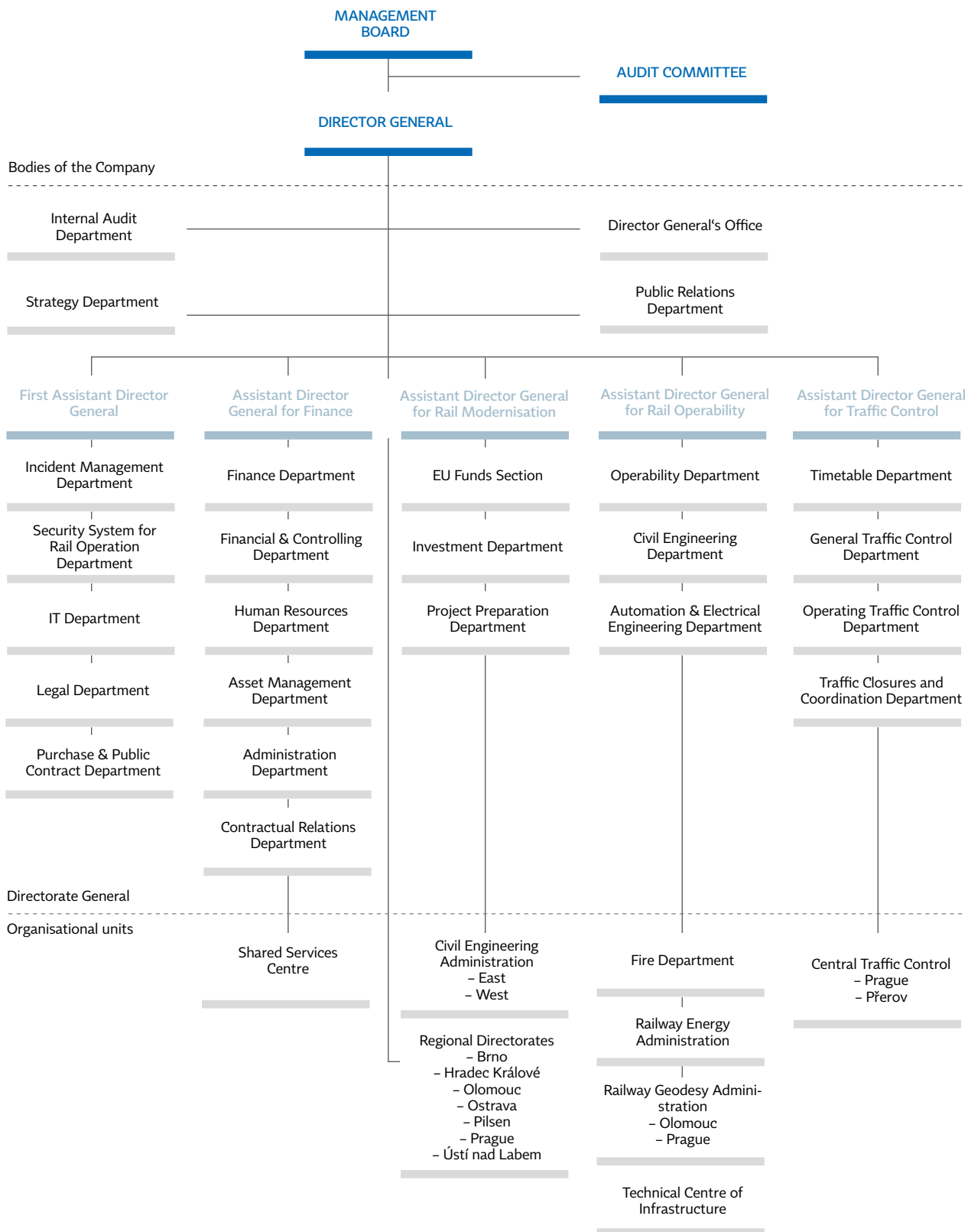
Based on a decision of the Management Board No. 22/2013 dated 28 March 2013

- As at 28 March 2013 the following member of the Audit Committee was recalled:
 Jakub Hodinář

SŽDC's organisational structure as at 31 December 2012



SŽDC's organisational structure as of 1 April 2013



Description of organisational units

SŽDC's organisational units (as at 31 December 2012)

SŽDC was organised into the Directorate General and 16 organisational units: Regional Directorates (7), Civil Engineering Administrations (2), Railway Geodesy Administrations (2), Railway Energy Administration (1), Technical Centre of Infrastructure (1), Fire Department (1) and Central Traffic Control (2). SŽDC has no foreign branch.

Specification of the organisational units' activities

Regional Directorates

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

Civil Engineering Administration

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

Railway Geodesy Administration

Railway Geodesy Administration administers, controls, supervises and operates geodesy activities. For instance, this involves making sure that construction of state railways is carried out by a licensed surveyor, 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

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

Technical Centre of Infrastructure

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 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 from the CTC in Přerov, and traffic in Bohemia has been controlled from the CTC in Prague as of 1 December 2012.

Fire Department

The Fire Department performs fire-fighting and rescue tasks during accidents on and off the rail network. It is part of the Integrated Rescue Service of the Czech Republic. It cooperates with other SŽDC organisational units in order to ensure rail operability.

SŽDC's organisational units (as at 1 January 2013)

SŽDC is organised into the Directorate General and 17 organisational units: Regional Directorates (7), Civil Engineering Administrations (2), Railway Geodesy Administrations (2), Railway Energy Administration (1), Technical Centre of Infrastructure (1), Fire Department (1), Central Traffic Controls (2) and Shared Services Centre (1). SŽDC has no foreign branch.

Shared Services Centre

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

1,928

Length of double and multiple-track lines (km)



Jan Fichtner
They will meet at infinity

Operating the railway infrastructure

Operating the railway infrastructure means running, servicing and organising rail transport.

Pursuant to the Railway Act, SŽDC is obliged to ensure the operation of state-owned national and regional rail networks. Since 1 September 2011 all activities of the rail operator including rail service have been carried out directly by SŽDC.

The regional routes of Trutnov – Svoboda nad Úpou and Sokolov – Kraslice were operated by VIAMONT, a.s. from 1 January 2012 to 31 July 2012, based on a lease contract; and from 1 August 2012 to 31 December 2012 by PDV RAILWAY a.s. Under a lease contract, the regional route Milotice nad Opavou – Vrbno pod Pradědem was operated by Advanced World Transport a.s. in 2012.

Classification of operators of state-owned national and regional rail networks as at 31 December 2012 (by length of operated lines):

■ SŽDC	9,412 km
■ PDV RAILWAY a.s.	37 km
■ Advanced World Transport a.s.	20 km

The scope of rail networks operated by SŽDC is currently stable. Changing the categorisation of rail networks from national to regional does not have an impact on their operation. SŽDC recorded interest in the lease of certain regional rail networks, primarily lines on which rail transport is not provided, in order to ensure transport service. Negotiations concerning the matter are in progress. According to a pre-contract, SŽDC expects to operate the newly built Sedlnice–Leoš Janáček Ostrava Airport line.

In 2012, SŽDC spent CZK 4,967 million on railway infrastructure operation.

15,532

Total construction length of tracks (km)



1 Aleš Kautský
A palette of autumn colours

2 Michal Vlček
Night illusion

3 Antonín Kýzl
Summer afternoon at Kolečovka



Operability of the railway infrastructure

Rail operability relates to maintaining the railway infrastructure in good technical condition, ensuring its safe and continuous operation.

In 2012, SŽDC ensured the operability of the railway infrastructure through its organisational units, i.e. Regional Directorates. The work related to the operability of the railway infrastructure is carried out internally or outsourced to suppliers operating on the respective market. These suppliers are selected by tender.

During 2012 a technical specification document, TS 1/2012-Z “Transfer of the train protection code to tracks without an automatic block signalling”, was created and approved effective from 1 January 2013, setting out SŽDC’s requirements for the track part of a low-frequency train protection system, LS type (Liniový Systém in Czech, or “continuous system” in English) for tracks without automatic block signalling. Its purpose

is to increase safety and speed on such tracks by passing information on signals and approach signals of the main railway semaphores to the main track vehicle.

In 2012 a pilot project was launched to measure traction power consumption of electrical traction units at which measurement distribution equipment is installed. The equipment contains an electricity meter and a unit for processing and sending data, measurement transformers and sensors, combined aeriels (for receiving signals from GSM, GSM-R and GPS systems) and cables. In addition, the ability for certain data from the measurement system to be transferred to the engine driver, if required by the carrier, is being considered. The project is expected to be developed in the future, as per the carrier’s needs.

In 2012, SŽDC focused on enhancing safety at level crossings. The safety

system was changed at 96 level crossings in total, of which 35 level crossings that had previously been secured by warning signs only were upgraded to a higher safety level.

Total expenses incurred in ensuring operability of the railway infrastructure amounted to CZK 8,877 million in 2012.

In June 2013 the railway infrastructure was hit by floods. As at the date of preparation of the annual report, the amount of damage on individual lines in the affected areas is being assessed.

Overview of selected activities

	2011	2012
Longitudinal and vertical alignment of tracks, including replenishment of the railway bed	1,585 km	1,409 km
Maintenance of railway bed – tracks, including replenishment of the railway bed	105 km	86 km
Set-up of contact-free tracks, welding – tracks	155 km	171 km
Set-up of contact-free tracks, welding – switches	205 s.u.	223 s.u.
Replacement of rails	265 km	251 km
Replacement of railroad ties, including vertical track alignment	168,628	184,961

Note: The above procedures are carried out as required based on the results of monitoring activities and diagnostics.

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 crucial railway junctions,
- modernisation of other lines integrated into the European railway system,
- ensuring the interoperability of selected lines, especially the implementation of GSM-R and ETCS,
- investment in the railway infrastructure to support the development of suburban transport and integrated transport systems,
- progressive modernisation and renovation of other selected national and regional lines with a view to ensuring high-quality transport services,
- electrification of selected railway lines,
- investment ensuring the operability of the railway infrastructure,
- enhanced safety of railway transport, in particular at level crossings,
- implementation of performance improvement projects aimed at installing state-of-the-art signalling equipment, enhancing railway transport safety and reducing rail maintenance costs.

Modernisation of railway transit corridors

There are four national railway corridors in the Czech Republic. The strategic goal for their modernisation is to ensure high-quality international connection between the Czech Republic and

neighbouring countries, and to enable fast, high-quality connection between the individual regions of the Czech Republic. The modernisation of the railway transit corridors represents a qualitative improvement in the Czech Republic's railway transport and a substantial reduction in travel times on significant rail routes, in particular Prague – Ostrava and Prague–Brno. The completed modernisation of the First Railway Transit Corridor in the Děčín – Prague – Česká Třebová – Brno – Břeclav track section and the Second Railway Transit Corridor in the Břeclav – Přerov – Petrovice u Karviné track section was followed by the modernisation of the Third and Fourth Railway Transit Corridors.

The Third Railway Transit Corridor runs along the track section of Mosty u Jablunkova, Slovak state border – Dětmárovice, Přerov – Česká Třebová, Prague – Pilsen –Cheb, German state border. The track section of Prague – Česká Třebová was implemented as part of the First Railway Transit Corridor and the Přerov – Dětmárovice section as part of the Second Railway Transit Corridor.

In 2012 construction work continued on the Mosty u Jablunkova – Dětmárovice branch under the projects “Optimisation of the track section along the Slovak state border – Mosty u Jablunkova – Bystřice nad Olší” and “Optimisation of the track section of Bystřice nad Olší – Český Těšín”, expected to be completed in 2013. Project work continues on the projects “Optimisation of the track section of Bystřice nad Olší–Český Těšín, second part – the Český Těšín railway

station” and “Optimisation of the track section of Český Těšín – Dětmárovice”, whose implementation is expected to commence in 2013.

In the section between Prague and Pilsen, optimisation of the Prague – Beroun track section in its current path is currently under preparation. Work on the track sections from Prague Smíchov to Černošice and from Beroun to Králův Dvůr is scheduled to commence in 2014, and on the Černošice – Beroun track section a year later. Since the modifications to the current Prague Smíchov – Beroun line cannot guarantee the required outputs in the future, especially in long-distance transport, it is necessary to plan the construction of a new route. The implementation of the project “Prague – Beroun, a new railway link” is scheduled to commence after 2016. After its completion, the full effect of the new line will be realised, in attracting further investments in the new projected railway connection between Prague and Munich. Currently a technical zoning plan for the construction is being prepared. In 2012 the “Optimisation of the Beroun – Zbiroh track section” project was completed and construction work was completed on the “Optimisation of the Zbiroh – Rokycany track section” project, which will be completed in 2013 in line with the contract. In 2012 a tender was launched for the “Modernisation of the Rokycany – Pilsen track section”, which will markedly shorten and speed up the section.

In the section between Pilsen and Cheb, all projects have been completed. In 2011, the construction project

“Thoroughfare through the Pilsen junction in the direction of the Third Railway Transit Corridor” commenced, with completion expected in 2013, and project work continues on the project “Optimisation of the Cheb-state border track section”, which is expected to be launched in 2014.

The projects “Optimisation of the Horní Dvořiště – České Budějovice track section”, “Modernisation of the track section Veselí nad Lužnicí – Tábor – first part, Doubí u Tábora – Tábor”, “Optimisation of the Benešov u Prahy – Strančice track section” and “Optimisation of the Strančice–Prague Hostivař track section” have been completed in the Fourth Railway Transit Corridor, which covers the track section Horní Dvořiště – České Budějovice – Prague. The construction of the project “Modernisation of the Votice – Benešov u Prahy track section” was completed and is expected to be completed in 2013 in line with the contract. The implementation of the project “Modernisation of the České Budějovice – Nemanice track section” is ongoing. At the beginning of 2013, the project “Modernisation of the Tábor –Sudoměřice track section” was commenced and a tender is in progress for a supplier for the project “Modernisation of the Ševětín – Veselí nad Lužnicí line, second part of the Horusice – Veselí nad Lužnicí track section”. In 2013, the projects “Modernisation of the Veselí n. L. – Tábor line – second part, the Veselí n. L. – Doubí u Tábora track section (first stage): Veselí n. L. – Soběslav” and “Modernisation of the Ševětín – Veselí nad Lužnicí line (first part), Ševětín –

Horusice track section” are scheduled to begin. Project work continues on the remaining construction projects in the Fourth Railway Transit Corridor, which is expected to be fully completed in 2018.

Modernisation of crucial railway junctions

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

the track sections Prague – Hostivař – Prague Main Station and Prague Main Station – Prague - Smíchov, which will connect the third and fourth corridors to the Prague junction. Preparatory work also continues on thoroughfares through the junctions of Pilsen, Brno, Ostrava, Pardubice and Česká Třebová.

Modernisation of other lines integrated into the European railway system

The renovation of Střelenský Tunnel on the line Horní Lideč–Slovak state border is being launched with the goal of improving the link with Slovakia. 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. 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 to ensure the interoperability of the railway network. The implementation of the GSM-R digital radio system at the First Railway Transit Corridor Děčín – Kolín – Břeclav and at the Second Railway Transit Corridor Břeclav – Přerov – Petrovice u Karviné is followed by the implementation of GSM-R in the track sections Ostrava – Mosty u Jablunkova – Slovak state border, Přerov – Česká Třebová, and Děčín – Všetaty – Kolín. Preparation is under way to continue the implementation in the track sections Kolín – Havlíčkův

Brod – Křižanov – Brno, Beroun – Prague – Benešov, Beroun – Pilsen – Cheb and Benešov – České Budějovice – Horní Dvořiště. After the completion of the ETCS (European Train Control System) pilot project in the track section Poříčany – Kolín, installation of the ETCS in the track section Kolín – Břeclav – Austrian - Slovak state border is underway and preparations are being made to continue the Kolín – Prague – Děčín – German state border track section. A Central Traffic Control has been put into operation in Přerov; it currently controls traffic on the Second Railway Transit Corridor and on the Přerov – Česká Třebová branch. It is expected the Centre will gradually take over the control of all corridor lines in Moravia in the future. The second Central Traffic Control, which controls traffic on the corridor lines in Bohemia, is located in Prague.

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, as part of which the first stage will include the double-tracking of the Stéblová – Opatovice nad Labem section, and renovation and electrification of the Brno – Zastávka u Brna, and Prague – Kladno track sections with a link to Václav Havel Airport (formerly Ruzyně Airport), Ostrava – Kunčice – Frýdek – Místek – Český Těšín and Otrokovice – Zlín.

High-speed connections

In 2012, significant steps were made in order to enhance the competitiveness

of railways. The review of “High-speed connections” project was started. Technical zoning plans are primarily being prepared with the aim of specifying zoning needs and stabilising routes. Currently, tenders for a financial and technical feasibility study are under preparation. The routes and the train stop policy are set so as to maximise the benefits for regions and to significantly shorten travelling times among regional towns. This is an entirely multinational project and railways in neighbouring countries are gradually being introduced to it as part of bilateral relations. Special studies will be assigned under the partnership of the United Nations Economic Commission for Europe in respect of the Prague – Bratislava – Budapest connection. The Ministry of Transport has approved the assignment of first studies.



Utilisation of the railway infrastructure by carriers

In the Czech Republic, equal access to the state-owned railway infrastructure is guaranteed for all carriers that meet the terms defined by the Railway Act. As of 1 January 1995 the Czech Republic introduced a standard system for granting licences to operate rail transport, and as of 1 May 2004 licences to operate rail transport have been awarded by an EC member state authority.

The number of carriers utilising the railway infrastructure increased compared with 2011.

The performance of carriers in passenger transport in 2012 increased slightly both in terms of train kilometres and gross tonne kilometres. This growth was primarily attributable to RegioJet a.s., a carrier operating public long-distance passenger transport on the Prague – Ostrava line. At the end of 2012 it was followed by

LEO Express a.s., who started regular operation of rail transport on the same line on 9 December 2012. Considering its short-term operation, this carrier did not have a significant impact on overall performance.

Results in freight transport for 2012 were primarily influenced by a drop in performance of the major carrier, ČD Cargo, a.s. The drop was partially offset by increased performance of other carriers.

Trend in the number of carriers (as at 31 December each year):

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Carriers	46	50	52	53	56	53	62	68	75	79

Performance of carriers in 2009–2012:

Year		2009	2010	2011	2012
Passenger	[trkm]	125,911,649	123,268,921	122,974,780	124,985,933
Freight	[trkm]	36,594,939	36,926,304	37,568,712	36,440,641
Total	[trkm]	162,506,588	160,195,225	160,543,492	161,426,574
Passenger	[thousand gtkm]	24,989,309	23,711,845	23,996,805	24,614,864
Freight	[thousand gtkm]	30,584,797	32,516,559	33,479,076	33,718,921
Total	[thousand gtkm]	55,574,106	56,228,404	57,475,881	58,333,785

Note:

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

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

Share of carriers in passenger transport production in 2011 and 2012 (%):

Carrier	gtkm 2011	trkm 2011	gtkm 2012	trkm 2012
České dráhy, a.s.	99.31	98.62	97.06	97.20
RegioJet a.s.	0.38	0.23	2.57	1.62
GW Train Regio a.s.	0.15	0.75	0.14	0.70
Vogtlandbahn-GmbH, organizační složka	0.13	0.32	0.13	0.33
Leo Express a.s.	0.01	0.01	0.07	0.08
Other carriers	0.03	0.08	0.03	0.07

Share of carriers in freight transport production in 2011 and 2012 (%):

Carrier	gtkm 2011	trkm 2011	gtkm 2012	trkm 2012
ČD Cargo, a.s.	84.36	76.18	79.38	75.82
Advanced World Transport a.s.	6.21	4.60	8.03	6.11
UNIPETROL DOPRAVA, s.r.o.	3.53	3.09	3.67	3.26
PKP CARGO SPÓŁKA AKCYJNA	1.12	1.35	1.96	1.85
LTE Logistik a Transport Czechia s.r.o.	0.47	0.38	1.40	1.03
IDS CARGO a.s.	0.49	0.52	0.98	0.98
SD - Kolejová doprava, a.s.	0.53	0.35	0.89	0.67
METRANS Rail s.r.o.	0.45	0.39	0.63	0.51
BF Logistics s.r.o.	0.31	0.30	0.46	0.34
BRYNTIN RAIL CZ, s.r.o.	0.01	0.01	0.38	0.22
Other carriers	2.53	12.84	2.22	9.21

In 2012, SŽDC allocated a total of 3,878,941 paths as part of the individual capacity allocation processes:

Type of capacity	2009	2010	2011	2012
As part of preparing the timetable	3,886,141	3,759,730	3,599,600	3,579,854
As part of a change to the timetable	167,490	128,949	90,347	80,806
Ad hoc, standard	77,479	83,623	82,168	54,596
Requests for residual capacity	148,575	163,166	166,767	163,685
Total	4,279,685	4,135,468	3,938,882	3,878,941

Note: ad hoc – capacity allocated per case

Pursuant to the Railway Act, SŽDC allocates path capacity at a price agreed on in accordance with applicable price regulations, by specifying framework time routes of trains. SŽDC is obliged (during the process of path capacity allocation) to ensure equal track access for all carriers, with the aim of maximising the utilisation of path capacity. In accordance with the Railway Act, SŽDC issues the National and Regional Network Statement on this subject, publishing detailed conditions for access to the track, its usage, path capacity allocation and the track access charge. SŽDC issues the National and Regional Network Statement under the RailNetEurope

common structure, which enables carriers to better understand this document. Naturally, the document is also published in English.

On 10 December 2010, SŽDC published on its websites the National and Regional Network Statement valid for the 2012 timetable. A total of 20 carriers applied for path capacity allocation for the 2012 timetable, of whom eight carriers requested capacity allocation for passenger transport. After a coordination process, carriers were allocated capacity and their applications were incorporated into the timetable for 2012, valid from 11 December 2011 to 8 December 2012.

On 9 December 2011, SŽDC published on its website the National and Regional Network Statement valid for the preparation of the 2013 timetable and for the 2013 timetable. The deadline for carriers' applications for path capacity allocation was 10 April 2012. A total of 22 carriers applied for path capacity allocation for the 2013 timetable, of whom nine carriers requested capacity allocation for passenger transport. After a coordination process, carriers were allocated capacity and their applications were incorporated into the timetable for 2013, which became effective on 9 December 2012.



24,271
Number of switch units

- 1 Richard Vaněk
Prague Main Station, a Regiojet train
 - 2 Richard Vaněk
A railway bridge over the Berounka
 - 3 Richard Vaněk
Prague Main Station
-



Rail operation safety

The rail operation and rail transport safety measures are stipulated in the Railway Act and in Ministry of Transport Regulation No. 376/2006 Coll., on Rail Operation and Rail Transport Safety System and on Procedures during Rail Accidents, as amended (“Regulation No. 376/2006 Coll.”).

The Security System for Rail Operation Department, integrated into SŽDC’s Directorate General, carries out SŽDC’s duties under the Railway Act as well as the rail operator’s and carrier’s obligations pursuant to Ministry of Transport Regulation No. 376/2006 Coll. The main duties of this department include investigating accidents and work injuries and defending SŽDC’s interests in terms of identifying the causes and circumstances of occurrence of an accident. The investigation of accidents and work injuries, also including the preparation of accident reports, for other carriers and rail operators is conducted so as to ensure the required quality and consistency of investigations. At present, SŽDC has concluded 44 such contracts and several other contracts are still in negotiation.

As part of constant efforts to increase the productivity and quality of investigation into accidents and work injuries, to increase the level of employee qualifications and to prevent the option of penalties imposed by the state authorities, in August 2012, the Director General required that a quality management system be introduced in SŽDC in

accordance with the ČSN EN ISO 9001:2008 standard (“ISO 9001”). The implementation was aimed primarily at the main processes, i.e. identifying the causes and circumstances of an accident, preparation of accident reports, investigation of fatal and specified work injuries and overseeing the rail transport operation safety system. The application of ISO 9001 was done by qualified SŽDC employees and there was no need to engage advisory firms or employ extra staff within a very short period. The certification process was completed at the end of 2012. Certification is proof of the fact that the management system is properly organised in accordance with applicable standards and regulations and that the documentation is managed well. The success of the certification audit shows that SŽDC has a well run quality management system which complies with ISO 9001.

The Railway Act and Ministry of Transport Regulation No. 376/2006 Coll. stipulate, among others, the duty to obtain a certificate on rail operator safety and a carrier certificate. SŽDC holds these certificates but they expire in June 2013. For this reason, SŽDC has started negotiations with the Rail Authority, the only authority in the Czech Republic entitled to issue these certificates. In October 2012, the works on obtaining new certificates according to the above legal regulations and other requirements of the Rail Authority were initiated.

The rail network and rail transport operation safety system also includes the preparation of annual safety reports. These define and evaluate safety objectives, provide information on meeting the safety objectives defined by rail operators and carriers and present statistical reports. In terms of safety objectives, in 2012 SŽDC, as the national and regional rail operator and operator of non-public rail transport, aimed to operate the rail network and rail transport safely, reliably and in an environment-friendly way. When operating the rail network and rail transport, SŽDC meets stipulated safety and environmental requirements. As a rail network and rail transport operator, SŽDC also prepares accident reports for most of its contractual partners. The reports include information about the effects of the accidents, indicators concerning the technical safety of the rail network and its operation and indicators concerning safety provisions. The data serves as a tool to compare the accident rate of the individual rail operators and carriers in the Czech Republic.

Every year, SŽDC prepares a report entitled “Accident rate and rail network and rail transport safety system of the state organisation Správa železniční dopravní cesty” to provide comprehensive information about the safety system, development of the accident rate and about accident prevention measures on the part of the rail network and rail transport operator. The report provides information about accidents and about the rail network and rail

transport operation safety system. The accident rate figures for 2012 demonstrate, among others, that SŽDC was not responsible for any train crashes. The total number of injured persons for 2012 is the lowest for the overall period monitored, i.e. since 2009. In 2012, the total damage and the damage for which SŽDC is responsible decreased significantly.

The Railway Act stipulates the duty not only to identify the causes of and circumstances surrounding rail transport accidents, but also to take measures to prevent such accidents. The controlling and preventive activities performed by SŽDC are part of these duties, and follow from regulations in force, conclusions from investigations into accidents, fatal and specified work injuries and conclusions from the previous year's inspections. The measures adopted

in order to prevent the occurrence of accidents focus on controlling and preventive activities. SŽDC monitors the implementation and effectiveness of corrective measures adopted in connection with the individual accidents. During the controls, no significant deficiencies were identified which would indicate deficiencies or necessary changes in terms of the safety management system. As a result of the controlling and preventive activities of SŽDC, removing of identified deficiencies, guidance provided to employees on the faults committed, and adoption of relevant measures workplace safety of SŽDC's employees, employees of individual carriers and suppliers and the safety of passengers has increased. The overall rail network and rail transport operation safety has increased and as a result, the requirements stipulated in the Railway

Act and Regulation No. 376/2006 Coll. concerning the safety system and prevention of accidents have been met.

As it follows from the 2012 accident rate figures, SŽDC operates the infrastructure safely and fully in accordance with TSI and other regulations and requirements of the European Union. Based on the above information, we can say that in the past period rail network and rail transport operation safety has increased and our safety objectives have been met.



Vojtěch Hanák
A chilly winter morning

SŽDC performance



Tomáš Drvota
It all starts with measuring

A. Operation and operability of the railway infrastructure

The costs of ensuring the operation and operability of the railway infrastructure (excluding amortisation) totalled CZK 13,845 million in 2012.

The following revenues were used to cover expenses:

Revenues from use of railway infrastructure	CZK 4,456 million
of which:	
- Freight transport (České dráhy, a.s. and ČD Cargo, a.s.)	CZK 2,277 million
- Passenger transport (České dráhy, a.s.)	CZK 1,579 million
- Other carriers – freight transport	CZK 552 million
- Other carriers – passenger transport	CZK 48 million
Subsidies from the State Fund for Transport Infrastructure (“SFTI”) for repairs and maintenance	CZK 8,783 million
Subsidies for the railway infrastructure not covered from SFTI	CZK 550 million

B. Modernisation and development of railway infrastructure

Funding for investment projects came mostly from public sources. The most significant source of investment funding in 2012 continued to be subsidies from the EU funds. With respect to the railway infrastructure, SŽDC, acting as the final beneficiary and investor, is the main entity

responsible for EU fund utilisation in the Czech Republic. As a successor organisation, SŽDC took over the management, coordination and implementation duties from the state organisation České dráhy (Czech Railways) in implementing projects co-funded from the EU funds.

OPT subsidies accounted for the largest share of funds. Other sources

were obtained from the EIB, SFTI, and the TEN-T fund; in sporadic cases, small contributions were obtained from regions, cities and municipalities.

The volume of subsidies received for the preparation and implementation of investment projects related to railway infrastructure totalled CZK 9,502 million in 2012.

Received investment subsidies

SFTI for construction and modernisation, national share, OPT, EIB	CZK 9,429 million
EU funds	CZK 63 million
Contributions from cities, municipalities, regions and other entities	CZK 10 million

C. Financial performance of SŽDC

A profit of CZK 75 million was generated for the 2012 accounting period. The following items had the most significant impact on SŽDC's financial performance in 2012:

	(in millions of CZK)
Revenues from use of railway infrastructure	4,456
Subsidies from SFTI for repairs and maintenance	8,783
Subsidies for the railway infrastructure not paid from SFTI	550
Other subsidies	11
SŽDC debt remission as per Czech Government Resolution No. 1553 from 2005	5,647
Purchase and sale of energy and distribution services	363
Materials, energy consumption and services	-6,646
Personnel expenses	-8,266
Accounting depreciation	-4,249
Other operating revenues and expenses	-359
Operating profit/loss	290
Interest expense/interest income	-414
Exchange rate difference	250
Other financial revenues and expenses	-10
Profit/loss from financial operations	-174
Profit/loss before tax	116
Deferred tax	-41
Profit/loss after tax for the year	75

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

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

Subsidies for the railway infrastructure not paid from SFTI

include contributions from the Ministry of Transport provided to cover expenses relating to railway operation and operability in the public interest when the income from track access charges paid by railway carriers is insufficient and SFTI subsidies cannot be used.

Other subsidies primarily comprise subsidies from the state budget for an accompanying social programme, i.e. providing funds for contributions to SŽDC's staff when the employment is terminated due to restructuring, and EU subsidies (Operational Programme Transport).

A significant item with a substantial effect on SŽDC's revenues is the

revenue resulting from the remission of SŽDC's liabilities (so-called "debt remission") pursuant to Czech Government Resolution No. 1553 dated 30 November 2005. The debt remission is implemented on a contractual basis with the Ministry of Finance and represents a non-cash revenue item only, i.e. with no entitlement to additional state budget funds.

Purchase and sale of energy and distribution services includes expenses on the purchase of distribution services and electricity (the transfer points of low tension and high tension outside the electrical grid to ensure the internal electricity for SŽDC's consumption

and to supply electricity to external customers connected to the local distribution network of the railways) and expenses on the purchase of distribution services and electricity for the points of supply and transfer points of the electrical grid. At the same time, it includes revenues from sale of distribution services and from sale of electricity as well as revenues from sale of distribution services for the electrical grid.

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

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

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

SŽDC's net other operating revenues/expenses include other revenue and expense items, e.g. revenues from the sale of fixed assets and materials reduced by their net book value, revenues from external outputs and leases, own work capitalised, revenues from salvaged materials, taxes and fees, changes in provisions and allowances, property and liability

insurance, a contribution for personal protective equipment to be used at work, and membership fees paid to organisations.

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

Exchange rate differences arise from the translation of foreign currency liabilities, loans and interest at the exchange rate valid as at 31 December 2012. Given that the Czech currency strengthened against the euro, in which most loans taken over from the former state organisation České dráhy (Czech Railways) are denominated, the Czech crown value of these liabilities decreased and the difference was, in line with applicable regulations, recognised as revenue.

The 2012 profit/loss also includes a tax expense arising from a deferred tax liability. The items constituting deferred tax are listed in the notes to the financial statements.

D. Projected business and financial situation in 2013

SŽDC's objective is to achieve a balanced budget in close cooperation with the relevant ministries, given SŽDC's reduced entitlement to state budget funds. SŽDC intends to spend its means efficiently and to provide for infrastructure on which it will be possible to organise reliable and safe passenger and freight rail transport.

As in previous years, SŽDC's performance in 2013 will be significantly influenced by expenses related to ensuring the operation and operability of the railway infrastructure as well as by the government-approved amount of SŽDC's liabilities to the state eligible for debt remission, the amount of asset depreciation, and the impact of exchange rate differences arising from the translation of payments and the balances of loans and interest taken over from the former state organisation České dráhy (Czech Railways).

SŽDC's performance is regularly assessed and analysed in order to maintain its business and financial stability.

E. Risk management

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

SŽDC is a state-owned entity whose activities are governed by

laws and regulations valid for state organisations. These regulations significantly influence the state organisation's approach to risk management. The risks to which SŽDC is potentially exposed comprise interest rate risk, liquidity risk and operational risk.

Interest rate risk

Interest rate risk arises from movements in market interest rates. The entity is exposed to changes in interest rates, particularly in terms of credit, depending on the development of official interest rates. Interest rate risk relates to the non-guaranteed loan from Česká spořitelna, a.s. for performance improvement projects paid from SŽDC's own resources. This risk is managed and regulated by a concluded interest rate swap.

SŽDC accounts for financial instruments with a fixed interest rate and for changes in their fair value through profit and loss.

Liquidity risk

Liquidity is the ability to meet due financial obligations at any time. Liquidity risk is the risk that the organisation will not be able to meet its financial obligations at their maturity dates. Prudent liquidity management requires maintaining sufficient cash and cash equivalents on hand and the availability of funding through an adequate number of committed credit facilities.

The main objective of liquidity risk management within SŽDC is to ensure a sufficient amount of available financial resources to cover due liabilities. The key tool of managing liquidity is the evaluation of liquidity development during the fiscal year in relation to the actual cash flow. Liquidity is further managed in relation to the relevant grant names for the relevant fiscal year, including the dependence on the pricing strategy for use of the railway infrastructure.

Operational risk

Operational risk is generally defined as the possibility of loss due to operational deficiencies and errors. In its narrower definition, operational risk is a risk arising from operating business activities.

In terms of operational risk, SŽDC pays close attention to ensuring safe operation on the railway infrastructure. SŽDC minimises this risk by establishing a system to ensure rail network operation safety and meeting the qualification conditions for persons who ensure the operation of rail transport and other conditions stipulated in the legal regulations. The SŽDC's effort in this area can be proven by the rail operation safety certificate issued by the Rail Authority.

6,735

Bridges



Dana Klimešová
A country railway

Human resources, payroll and employee relations

As at 1 January 2012, SŽDC had 17,687 employees working in 22 organisational units. Executive, strategic and systemic tasks are carried out by SŽDC's Directorate General. During 2012, due to optimisation and rationalisation of activities and an increase in work productivity, several significant changes were made to the organisational structure of SŽDC. On 31 December 2011, 13 organisational units of Regional Infrastructure Administration (Olomouc, Ostrava, Brno, Zlín, Jihlava, Pardubice, Prague, Hradec Králové, Liberec, Ústí nad Labem, Karlovy Vary, Pilsen, České Budějovice) and three organisational units of Regional Civil Engineering Administration (Pilsen, Prague, Olomouc) were dissolved.

As at 1 January 2012, seven Regional Infrastructure Administrations (the Central Bohemia unit with its seat in Prague, the North-Western Bohemia unit with its seat in Ústí nad Labem, the South-Western Bohemia unit with its seat in Pilsen, the North-Eastern Bohemia unit with its seat in Hradec Králové, the North Moravia unit with its seat in Ostrava, the Central Moravia unit with its seat in Olomouc, and the South Moravia unit with its seat in Brno) were established and a further two Civil Engineering Administrations (the West unit with its seat in Prague and the East unit with its seat in Olomouc). Effective from 1 April 2012, the seven Regional Infrastructure Administrations (which performed primarily administration, control, supervision, repairs and maintenance of the railway infrastructure in the

relevant region) merged with six Regional Traffic Centres (which primarily operated the railway infrastructure, controlled the railway traffic and organised the rail transport in the relevant region) on a regional basis into seven Regional Directorates with their seats in Olomouc, Ostrava, Brno, Hradec Králové, Prague, Ústí nad Labem and Pilsen. The Regional Directorates now also manage the financial and personnel activities which were previously performed for the Regional Traffic Centres by the Economy-Personnel Service, an independent organisational unit, until 31 March 2012. The establishment of Regional Directorates will bring with it synergy effects in the form of more operational management and close cooperation at all levels of the merged activities within the region. Effective from 1 December 2012, the Central Traffic Control, a new organisational unit, was detached from the existing organisational structure. It is used for remote control of rail transport on the lines within Bohemia. As a result of these organisational changes and further performance improvements and optimisation at the level of organisational units, in the period between 31 December 2011 and the end of the year 2012, the number of employees dropped by 434, i.e. by 2.4%. As at 31 December 2012, SŽDC had 17,331 employees.

In terms of remuneration in 2012, a uniform payroll system continued to be applied, resulting from SŽDC's Collective Agreement for the period 2009–2013, as amended for 2012 (as

amended by the 6th amendment effective from 1 January 2012). Based on collective bargaining, two amendments to the Collective Agreement were negotiated in 2012 – the 7th amendment (effective from 1 August 2012) and the 8th amendment which stipulates primarily the new remuneration conditions for 2013 and compensation for the unrealised reconditioning treatment programmes for 2012 (two bidders in the tender for a provider of reconditioning treatment programmes submitted an objection to the Office for the Protection of Competition and the tender had to be cancelled). As at 31 December 2012, there were eight trade union organisations active in SŽDC, both multi-profession organisations as well as organisations representing a single profession.

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

Medical care at work was provided through a contractual health-care

facility. In addition to the prescribed types of medical examinations, it also focused on workplace check-ups. As the Collective Agreement is valid for a longer period, employee benefits were made available throughout the year; e.g. the possibility to obtain employer's contributions towards the supplementary pension insurance and life insurance schemes. In accordance with the financial principles and the

approved budget, the Cultural and Social Needs Fund was used to provide funds for meal vouchers, cultural and sports activities, including participation in international railway events, holiday packages, etc.

Health and safety activities primarily focused on eliminating the deficiencies detected during inspections or ordinary activities. There were two

fatal work injuries in 2012. Therefore, preventive interviews were conducted with employees, stressing the importance of observing regulations. As a precautionary measure, risks were re-assessed and jobs were re-classified in some workplaces, with a follow-up procedure in line with applicable legislation.



Vladislav Holoubek
Concealed end

Environmental protection



Radovan Kremlička
Late afternoon on a siding

Environmental protection comprises activities aimed at preventing pollution or damage to the environment, or mitigating or removing the negative effects thereof.

SŽDC has a number of duties which follow from legal regulations governing primarily environmental protection (waste, water, air, nature, and countryside), further health care (noise and vibrations) and agriculture (botanical care – in connection with chemical weed control).

Environmental protection is an everyday part of operability, operation and modernisation of the railway

infrastructure. SŽDC strives to minimise the negative impacts on the environment and also to prevent possible sanctions imposed by the supervisory authorities.

The main components of SŽDC's environmental protection programme, including public health protection initiatives, are as follows:

1. Waste management

The level of waste management is one of the most important signals of the state organization towards its environs and it gives the first impression of the environmental standard of SŽDC. Our approach to

waste management relies on a waste sorting system similar to communal waste. The approved Waste Management Plan for 2012 includes, among others, the task of managing construction waste.

The waste treated by SŽDC is divided into other waste (O), which is not dangerous in terms of its impact on individual aspects of the environment, and dangerous waste (N), which has one or more dangerous features.

Volume of waste produced by SŽDC and handed over for processing in 2010–2012

Handover of waste to waste-processing companies	(volume in tonnes)		
	2010	2011	2012
O – other waste	28,620	31,098	29,920
N – dangerous waste	1,442	2,532	1,680
Total O + N waste	30,062	33,630	31,600

2. Nature and landscape protection

In 2012, SŽDC intensified its cooperation with Lesy České republiky, s.p. as the major administrator of woods owned by the state in terms of maintenance of surrounding vegetation. Based on the agreements concluded, in preparing the logging (timber harvesting) plan for the year 2013 and the following years the representatives of the state-owned entity Lesy České republiky, s.p. are planning to reflect railway safety and operability requirements when harvesting timber in woods located in the protected railway zone. Based on cooperation with Lesy České republiky, s.p., SŽDC succeeded in negotiating the logging of up to 24 thousand tonnes of timber from the woodland located in the protected railway zone, which is approx. twice the annual volume of timber logged on the land administered by SŽDC.

3. Noise and vibration

SŽDC intends to optimise the extent of the implemented noise protection measures, which should reflect the requirements stipulated in the legal

regulations and the specific territorial features of the individual modernised track sections.

In 2012, SŽDC also continued to seek other technical noise protection solutions. They included primarily the so-called low anti-noise screens – the first testing sections could be installed as early as in 2013–2014.

An issue seems to be how to reduce the noise produced by the wagon retarders on the inclines of the shunting yards. In this respect, Government Regulation No. 272/2011 Coll. imposes a very strict health protection limit which in practice cannot be achieved.

4. Prevention of accidents and managing their impact on the environment

In ensuring these activities, SŽDC abides by the valid legal regulations and adopts preventive measures to mitigate the potential risks connected with possible jeopardy to the environment. In 2012, 35 accidents were reported on the SŽDC rail network, caused primarily by

leakage of operational fluids from the locomotives of the carriers. Mostly these accidents occurred without any impact on the environment. In the past years, we have seen more and more fluid leakages as a result of theft of fuel and precious metals from choking coils and transformers. This theft not only endangers rail traffic but also the environment, primarily soil and ground water.

The strategic objective of SŽDC for the year 2013 and the following years in terms of prevention of accidents and managing their effects on the environment remains the minimisation of the negative effects of SŽDC's operating activities on the environment.

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Tunnels



František Tylšar
Autumn spirit

International relations

Our long-term strategic objective is for the Czech rail network to become an integral part of the main European routes. We must offer all carriers high-quality, fast, reliable and safe infrastructure which meets interoperability requirements. We cannot achieve this strategy without effective international cooperation in all technical areas and on all levels. The Ministry of Transport has entrusted SŽDC with negotiations of the European Commission's Committee on Interoperability and Safety, which discusses and approves all technical specifications for interoperability. SŽDC is well aware of the significance of international activity and continued to pay due attention to it in 2012.

International Union of Railways (UIC)

SŽDC is a member of the International Union of Railways ("UIC") and in 2012, its experts continued to actively participate in the permanent work groups and were also involved in individual projects. Its experts were further actively involved in the biggest forum of the UIC, the Rail System Forum, by getting involved in the work groups focusing on superstructure and substructure, artificial structures, and electric traction. SŽDC also cooperates on several environmental projects within the UIC forum Environment. SŽDC has recently become involved in the UIC forum Safety which has gained more and more attention in respect of all railway companies with regard to the growing threat of terrorism and rising crime levels.

SŽDC participates both in existing UIC projects and new projects concerning lines and artificial structures and energy management.

Community of European Railway and Infrastructure Companies (CER)

Since its incorporation, SŽDC has been a member of the Community of European Railway and Infrastructure Companies ("CER"). This organisation joins more than 70 railway companies, both carriers and infrastructure managers from across Europe and other countries. Its members include both state-owned entities and private companies and represent 1.2 million workers and most freight transport (85%) and passenger transport (90%) outputs. CER is still considered the most influential association of railway companies in Brussels. In 2012, Jiří Kolář, the Director General of SŽDC, became the vice-president of this important association.

SŽDC's experts are members of many CER working groups: Infrastructure Interest Group, Corridors, Human Resources Directors, and European Rail Traffic Management System. The last working group works on creating basic materials for the newly introduced integrated system to ensure and control rail transport – ERTMS/ETCS (European Rail Traffic Management System). At present, the majority of this group's work is on updating the relevant TSIs (technical specifications for interoperability) for ensuring and control of rail transport, which have become basic European technical regulations. The TSIs to

be adopted have a direct legislative and economic impact on the Czech Republic. By participating in this working group, SŽDC can directly influence creation process of this binding European railway legislation.

Association of European Infrastructure Managers RailNetEurope (RNE)

SŽDC is a member of the Association of European Infrastructure Managers ("RailNetEurope" or "RNE"). RNE is an association of infrastructure managers, rail operators and path capacity allocators. At present, it has 37 members from 26 European countries, which operate 230,000 km of railway lines. The main lines for transit transport have been divided into 11 RNE corridors, where conditions enabling the simplest possible relations between infrastructure managers and carriers are created. Two of these 11 RNE corridors run across the territory of the Czech Republic. The corridor manager of one of them is an SŽDC representative. RNE has several permanent working groups, e.g. the Timetable Group, which coordinates the preparation of timetables, and the Network Statement Group, which creates and maintains a uniform structure of the Network Statement for all members. The Legal Matters Group discusses, among other things, viewpoints of infrastructure managers concerning draft EU legislation. At present, the ongoing implementation of technical specifications relating to interoperability (TAF/TAP TSI) and support of implementation of the rail freight transport corridors under

Regulation (EU) No. 913/2010 are highly topical.

New products created or operated by RNE, which are to facilitate communication with carriers, include:

- the RNE Path Coordination System (PCS), which is used to coordinate interstate timetables,
- RNE TIS designed to monitor and assess train rides, and
- RNE CIS, intended for preliminary calculations of track access charges in Europe.

European Telecommunications Standards Institute (ETSI)

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

Organisation for cooperation between railways (OSJD)

Within the OSJD intergovernmental organisation, the Czech Republic is represented by the Ministry of Transport and Czech Railways (ČD). SŽDC’s experts cooperate with Committee V – “Infrastructure and Rail Vehicles” primarily in the

groups working on issues concerning substructure, superstructure, and diagnostics.

Rail freight corridors

In 2012, SŽDC continued implementing Regulation (EU) No. 913/2010, under which nine rail freight corridors are established, and three of which pass through the Czech Republic:

- The Baltic-Adriatic corridor – No. 5: from Gdynia to Koper and Italian ports,
- The Orient corridor – No. 7: from Prague to Constantza and Athens,
- The Czech-Slovak corridor – No. 9 from Prague to Čierna nad Tisou on the Slovak-Ukrainian border.

Cooperation was intensified on corridors No. 7 and 9, which will be put in operation by 10 November 2013. Several meetings of the managing board and six working groups were held in respect of the Orient corridor and a timetable of activities was prepared. Also the works on the implementation plan and a transport market study have been initiated. Further, advisory groups for terminal operators and owners and for railway companies were established. An agreement on the establishment of the secretariat for Corridor No. 7 in Budapest, including its budget, was concluded. Similarly, a managing board and six

working groups were established for the Czech-Slovak corridor. The members agreed that as a matter of cost saving, no new entity with its own legal form or a common corridor office will be established for this corridor. The corridor management will be based on close cooperation of both entities and an equal, or if appropriate alternating, management principle. A timetable of activities has been prepared and work has begun on the implementation plan and a transport market study.

As for the Baltic-Adriatic corridor which shall be put in operation on 10 November 2015, preparatory work has started on the organisational structure, working groups and advisory groups, and a timetable and common budget have been prepared.

Activity connected with preparation of international standards

SŽDC’s experts continued working with CEN and CENELEC on standards.

Future development



Michal Vlček
Kladno at night

SŽDC fulfils its duties as owner and operator of the national and regional networks owned by the state. In performing these duties, it strives to ensure that all carriers are guaranteed equal conditions of access to a safe and technically and technologically advanced railway infrastructure that provides sufficient path capacity. It organises railway traffic primarily so as to ensure its continuity and safety. It strives for maximum efficiency in managing the entrusted assets.

Strategic planning, on which priorities for further development are based, plays an indispensable role when it comes to SŽDC's operation. The main partners who play a significant role in determining the priorities of the railway infrastructure development are the Regions and the Ministry of Transport. In respect of the external requirements expressed within the ongoing review of the TEN-T policy and the effort of the requirements of the state and Regions to be reflected in the strategic documents of SŽDC as much as possible, a comprehensive review of all strategic documents is performed also with regard to preparation of the new EU budget period. The objective is to prepare Vision 2020, Vision 2030 and Vision 2050.

The transformation of the organisation of the rail network is an ongoing process. In order to create and guarantee non-discriminatory access to the railway infrastructure, a comprehensive solution of the ownership of land in the railway stations is under preparation. The

completion of the transformation process is necessary to ensure stability and development of the entire railway sector.

A long-term goal is to establish the necessary prerequisites for enforcement of the market position of rail transport both at the national and international level by meeting the interoperability standards step by step. In terms of its international activities, SŽDC expects to actively support the new structure of the TEN-T network and involvement in the review process of all TSIs within the frame of the new EU approach. Attention will also be paid to negotiations on the extension of interoperability to the lines outside TEN-T. However, the negotiations will have to be conducted based on due considerations. The above facts create conditions for use of the EU funds to modernise the railway infrastructure.

It will also be necessary to concentrate on applying the basic performance parameters of TSI infrastructure on the main TEN-T network within the technical and technological network development. Attention will also be paid to the application of TSI Energy factors and fulfilment of the European Implementation Plan for the control and signalling subsystem.

The most immediate key task relating to rail modernisation is to ensure utilisation of EU funds allocated via the Operational Programme Transport. In close cooperation with

the Ministry of Transport, projects focusing on the modernisation of the railway infrastructure and co-funded from EU sources during the planning period until 2015 will be prepared and implemented. The top priority will be the completion of the modernisation of railway corridors and lines that are part of the European rail network. Small projects, e.g. modernisation of railway crossings, have been chosen in cooperation with the Ministry of Transport in order to use the remaining EU sources at the end of the budget period.

In addition to these projects, intensive preparation for the following planning period (2014–2020) will be in progress with the aim of ensuring the required levels of preparation of projects suitable for co-funding from EU sources. At the same time, the study review of the Quick Connections project will continue, the construction of which is a long-term priority. The first constructions can already be co-funded in the next budget period and they are suitable candidates for co-funding from the newly established CEF (Connecting Europe Facility) fund.

The modernisation of the railway infrastructure also includes technological structures defined by European standards. This mainly involves the completion of additional construction projects relating to the implementation of GSM-R and ETCS in compliance with the amendment to the ERTMS National Implementation Plan.

The modernisation of the railway infrastructure on the main TEN-T network will continue in compliance with TSI. Attention will be paid to the TSI Energy standards and to fulfilment of the European Implementation Plan for the control and signalling subsystem.

The objective of meeting the above standards is among the new priorities for freight transport – the freight corridors established in line with Regulation (EU) No. 913/2010 of the European Parliament and of the Council. In this context, SŽDC will focus on building structures and putting these corridors into operation in line with the regulation.

As part of its other international activities, SŽDC expects to actively support the new structure of the TEN-T network, and to get involved in the process of the general revision of all TSIs as part of the new EU approach and their extension to the entire rail network, which is required by the EU directives. However, this has to be approached carefully. The above matters create conditions for the utilisation of EU funds for the modernisation of the railway infrastructure.

It is necessary to have the right organisational structure and professionally qualified employees in order to be able to meet the

above objectives. This has led to several organisational changes being introduced in the past which will continue in 2013. As regards the current economic situation, it is necessary to concentrate on optimisation of the control processes, on increasing their effectiveness together with a long-term stabilisation and on improvement of inspection mechanisms aimed at drawing the allocated means.

The steps mentioned above will lead to the achievement of the main strategic goal - to form high-quality railway infrastructure in the Czech Republic that is attractive from a business perspective.

150,945

Total length of bridges (m)



Marek Binko
Český Brod

Independent Auditor's Report to the Institutor of Správa železniční dopravní cesty, státní organizace



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Independent Auditor's Report to the institutor of Správa železniční dopravní cesty, státní organizace

Financial statements

On the basis of our audit, on 6 June 2013 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 2012, 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 assets and liabilities of Správa železniční dopravní cesty, státní organizace as of 31 December 2012, and of its expenses, revenues and net result for the year then ended in accordance with Czech accounting legislation.

*Emphasis of matter*

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

As stated in note 7.2 to the financial statements, Správa železniční dopravní cesty, státní organizace provides carriers with the railway infrastructure for use in the public interest for an officially determined price which is set in compliance with Act No. 526/1990 Coll., on Pricing. The proceeds from payments for the use of the railway infrastructure are not sufficient to cover the costs spent on operation, maintenance and further development of the railway infrastructure. As such, the funding of operations of Správa železniční dopravní cesty, státní organizace is dependent upon subsidies from the State and/or other entities. The financial statements do not include any adjustments in measurement and classification of assets or liabilities, which might be necessary if Správa železniční dopravní cesty, státní organizace was unable to continue as a going concern.

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

As stated in note 7.1 to the financial statements, in compliance with Act No. 77/2002 Coll., on the Joint Stock Company Czech Railways (České dráhy), on the State Organisation Railway Infrastructure Administration (Správa železniční dopravní cesty) and on Amendments to Act No. 266/1994 Coll., on Railways, as amended, most liabilities of České dráhy, státní organizace were transferred to Správa železniční dopravní cesty, státní organizace as at 1 January 2003. As further stated in notes 3.16 and 4.11.2 to the financial statements, the long-term payables to banks which have been taken over from České dráhy, státní organizace (state organisation Czech Railways) are paid by the Ministry of Finance according to the instalment plans and then they are transferred to long-term payables to the State and they are subject to debt remission. As stated in notes 3.16 and 4.11.2 to the financial statements, in 2004 Správa železniční dopravní cesty, státní organizace issued bonds (ISIN CZ0003501397) in the aggregate amount of CZK 7 billion. The issued bonds were paid to their holders within the term of maturity, i.e. in March 2011, by the Ministry of Finance in their total value. The payable from issued bonds was transferred to long-term payables to the State after the payment (redemption) of the bonds.

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 2012, the payables totalling CZK 5.65 billion (CZK 5.88 billion in 2011) were waived and this amount was recorded as a part of other operating revenues. Based on Act No. 77/2002 Coll., on Railways, the Czech Republic is liable for the liabilities of Správa železniční dopravní cesty, státní organizace.



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

As stated in note 4.2.1 to the financial statements, Správa železniční dopravní cesty, státní organizace recognised assets of CZK 3.4 billion in tangible fixed assets under construction. This item also includes tangible fixed assets under construction acquired from subsidies of CZK 3.06 billion. After having received subsidies and made payments to suppliers in the following accounting period, the acquisition cost of the assets under construction will be reduced by the subsidies and these assets will be recognised in off-balance sheet accounts. Správa železniční dopravní cesty, státní organizace did not account for entitlement to subsidies to tangible assets under construction as at the reporting date as an incontestable entitlement to the subsidy arises only upon its utilisation. Until that moment the funds still belong to the provider. The total acquisition cost of tangible fixed assets recorded in the off-balance sheet was CZK 149.71 billion as at 31 December 2012.

As stated in note 4.2.7 to the financial statements, a significant part of the Company's 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."


Annual report


We have audited the consistency of the annual report with the above mentioned 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 6 June 2013


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


Pavel Závitkovský
Partner
Licence number 69

Financial Statements

Balance sheet in full format as at 31 December 2012 (in thousands of Czech crowns „TCZK“)

Ident.	ASSETS	line	2012			2011
			Gross	Adjust.	Net	Net
a	b	c	1	2	3	4
	TOTAL ASSETS (L.02+03+31+63)	001	178,033,596	-97,170,695	80,862,901	86,370,778
A.	Receivables for subscribed registered capital	002				
B.	Fixed assets (L.04+13+23)	003	173,757,526	-96,552,091	77,205,435	81,760,461
B.I.	Intangible fixed assets (L.05 to 12)	004	413,853	-262,391	151,462	119,039
B.I.1.	Incorporation expenses	005				
2.	Research and development	006				
3.	Software	007	353,339	-260,042	93,297	98,600
4.	Intellectual property rights	008				
5.	Goodwill	009				
6.	Other intangible fixed assets	010	3,853	-2,349	1,504	1,569
7.	Intangible fixed assets under construction	011	56,649		56,649	18,865
8.	Advance payments for intangible fixed assets	012	12		12	5
B.II.	Tangible fixed assets (L.14 to 22)	013	173,343,673	-96,289,700	77,053,973	81,641,422
B.II.1.	Land	014	6,557,978	-19,929	6,538,049	6,524,212
2.	Buildings	015	134,700,341	-79,958,040	54,742,301	57,544,913
3.	Plant and equipment	016	20,239,531	-13,819,841	6,419,690	7,249,629
4.	Cultivated areas	017				
5.	Adult livestock	018				
6.	Other tangible fixed assets	019	496		496	516
7.	Tangible fixed assets under construction	020	3,402,817	-66,375	3,336,442	3,757,098
8.	Advance payments for tangible fixed assets	021	83,276		83,276	70,698
9.	Adjustments to acquired fixed assets	022	8,359,234	-2,425,515	5,933,719	6,494,356
B.III.	Long-term investments (L.24 to 30)	023				
B.III.1.	Investments in group undertakings	024				
2.	Investments in 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				
C.	Current assets (L.32+39+48+58)	031	4,257,399	-618,604	3,638,795	4,590,868
C.I.	Inventories (L.33 to 38)	032	386,978	-5,094	381,884	334,937
C.I.1.	Raw materials	033	386,679	-5,094	381,585	334,173
2.	Work-in-progress and semi-finished products	034	236		236	744
3.	Finished goods	035				
4.	Young and other livestock	036				
5.	Goods for resale	037	10		10	12
6.	Advance payments for inventories	038	53		53	8
C.II.	Long-term receivables (L.40 to 47)	039	3,257		3,257	8,986
C.II.1.	Trade receivables	040	2,366		2,366	7,770

Ident.	ASSETS	line	2012			2011
			Gross	Adjust.	Net	Net
a	b	c	1	2	3	4
2.	Receivables - group undertakings	041				
3.	Receivables - associated companies	042				
4.	Receivables from shareholders/owners and alliance partners	043				
5.	Long-term advances paid	044	891		891	1,216
6.	Estimated receivables	045				
7.	Other receivables	046				
8.	Deferred tax asset	047				
C.III.	Short-term receivables (L.49 to 57)	048	2,822,279	-613,510	2,208,769	3,040,698
C.III.1.	Trade receivables	049	2,092,300	-515,448	1,576,852	1,556,910
2.	Receivables - group undertakings	050				
3.	Receivables - associated companies	051				
4.	Receivables from shareholders/owners and alliance partners	052				
5.	Social security and health insurance	053				
6.	Tax receivables	054	80,269		80,269	1,029,852
7.	Short-term advances paid	055	140,541		140,541	137,296
8.	Estimated receivables	056	347,799		347,799	276,655
9.	Other receivables	057	161,370	-98,062	63,308	39,985
C.IV.	Short-term financial assets (L.59 to 62)	058	1,044,885		1,044,885	1,206,247
C.IV.1.	Cash	059	1,863		1,863	3,080
2.	Bank accounts	060	1,043,022		1,043,022	1,203,167
3.	Short-term securities and ownership interests	061				
4.	Short-term investments (provisional value)	062				
D.I.	Deferrals (L. 64+65+66)	063	18,671		18,671	19,449
D.I.1.	Prepaid expenses	064	17,668		17,668	18,675
2.	Complex prepaid expenses	065				
3.	Accrued revenues	066	1,003		1,003	774

Ident.	LIABILITIES	line	2012	2011
a	b	c	5	6
	TOTAL LIABILITIES AND EQUITY (L.68+87+120)	067	80,862,901	86,370,778
A.	Equity (L.69+73+80+83+86)	068	58,954,883	58,950,079
A.I.	Registered capital (L.70+71+72)	069	52,728,589	52,777,172
A.I.1.	Registered capital	070	52,728,589	52,777,172
2.	Own shares and ownership interests (-)	071		
3.	Changes in registered capital	072		
A.II.	Capital contributions (L.74 to 79)	073	966,562	943,632
A.II.1.	Share premium	074		
2.	Other capital contributions	075	966,562	943,632
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.	Reserve funds, undistributable fund and other funds from profit (L.81+82)	080	1,050,461	938,102
A.III.1.	Statutory reserve fund / Undistributable fund	081	996,450	913,087
2.	Statutory and other funds	082	54,011	25,015
A.IV.	Retained earnings (L.84+85)	083	4,133,812	3,457,548
A.IV.1.	Retained profits	084	4,133,812	3,457,548
2.	Accumulated losses	085		
A.V.	Profit (loss) for the current period (+/-)	086	75,459	833,625
B.	Liabilities (L.88+93+104+116)	087	21,774,974	27,308,578
B.I.	Provisions (L.89 to 92)	088	2,727,055	1,166,233
B.I.1.	Tax-deductible provisions	089		
2.	Provision for pensions and other similar payables	090		
3.	Income tax provision	091		
4.	Other provisions	092	2,727,055	1,166,233
B.II.	Long-term liabilities (L.94 to 103)	093	5,441,780	9,760,274
B.II.1.	Trade payables	094	542,008	1,377,410
2.	Liabilities - group undertakings	095		
3.	Liabilities - associated companies	096		
4.	Liabilities to shareholders/owners and alliance partners	097		
5.	Long-term advances received	098		
6.	Debentures and bonds issued	099		
7.	Long-term bills of exchange payable	100		
8.	Estimated payables	101		
9.	Other payables	102	1,410,638	4,934,328

Ident.	LIABILITIES	line	2012	2011
a	b	c	5	6
10.	Deferred tax liability	103	3,489,134	3,448,536
B.III.	Short-term liabilities (L.105 to 115)	104	5,001,034	5,320,765
B.III.1.	Trade payables	105	3,159,630	3,328,269
2.	Liabilities - group undertakings	106		
3.	Liabilities - associated companies	107		
4.	Liabilities to shareholders/owners and alliance partners	108		
5.	Payables to employees	109	465,378	460,752
6.	Payables to social security and health insurance	110	244,705	237,568
7.	Tax liabilities and subsidies	111	610,121	765,159
8.	Short-term advances received	112	117,912	119,821
9.	Debentures and bonds issued	113		
10.	Estimated payables	114	370,307	352,351
11.	Other payables	115	32,981	56,845
B.IV.	Bank loans and overdrafts (L.117+118+119)	116	8,605,105	11,061,306
B.IV.1.	Long-term bank loans	117	7,944,763	10,134,019
2.	Short-term bank loans	118	660,342	927,287
3.	Short-term financial liabilities	119		
C.I.	Accruals (L.121+122)	120	133,044	112,121
C.I.1.	Accrued expenses	121	49,548	25,783
2.	Deferred revenues	122	83,496	86,338

PROFIT AND LOSS ACCOUNT classification by nature for the year ended 31 December 2012 (in thousands of Czech crowns „TCZK“)

Ident.	TEXT	line	2012	2011
a	b	c	1	2
I.	Revenue from goods	01	2	2
A.	Cost of goods sold	02	2	1
+	Gross profit (L.01-02)	03		1
II.	Revenue from production (L.05+06+07)	04	7 172 416	7 082 824
II.1.	Revenue from own products and services	05	6 912 101	6 823 623
II.2.	Change in inventory of own production	06	-509	-71
II.3.	Own work capitalized	07	260 824	259 272
B.	Cost of sales (L.09+10)	08	7 960 203	11 185 426
B.1.	Materials and consumables	09	2 749 703	2 645 711
B.2.	Services	10	5 210 500	8 539 715
+	Added value (L.03+04-08)	11	-787 787	-4 102 601
C.	Personnel expenses (L.13 to 16)	12	8 265 671	5 448 251
C.1.	Wages and salaries	13	5 853 336	3 877 563
C.2.	Remuneration of board members	14	1 752	1 218
C.3.	Social security and health insurance expenses	15	1 952 471	1 286 312
C.4.	Social expenses	16	458 112	283 158
D.	Taxes and charges	17	39 633	34 934
E.	Depreciation of intangible and tangible fixed assets	18	4 248 632	4 378 962
III.	Proceeds from disposals of fixed assets and raw material (L.20+21)	19	259 565	291 746
III.1.	Proceeds from disposals of fixed assets	20	37 381	70 728
III.2.	Proceeds from disposals of raw material	21	222 184	221 018
F.	Net book value of fixed assets and raw material sold (L.23+24)	22	234 491	231 331
F.1.	Net book value of fixed assets sold	23	12 891	12 366
F.2.	Raw materials sold	24	221 600	218 965
G.	Change in provisions and adjustments relating to operating activity and change in complex prepaid expenses	25	1 593 819	679
IV.	Other operating revenues	26	15 371 629	16 108 028
H.	Other operating expenses	27	171 027	125 529
V.	Transfer of operating revenues	28		
I.	Transfer of operating expenses	29		
*	"Operating profit (loss) (L.11-12-17-18+19-22-25+26-27+28-29)"	30	290 134	2 077 487
VI.	Proceeds from sale of securities and ownership interests	31		
J.	Securities and ownership interests sold	32		
VII.	Revenue from long-term investments (L.34+35+36)	33		
VII.1.	Revenue from investments in group undertakings and associated companies	34		
VII.2.	Revenue from other long-term securities and ownership interests	35		
VII.3.	Revenue from other long-term investments	36		
VIII.	Revenue from short-term financial investments	37		70
K.	Financial assets expenses	38		
IX.	Revenue from revaluation of securities and derivatives	39		

Ident.	TEXT	line	2012	2011
a	b	c	1	2
L.	Expenses for revaluation of securities and derivatives	40		
M.	Change in provisions and adjustments relating to financial activity	41		
X.	Interest revenue	42	2 763	5 523
N.	Interest expense	43	416 818	549 986
XI.	Other financial revenues	44	322 617	38 967
O.	Other financial expenses	45	82 638	361 992
XII.	Transfer of financial revenues	46		
P.	Transfer of financial expenses	47		
*	"Profit (loss) from financial operations (ř.31-32+33+37-38+39-40-41+42-43+44-45+46-47)"	48	-174 076	-867 418
Q.	Income tax on ordinary profit (loss) (L.50+51)	49	40 599	376 439
Q1.	- current	50		
Q2.	- deferred	51	40 599	376 439
**	Profit (loss) on ordinary activities after tax (ř.30+48-49)	52	75 459	833 630
XIII.	Extraordinary revenue	53		
R.	Extraordinary expenses	54		5
S.	Income tax on extraordinary profit (loss) (L.56+57)	55		
S.1.	- current	56		
S.2.	- deferred	57		
*	Extraordinary profit (loss) (L.53-54-55)	58		-5
T.	Transfer of profit or loss to partners	59		
***	"Profit (loss) for the accounting period (ř.52+58-59)"	60	75 459	833 625
****	"Profit (loss) before tax (ř.30+48+53-54)"	61	116 058	1 210 064

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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, Czech Republic.

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

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

The financial statements of SŽDC for 2012 have been prepared as at 31 December 2012.

These notes have been prepared for the period starting 1 January 2012 and ending 31 December 2012.

1.2. Principal activities

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

Throughout 2012 the operability of the railway infrastructure was ensured by SŽDC’s internal capacities.

SŽDC provides the railway infrastructure for use by carriers. Proceeds arising from the use of the railway infrastructure are predominantly realised with the key users, i.e. ČD and ČD Cargo, a.s., as discussed in note 7.3.

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

SŽDC also administers the assets and liabilities set out in Sections 20 and 38a of the Transformation Act. In addition to assets relating to the railway infrastructure, these principally involve assumed receivables and payables, including the loans of ČD, s.o., and the assets specified in the Appendix to the Act that had been administered by the Czech Ministry of Transport until 30 June 2004. The assumed payables are the subject of debt remission (see note 3.16.).

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

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

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

When the position of Director General is temporarily vacant, the Director General's duties are performed, on behalf of SŽDC, by his or her deputy authorised by the Management Board to manage the Organisation, together with one Assistant Director General, with at least one of the acting persons having to be professionally qualified pursuant to Section 14 of Act No. 266/1994 Coll., on Railways, as amended.

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.

Until 18 April 2012 the position of Director General was vacant, the 1st Deputy Director General, authorised to manage the Organization, was Mr Pavel Habarta and the 2nd Deputy Director General was Mr Bohuslav Navrátil. As at 19 April 2012 Mr Jiří Kolář was appointed as the Director General. As of 3 May 2012 only one Deputy Director General, Mr Bohuslav Navrátil, is recorded in the Commercial Register.

The members of the SŽDC's management as at 31 December 2012 were:

Name	Position	Date
Jiří Kolář	Director General	since 19 Apr 2012
Bohuslav Navrátil	Deputy Director General	since 3 May 2012
Jan Blecha	First Assistant Director General	since 1 Jun 2012
Aleš Krejčí	Assistant Director General for Finance	since 1 Jun 2012
Petr Šlegr	Assistant Director General for Rail Modernisation	since 1 May 2012
Bohuslav Navrátil	Assistant Director General for Rail Operability	since 1 Jun 2012
Jiří Špička	Assistant Director General for Traffic Control	since 11 Sep 2012

The members of the Management Board as at 31 December 2012 were:

Name	Position	Date
Adolf Jílek	Chairman	since 2 Dec 2008
Roman Jurečko	Vice-Chairman	since 15 Nov 2012
Ivan Adamec	Member	since 8 Mar 2007
Lukáš Hampl	Member	since 11 Nov 2010
Jakub Hodinář	Member	since 11 Nov 2010
Libor Joukl	Member	since 11 Nov 2010
Radim Vysloužil	Member	since 11 Nov 2010

The members of the Audit Committee as at 31 December 2012 were:

Name	Date
Hana Březinová	since 1 Jan 2010
Lukáš Hampl	since 14 Dec 2010
Jakub Hodinář	since 18 Oct 2012

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

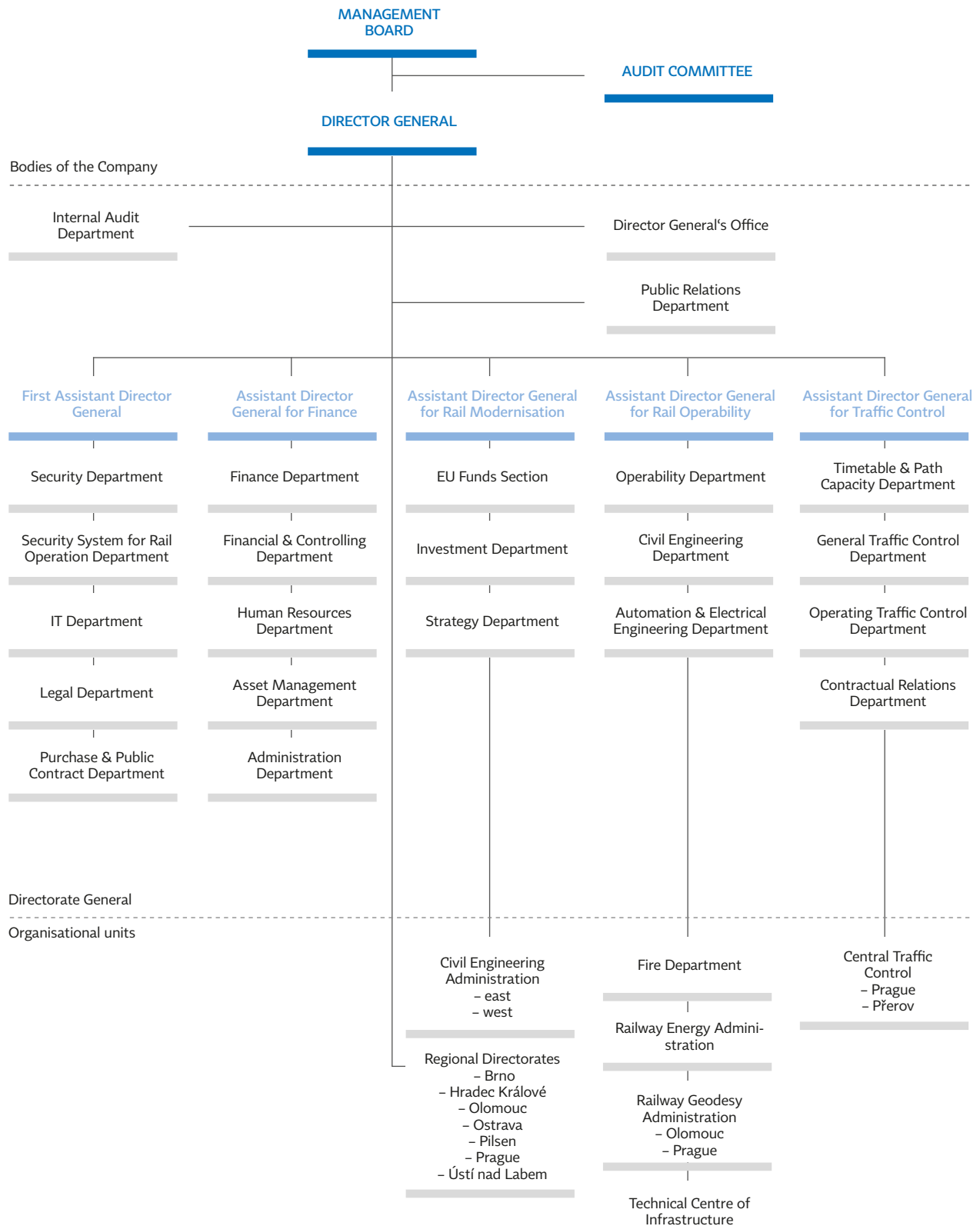
14. Changes in the Commercial Register

In 2012 Mr Jiří Kolář, the newly appointed Director General, was recorded in the Commercial Register. He was appointed into the role as at 19 April 2012.

In addition, as at 3 May 2012 the number of Deputy Directors General recorded in the Commercial Register was reduced from two to one. On that date, effective from 19 April 2012, Mr Pavel Habarta, the 1st Deputy Director General, was deleted. At the same time, Mr Bohuslav Navrátil's position changed from 2nd Deputy Director General to Deputy Director General.

1.5. SŽDC's organisational structure

The following chart shows the organisational structure of SŽDC as at 31 December 2012:



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 (see note 3.1.), the accruals principle, the principle of prudence, and the going concern assumption.

3. Significant accounting policies

3.1. Tangible and intangible fixed assets

SŽDC administers state assets pursuant to the Transformation Act.

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

Purchased fixed assets are stated at cost.

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

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

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

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

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

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

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

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

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

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

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

3.2. Inventories

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

As at 1 September 2011 SŽDC's inventories expanded as a result of the purchase of a part of a business, primarily to include uniforms and other gear, which are now kept in uniform and gear storage. These inventories, including operating inventory at newly established organisational units, have been taken over at their original acquisition cost.

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

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. Accounting adjustments were recognised in respect of receivables based on an analysis of the credit status of customers and the ageing structure of receivables, including:

- a full adjustment to receivables assumed from ČD, s.o.; and
- a full adjustment to other receivables maturing up to 30 June 2012, except for the portion of receivables arising from the compensation of damage relating to ČD Cargo, a.s. (see note 4.10.).

3.4. Payables

Upon origination, payables are stated at their nominal value.

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

3.5. Loans and long-term payables

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

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

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

3.6. Equity

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

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

Changes in registered capital are recorded in respect of transfers of land to the Land Fund of the Czech Republic, free-of-charge transfers of assets, privatisation (see note 3.17.), corrections of accounting errors in the register of land newly established as a result of plot map divisions at the beginning and end of railway stations as part of the transformation

of ČD, s.o. in accordance with the Transformation Act, or in respect of additional refinements made to the scope and value of assets and liabilities taken over by SŽDC as at 1 January 2003.

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

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

3.7. Provisions

SŽDC establishes provisions for: litigations; compensation for work injuries and occupational diseases; extra pension payments to former employees of ČD, s.o.; 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 provision for damages is established based on a legal opinion on recognised damages.

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

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

3.8. Foreign currency transactions

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

At the reporting date, assets and liabilities denominated in foreign currencies are translated to Czech crowns at the Czech National Bank official rate at that date, i.e. at 31 December 2012.

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

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

3.9. Income tax

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

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

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

3.10. Financial derivatives

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

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

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

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

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

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

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

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

3.11. Grants

SŽDC receives grants in accordance with applicable Czech legislation.

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

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

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

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

3.12. Revenues

Revenues are recognised on an accruals basis.

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

3.13. Use of estimates

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

3.14. Extraordinary expenses and extraordinary revenues

No expense or revenue from extraordinary activities arose at SŽDC in 2012, and no significant correction with respect to SŽDC's ordinary activities had to be made to prior accounting periods.

3.15. Change in accounting policies

No changes were made to accounting policies in 2012.

3.16. Debt remission

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

In addition, in 2004 SŽDC issued bonds (ISIN CZ0003501397) totalling CZK 7 billion. The bonds were repaid in full to bondholders by the Ministry of Finance by the due date, i.e. in March 2011.

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

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

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

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

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

3.17. Privatisation

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

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

In 2012 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.

3.18. 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.

3.19. Lease of assets

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

4. Additional information on the balance sheet and income statement

4.1. Intangible fixed assets

	Other intangible assets	Intangible assets under construction	Advances paid	Software	Total
Acquisition cost					
Balance at 1/1/2012	3,312	18,865	5	299,066	321,248
Additions	488	40,481	7	60,256	101,232
Disposals	-15	-600	--	-5,983	-6,598
Transfers to off balance sheet	--	-2,029	--	--	-2,029
Transfers	68	-68	--	--	--
Balance at 31/12/2012	3,853	56,649	12	353,339	413,853
Accumulated depreciation					
Balance at 1/1/2012	1,743	--	--	200,466	202,209
Depreciation expense	609	--	--	65,559	66,168
Disposals	-3	--	--	-5,983	-5,986
Transfers	--	--	--	--	--
Balance at 31/12/2012	2,349	--	--	260,042	262,391
Net book value 1/1/2012	1,569	18,865	5	98,600	119,039
Net book value 31/12/2012	1,504	56,649	12	93,297	151,462

Intangible fixed assets increased primarily as a result of the acquisition of technical software applications and central systems.

4.2. Tangible fixed assets

4.2.1. Continuity schedule in tangible fixed assets

	Land	Constructions	Machinery and equipment	Motor vehicles	Adjustment to acquired fixed assets	Tangible assets under construction	Works of art	Advances paid	Total
Acquisition cost									
Balance at 1/1/2012	6,562,936	135,211,294	19,622,274	719,112	8,362,646	3,871,251	516	70,698	174,420,727
Additions	24,256	83,171	25,511	1,835	--	8,355,952	--	18,701	8,509,426
Disposals	-29,214	-655,025	-122,901	-14,115	-3,412	-195,930	-20	-6,123	-1,026,740
Transfers to off balance sheet	--	--	--	--	--	-8,559,740	--	--	-8,559,740
Other transfers	--	60,901	7,658	157	--	-68,716	--	--	--
Balance at 31/12/2012	6,557,978	134,700,341	19,532,542	706,989	8,359,234	3,402,817	496	83,276	173,343,673
Accumulated depreciation									
Balance at 1/1/2012	--	77,540,212	12,728,976	353,867	1,868,290	--	--	--	92,491,345
Depreciation expense ¹⁾	--	2,779,648	771,779	73,660	557,377	--	--	--	4 182,464
Disposals	--	-562,029	-113,125	-9,988	-152	--	--	--	-685,294
Transfers	--	-633	712	-79	--	--	--	--	--
Balance at 31/12/2012	--	79,757,198	13,388,342	417,460	2,425,515	--	--	--	95,988,515
Adjustments									
Balance at 1/1/2012	38,724	126,169	6,597	2,317	--	114,153	--	--	287,960
Change in adjustments	-18,795	74,673	6,995	-1,870	--	-47,778	--	--	13,225
Balance at 31/12/2012	19,929	200,842	13,592	447	--	66,375	--	--	301,185
Net book value									
1/1/2012	6,524,212	57,544,913	6,886,701	362,928	6 494 356	3,757,098	516	70,698	81,641,422
31/12/2012	6,538,049	54,742,301	6,130,608	289,082	5 933 719	3,336,442	496	83,276	77,053,973

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

Major additions to tangible fixed assets in 2012, apart from acquisitions through purchasing, include free-of-change asset transfers and donations at the replacement cost of TCZK 27,488 (e.g. a bridge taken over from the Road Administration and Maintenance of the Karlovy Vary Region).

The most important tangible asset disposals in 2012 include the liquidation of assets as a result of new constructions related to the modernisation of railway corridors with an acquisition cost of TCZK 650,804 and net book value of TCZK 98,886.

The balance of tangible assets under construction mainly includes costs associated with the construction of railway corridors (as described in Note 6.4) and costs associated with the construction works to modernise and renovate the railway infrastructure. Specifically, this concerns the “Optimisation of the Beroun-Zbiroh line” and “Optimisation of the Zbiroh-Rokycany line” construction projects.

Additions to tangible assets under construction predominantly include costs associated with the construction of railway corridors and construction works to modernise and renovate the railway infrastructure in 2012 where the grant used to finance the constructions has not been accounted for before 31 December 2012. Disposals include parts of assets completed as at 31 December 2011 where a decrease of the acquisition cost by the received grant was accounted for in 2012. In 2012, subsidised assets totalling TCZK 8,561,769 (2011 – TCZK 10,896,317) were included in the off balance sheet records.

4.2.2. Investment grants

Investment grants received in 2011 and 2012 were as follows:

(TCZK)	1/1 – 31/12/2011	1/1 – 31/12/2012
State Fund of Transport Infrastructure for construction and modernisation, state share, Transport Operational Programme, EIB	10,831,310	9,429,317
EU funds	552,414	62,853
Contributions from municipalities, regions and other entities	31,217	10,000
Total investment grants	11,414,941	9,502,170
Pre-financing by the State Fund of Transport Infrastructure	70,427	89,152
Total investment grants including pre-financing	11,485,368	9,591,322

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 2012, funds provided from the Transport Operational Programme amounted to TCZK 4,099,541 and in 2011 to TCZK 5,710,565.

Grants received from the State Fund of Transport Infrastructure in the form of pre-financing in 2012 amounted to TCZK 89,152 and in 2011 to TCZK 70,427.

4.2.3. Assets not reported in the balance sheet

The aggregate amount of low-value tangible assets not reported in the balance sheet is TCZK 960,769 and TCZK 935,480 as at 31 December 2011 and 31 December 2010, 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.

The increase in low-value tangible assets of TCZK 25,289 in the off-balance sheet relates to the establishment of the Prague Central Traffic Control as well as to the purchases of low-value machinery and tools for the organisational units.

The amount of fixed assets financed from grants and other sources recorded off-balance sheet is TCZK 149,713,049 and TCZK 141,190,839 as at 31 December 2011 and 31 December 2010, respectively.

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

	Software	Other intangible assets	Intangible assets under construction	Land	Constructions	Machinery and equipment	Motor vehicles	Tangible assets under construction	Total
Acquisition cost									
Balance at 1/1/2012	7,799	24,820	1,004	471,929	79,044,638	22,009,446	317,875	39,313,328	141,190,840
Additions (Transfers from the balance sheet)	--	115	1,912	17,188	606,114	163,374	--	7,773,066	8,561,769
Disposals	--	--	--	--	--	-505	--	-39,055	-39,560
Transfers	3,120	44	-61	19,506	9,731,724	2,119,917	9,598	-11,883,848	--
Balance at 31/12/2012	10,919	24,979	2,855	508,623	89,382,476	24,292,232	327,473	35,163,492	149,713,049

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

Major additions to tangible assets under construction represent constructions such as "Modernisation of the Votice – Benešov u Prahy line", "Optimisation of the Zbiroh – Rokycany line" and "Renovation of the Přešov railway station".

4.2.5. Pledged assets

SŽDC held no pledged assets as at 31 December 2012 and 31 December 2011.

4.2.6. Assets held under finance and operating leases

As at 31 December 2012, SŽDC reports fixed assets acquired on an operating lease or leaseback basis in the aggregate acquisition cost of TCZK 127,922 (2011 – TCZK 0). 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.

Assets in operating leases consist namely of non-residential premises owned by ČD which are used by SŽDC as rooms for placing technologies and offices for staff ensuring the railway operability with the annual cost of CZK 77 million (2011 – CZK 66 million) and offices for traffic control employees with the annual cost of CZK 43 million (2011 – CZK 51 million). Lease contracts are concluded for an indefinite period with notice period and the possibility to decrease the size of the leased premises.

4.2.7. Assets acquired free of charge

In 2012, SŽDC acquired free of charge tangible fixed assets at the replacement cost of TCZK 10,470 (2011 – TCZK 67,629) and by donation fixed assets at the replacement cost of TCZK 17,017 (2011 – TCZK 32,310). As at 31 December 2012, SŽDC reports fixed assets acquired free of charge and by donation of TCZK 1,237,724 (2011 – TCZK 1,210,237). 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 31/12/2011	Balance at 31/12/2012
Material in stock	334,109	386,605
Material in transit	159	74
Work in progress	744	236
Goods in stock	12	10
Advances paid for inventory	8	53
Adjustment to inventory	-95	-5,094
Total inventory	334,937	381,884

The total balance of inventory was affected by an increase in material in stock of TCZK 52,496, primarily as a result of an increase in emergency stock and supplies of the superstructure material of TCZK 70,224 to ensure the most important repairs in the 1st and 2nd quarter of 2013, a decrease in inventories of other organisational units of TCZK 4,997, and a decrease in inventories held in the Hradec Králové uniform and gear storage of TCZK 12,731.

Adjustments of TCZK 5,094 were created based on recommendations made by a stock-take committee in the Hradec Králové uniform and gear storage with regard to inventories that were assumed from ČD, a. s. and were almost without movement.

4.4. Short-term receivables

4.4.1. Trade receivables

The ageing structure of short-term trade receivables:

(TCZK)								
31/12/2011	Past due date (in days)						Total past due	Total
	Before due date	0 - 90 days	91 - 180	181 - 365	1 - 2 years	2 years and greater		
Gross	1,382,735	48,595	2,334	57,228	86,182	498,502	692,841	2,075,576
Adjustment	--	--	--	-6,238	-85,961	-426,467	-518,666	-518,666
Net	1,382,735	48,595	2,334	50,990	221	72,035	174,175	1,556,910

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

The total balance of receivables as at 31 December 2012 remained at the level of the previous year. Receivables past maturity have slightly increased. A considerable part of receivables within and past maturity represent receivables relating to the use of the railway structure and communication technologies from ČD, a.s. and ČD Cargo, a.s.

Adjustments include an amount of TCZK 297,203 (2011 – TCZK 297,203) recognised against receivables from ČD Cargo, a.s. arising from unpaid invoices for the supply of traction electricity, of which TCZK 278,684 (2011 – TCZK 193,695) was created pursuant to Act No. 593/1992 Coll., on Reserves, to ascertain taxable profit for purposes of income taxation. Receivables were not settled by ČD Cargo, a.s. in full as ČD Cargo, a.s. did not agree with the billed price. An interlocutory decision has been issued by the Municipal Court in Prague. The defendant has filed an appeal with the High Court in Prague.

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 2012 (2011 – TCZK 112,981), to which a provision of TCZK 112,981 (2011 – TCZK 112,981) has been created.

4.4.2. Tax receivables

Tax receivables as at 31 December 2012 predominantly include a receivable relating to value added tax of TCZK 80,269 (2011 – TCZK 1,029,852). A significant decrease in refundable tax overpayments is associated with the reverse-charge system applicable to construction and assembly works.

4.4.3. Other receivables

The structure of other receivables:

(TCZK)		
Type of receivables	Balance at 31/12/2011	Balance at 31/12/2012
Receivables assumed from ČD, s.o.	12,106	11,138
Of which:		
Damage to assets of ČD, s.o.	9,274	8,421
Other	2,832	2,717
Receivables arising from damages	45,715	66,130
Receivables from the purchase of a part of enterprise	22,390	22,390
Contribution to the cultural and social needs fund	37,892	58,875
Other	927	2,837
Total other receivables	119,030	161,370
Adjustments	-79,045	-98,062
Total other receivables, net	39,985	63,308

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 (2011 – TCZK 11,124), which has been submitted for legal recovery; damage arising from a train derailling during construction works of TCZK 9,302 (2011 – TCZK 9,302), which has been submitted for legal recovery as well; a claim regarding the non-functional ultrasound rail inspection module of TCZK 9,400 (2011 – TCZK 9,400); claiming damages relating to the security equipment of TCZK 2,888 (2011 – TCZK 2,888); claiming compensation at the court of TCZK 20,985 (2011 – an estimated receivable of TCZK 31,958) for the damage caused by extraordinary events occurring at the Prackovice nad Labem and Lovosice railway stations.

Higher contributions to the cultural and social needs fund are connected with an increase in the number of employees ensuring the traffic control.

4.5. Estimated receivables

(TCZK)	Balance at 31/12/2011	Balance at 31/12/2012
Anticipated grant from EU funds (see Note 3.11.)	125,519	193,335
Estimated receivable arising from billing for the use of the railway infrastructure in freight transportation	997	--
Claimed compensation for damage arising from the mandate contract with ČD	977	--
Estimated receivable from rebilling expenses for the administration of residential premises, the sale of which did not become legally effective	988	269
Estimated receivable for the share of the ČD network transition	1,334	1,373
Unbilled consumption of electricity	7,532	8,997
Fire Department services for ČD	14,076	6,147
Fire Department services for ČD Cargo, a. s.	10,503	4,921
Estimated receivables from damages claimed	86,793	90,315
Heat consumption by lessees	7,719	6,290
Leased railway cable networks	--	24,360
Other items	21,194	11,792
Total estimated receivables	277,632	347,799
Adjustments	- 977	--
Total estimated receivables, net	276,655	347,799

An increase in anticipated grants from EU funds in 2012 is associated with their non-payment until the reporting date. This mainly involves projects such as ETCS Poříčany – Kolín, Sudoměřice – Votice, Veselí – Doubí II and Tábor – Sudoměřice.

The Fire Department services for ČD and ČD Cargo, a.s. were provided in 2012 based on an association contract and were invoiced in 2013 based on the actual costs.

Major claimed damages reported in estimated receivables relate to the damage incurred upon train derailments at the Štětí and Liběchov railway stations in 2012 and at the Jihlava railway station in 2011.

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

4.6. Derivative financial instruments

(TCZK)	31/12/2011 Fair value	31/12/2012 Fair value
Derivatives held for trading:		
Interest rate swaps	-56,806	-31,696
Total	-56,806	-31,696

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

This payable arising from derivative transactions is reported in Other payables in the balance sheet; the impact of changes in the fair value from the revaluation of the derivative is presented in Other financial expenses (refer to Note 4.24.) and Other financial revenues (refer to Note 4.23) in the income statement.

4.7. Short-term financial assets

(TCZK)	31/12/2011	31/12/2012
Cash on hand and cash on transit	1,075	1,560
Stamps and vouchers	2,005	303
Cash at bank	1,203,167	1,043,022
Total financial assets	1,206,247	1,044,885

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 660,342 (2011 – TCZK 927,287) (refer to Note 4.13.3.). Reflecting this impact, the total balance of the SŽDC’s disposable funds as at 31 December 2012 is TCZK 382,680 (2011 – TCZK 275,880).

4.8. Deferred expenses

Deferred expenses largely include deferred operating expenses related to the principal activities of the following year (insurance, prepayments, highway stamps, etc.).

4.9. Equity

Analysis of movements in equity from 1 January 2012 to 31 December 2012

	Registered capital	Capital contributions	Statutory reserve fund/ Undistributable fund	Statutory and other funds	Retained profits	Current year profit or loss	Total
Balance at 1/1/2012	52,777,172	943,632	913,087	25,015	3,457,548	833,625	58,950,079
Received gifts	--	17,562	--	--	--	--	17,562
Assets identified during stock counts	--	5,368	--	--	--	--	5,368
Free-of-charge transfers of assets and other transfers	8,736	--	--	--	--	--	8,736
Impact of Digitalisation of land with the Real Estate Register	-10,357	--	--	--	--	--	-10,357
Privatised assets	-46,962	--	--	--	--	--	-46,962
Distribution of profit or loss	--	--	83,363	73,998	676,264	-833,625	--
Use of the culture and social needs fund	--	--	--	-65,984	--	--	-65,984
Contributions to the culture and social needs fund	--	--	--	20,982	--	--	20,982
Current year profit or loss	--	--	--	--	--	75,459	75,459
Balance at 31/12/2012	52,728,589	966,562	996,450	54,011	4,133,812	75,459	58,954,883

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 2012 and 2011.

Changes in the registered capital were also influenced by fluctuations due to delimitations when assets of TCZK 10,470 were added and assets of TCZK 1,734 were handed over.

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 2012. Land worth TCZK 5,368 was included in SŽDC's assets.

The increase in other capital contributions primarily represents the recording of received gifts and free-of-charge transfers of assets from state organisations, regions and municipalities.

4.10. Provisions

(TCZK)				
	Balance at 31/12/2011	Additions	Use	Balance at 31/12/2012
Provision for legal disputes	841,006	1,165,569	40,545	1,966,030
Provision for compensation for job-related accidents and occupational illness	87,215	73,829	87,215	73,829
Provision for extra pension payments	46,299	38,987	46,299	38,987
Provision for damages – ČD Cargo, a.s.	157,521	31,693	--	189,214
Provision for restructuring	34,192	--	34,192	--
Provision for violating budget discipline	--	458,995	--	458,995
Total provisions	1,166,233	1,769,073	208,251	2,727,055

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).

The provision for damages to ČD Cargo, a.s. was created for a possible payable for the compensation of damage incurred by ČD Cargo, a.s. as a result of increased costs for rerouting due to line closures (refer to Note 6.2).

In 2012, SŽDC established a provision for payments resulting from the violation of the budget discipline and related penalties in the aggregate amount of TCZK 458,995. This provision was created based on payment orders issued by the Specialised Tax Authority for violating regulations relating to the project "Renovation of the Pilsen – Česká Kubice line". SŽDC has filed an appeal against this decision and has also applied for remission of penalties. The appeal has not been decided yet.

4.11. Long-term payables

4.11.1. Trade payables

(TCZK)		
Type of payables	31/12/2011	31/12/2012
Retentions	1,359,671	524,060
Bid-bonds, security deposits, sureties	3,000	3,000
Cash deposits received from customers	14,739	14,948
Total	1,377,410	542,008

The decrease in retentions is due to lower investment activities on the railway infrastructure and release of retentions to contractors after the expiry of contractual period during 2012.

4.11.2. Other payables

(TCZK)			
Creditor		31/12/2011	31/12/2012
Czech Ministry of Finance – payment of non-guaranteed loans for principals and interest on loans, and bonds		2,548,947	--
Czech Ministry of Finance – payment under the state guarantee for loan interest, after the remission		488,171	280,011
Czech Ministry of Finance – payment under the state guarantee for loan principal, after the remission		1,897,210	1,130,627
Total		4,934,328	1,410,638

Payables to the state (the Czech Ministry of Finance) arise from the repayment of loan principal and interest balances which the State has made on behalf of SŽDC under the state guarantee (according to individual contracts and/or the Transformation Act). The balances of these payables do not accrue any interest. Payables arising from the repayment of issued bonds were remitted up to the amount of the closing balance in accordance with the Government's decision.

In 2005, the Czech Government adopted Resolution No. 1553 on the remission of these payables based on which the long-term payables were decreased. In 2012 and 2011, payables of CZK 5,646 million and CZK 5,877 million were remitted.

4.12. Short-term payables

4.12.1. Trade payables

The ageing structure of trade payables:

(TCZK)									
Year	Before due date	Past due date (in days)					2 years and greater	Total past due date	Total
		0 - 90 days	91 - 180	181 - 365	1 - 2 years				
2011	3,301,670	17,436	8,666	4,07	90	--	26,599	3,328,269	
2012	3,137,122	20,036	737	1,777	-109	67	22,508	3,159,630	

The total amount of payables as at 31 December 2012 slightly decreased compared with the previous year.

Payables past their due dates predominantly relate to OHL ŽS, a.s., EUROVIA CS, a.s. and Skanska a.s. regarding their construction works.

4.12.2. Social security and health insurance liabilities

As at 31 December 2012, the SŽDC carried only social security and health insurance payables before their due dates.

4.12.3. Tax liabilities and subsidies

(TCZK)	Balance at 31/12/2011	Balance at 31/12/2012
Undrawn investment subsidies from the SFTI	15,626	28,191
SFTI – FS recoverable subsidy	40,813	40,813
SFTI – TEN-T recoverable subsidy	88,978	87,143
TEN-T investment subsidy	531,401	308,431
OPD recoverable subsidy	--	70,469
Investment contributions of municipalities, regions and other entities	23,510	9,875
Income tax withheld on behalf of employees	64,695	64,918
Other taxes	136	281
Total tax liabilities and subsidies	765,159	610,121

The bulk of the balance of investment subsidies as at 31 December 2012 includes the payable from undrawn EU – TEN-T funds amounting to TCZK 308,431. The net value of investment subsidies includes predominantly the payable of the pre-financing of constructions in terms of a recoverable subsidy (refer to Note 3.11.) for constructions co-financed from EU funds, in the amounts of TCZK 129,791 and TCZK 198,425 as at 31 December 2011 and 2012, respectively.

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

4.12.4. Short-term advances received

Short-term advances received amount to TCZK 117,912 and TCZK 119,821 as at 31 December 2012 and 2011, respectively. Advances are received predominantly for the Fire Department services for ČD, a.s. and ČD Cargo, a.s., billing of ancillary services relating to the lease of residential and non-residential premises, provision of easements when SŽDC is the obligated party, and prepayments for the purchase of electricity.

4.12.5. Estimated payables

(TCZK)	Balance at 31/12/2011	Balance at 31/12/2012
Unbilled supplies	192,702	336,244
Unbilled supplies related to acquisition of fixed assets	122,425	--
Estimated payable for interest expenses in respect of corridors	30,849	21,214
Other	6,375	12,849
Total estimated payables	352,351	370,307

Unbilled supplies include estimated fees for the refund related to the fee for use of railway infrastructure in the amount of the difference between 2011 and 2012 fee, estimated additional lease-related costs as well as estimated internal electricity consumption costs.

4.13. Bank loans and overdrafts

4.13.1. Long-term bank loans

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

(TCZK)

Bank	Currency	Balance at 31/12/2011	Drawing in 1-12/2012	Repayments 1-12/2012	FX differences	Balance at 31/12/2012
The 1st corridor:						
KfW Frankfurt	EUR	131,913	--	32,874	- 2,635	96,404
EIB Lucemburk	EUR	640,303	--	211,672	- 12,682	415,949
Japan EXIM bank	JPY	621,212	--	190,012	- 75,352	355,848
EIB Lucemburk	EUR	715,995	--	126,129	- 19,038	570,828
Komerční banka, a.s.	CZK	521,000	--	174,000	--	347,000
KfW Frankfurt	EUR	553,840	--	78,838	- 12,426	462,576
The 2nd corridor:						
EIB Lucemburk	EUR	1,720,000	--	339,820	- 39,380	1,340,800
EIB Lucemburk	EUR	2,653,714	--	292,051	- 63,149	2,298,514
KfW Frankfurt	EUR	1,451,047	--	263,141	- 31,057	1,156,849
Subtotal		9,009,024		1,708,537	- 255,719	7,044,768
Performance improvements						
ČS, a.s.	CZK	1,124,995	--	225,000	--	899,995
Subtotal		1,124,995		225,000	--	899,995
Total		10,134,019		1,933,537	- 255,719	7,944,763

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.

4.13.2. Summary of loan maturities

(TCZK)

	Paid in 2012	Payable in 2013	Due in the following years
Long-term loans	1,933,537	1,846,533	6,098,230
Total	1,933,537	1,846,533	6,098,230

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 repayments of principals amounted to TCZK 1,708,537 in the year ended 31 December 2012.

The debt service arising from the non-guaranteed loan provided by Česká spořitelna, a.s. was paid by the SŽDC in full in the amount of TCZK 225,000.

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

4.13.3. Short-term bank loans

(TCZK)	31/12/2011	31/12/2012
Overdraft	927,287	660,342
Short-term bank loans	927,287	660,342

At the end of 2012, the Organization drew the allowed overdraft limit from the cash pool account to settle payables arising from operability and operations of the railway infrastructure (including the rail servicing).

4.14. Deferred tax

SŽDC has determined deferred tax as follows:

(TCZK)	31/12/2011	31/12/2012
Tangible and intangible fixed assets	-3,910,806	-4,047,076
Adjustments to fixed assets	47,355	53,439
Adjustments to inventory	--	968
Trade receivables	42,807	28,999
Provisions	221,584	474,536
Tax losses carried forward	150,524	--
Total deferred (asset +, liability -)	-3,448,536	-3,489,134

SŽDC reports tax losses of TCZK 4,494,046 (2011 – TCZK 4,724,766). According to the principle of prudence, the calculation of the deferred tax for 2011 reflected only part of the tax losses from prior years in an amount whose utilisation is likely. As at 31 December 2012, SŽDC did not account for a deferred tax asset arising from tax losses as it was uncertain that SŽDC would generate sufficient taxable profits against which this asset can be utilised. In accordance with accounting procedures shown in Note 3.9, tax of 19% (2011 – 19%) was used to calculate deferred tax.

4.15. Accruals and deferrals

(TCZK)	Balance at 31/12/2011	Balance at 31/12/2012
Settlement agreement – lump-sum compensation of future expenses	79,664	79,364
Rent collected upfront	5,245	2,308
Accrued expenses for the payment for non-compliance with the obligatory number of employed disabled people	10,721	27,234
Accrued expenses – documents received after the annual VAT reconciliation	9,660	15,457
Other	6,831	8,681
Total accrued expenses and deferred income	112,121	133,044

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

4.16. Income from own products and services

(TCZK)		
Item	2011	2012
Income from use of the railway infrastructure by ČD – freight transport	57,903	41,970
Income from use of the railway infrastructure by ČD – passenger transport	1,577,338	1,579,023
Income from use of the railway infrastructure by ČD Cargo, a.s. – freight	2,326,022	2,234,696
Income from use of the railway infrastructure by external carriers – freight	431,448	552,312
Income from use of the railway infrastructure by external carriers – passenger	12,632	48,409
Income from operation of the railway infrastructure	65,952	72,943
Rental income	189,989	268,708
Income from other external services	485,703	434,584
Income from the sales of electricity	1,674,497	1,677,167
Income from foreign carriers for provided services (extraordinary shipments, etc.)	2,139	2,289
Total income from own products and services	6,823,623	6,912,101

All income was generated in the Czech Republic.

Income from using the railway infrastructure in 2012 is recognised in prices applicable to 2011, which was decided by the Rail Authority on 10 September 2012 and the Ministry of Transport on 8 January 2013 during the administrative proceedings. SŽDC has filed an appeal against this decision with the court and filed a petition for remonstrance with the Ministry of Transport.

Income from passenger transport carried out by ČD, a.s. in 2012 is similar to 2011. The significant year-to-year increase in income from external carriers is caused by the increase in services provided by RegioJet a.s. and, in particular, by LEO Express a.s. which commenced providing regular transport services. This trend is likely to continue in 2013.

For freight transport, a relatively significant decrease in the volume of services provided by ČD Cargo is compensated by the growing income from external carriers.

4.17. Purchased services

(TCZK)		
Item	2011	2012
Costs of managing the operation of the railway infrastructure by ČD	3,266,666	--
Costs of construction repairs and maintenance	2,654,099	2,864,028
Costs of repairing apartments	30,594	32,257
Costs of services provided by the statutory auditor	6,765	2,625
<i>Of which: - statutory audit of the financial statements</i>	1,250	1,250
<i>- other assurance services provided by the statutory auditor</i>	2,129	160
<i>- other non-audit services provided by the statutory auditor</i>	3,386	1,215
Costs of cooperation in allocating the capacity of the railway infrastructure	87	516
Maintenance that can be done by outsourcing	690,327	610,449
Other	1,891,177	1,700,625
<i>Of which: repair and maintenance</i>	728,044	900,501
<i>lease, software under TCZK 60, platform cleaning, etc.</i>	1,163,133	800,124
Total services	8,539,715	5,210,500

From 1 September 2011 when SŽDC acquired a part of an enterprise, traffic control costs applicable to the railway infrastructure are recognised in expense accounts according to their type, but especially in wages and salaries.

In order to record activities which can be better provided through outsourcing, these services have been recorded separately since 1 January 2011. This concerns activities that can be provided by third parties based on contracts.

4.18. Personnel expenses

(TCZK)					
	Total personnel expenses in 2011	Wages and salaries	Social security and health insurance	Other expenses	Total personnel expenses in 2012
Additional social programme	25,954	6,172	--	--	6,172
Current expenses	5,333,989	5,703,308	1,952,471	459,864	8,115,643
Other	88,308	143,856	--	--	143,856
Total	5,448,251	5,853,336	1,952,471	459,864	8,265,671

Current personnel expenses represent costs of SŽDC's employees for the year ended 31 December 2012. The "social security and health insurance" column shows payments made by the employer.

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

4.19. Change in provisions and adjustments

(TCZK)		
Item	2011	2012
Change in provisions	22,256	1,560,822
Change in adjustments to receivables	4,321	14,772
Change in adjustments to tangible fixed assets	-25,920	13,225
Change in adjustments to inventory	22	5,000
Total change in provisions and adjustments relating to operating activities	679	1,593,819

In 2012, the change in provisions was mainly affected by recording a provision for a payment order in favour of ČEZ Prodej, s.r.o. for 2011, payment orders relating to the payment of a subsidy and related penalties in respect of the “Pilsen – Česká Kubice” investment project, and default interest relating to the payment orders in favour of ČEZ Prodej, s.r.o.

4.20. Other operating income

(TCZK)		
Item	2011	2012
Subsidies from SFTI for repairs and maintenance of the railway infrastructure	8,053,645	8,658,856
Subsidies from SFTI for repairs and maintenance after floods	459,698	--
Non-investment subsidies from the state budget	1,230,000	550,000
Non-investment subsidies from SFTI – special purpose	--	495
Non-investment subsidies – Transport Operational Programme	5,806	4,229
Subsidies from SFTI for the selected non-investment projects	--	124,611
Other subsidies	87	--
Subsidies from the state budget to the additional social programme pursuant to the government resolution	26,000	6,172
Remission of debt	5,877,350	5,646,630
Proceeds from recovered material	264,942	229,215
Proceeds from privatisation	30,126	752
Received contractual penalties and default interest	10,490	7,603
Claims for compensation of shortages and damage	96,754	90,348
Other	53,130	52,718
Total other operating income	16,108,028	15,371,629

4.21. Other operating expense

(TCZK)		
Item	2011	2012
Non-investment and investment default interest	2,739	3,994
Fines and penalties	10,322	1,308
Write-off of receivables	9,330	9,343
Write-off of failed investments	1,243	10,454
Retirement pension	16,305	14,352
Costs arising from the failure to employ the disabled	10,721	27,234
Insurance of assets and liability insurance	38,579	63,082
Membership contributions	5,206	5,871
Shortages and damage	985	3,998
Liability for damage to third party assets	21,062	15,904
Other	9,037	15,487
Total other operating expense	125,529	171,027

The write-off of failed investments was made based on the resolution of the review committee through the exclusion of the project documentation for projects that are not expected to be realised. The increase in insurance premiums relating to insurance of assets and liability insurance relates to the statutory insurance of employees paid to cover liability for work injuries.

Other operating expenses include contributions for the maintenance of personal protective work aids.

4.22. Interest income

The interest income in 2012 and 2011 amounted to TCZK 2,763 and TCZK 5,523, respectively.

4.23. Other financial income

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

4.24. Other financial expense

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

5. Employees, executives and statutory bodies

5.1. Personnel expenses and number of employees

The following tables summarises the average recalculated number of SŽDC's employees and executives and the related current personnel expenses for the years ended 31 December 2011 and 2012:

(TCZK)

2011	Average headcount	Wages and salaries	Social security and health insurance	Other expenses	Total personnel expenses
Employees	11,588	3,817,673	1,266,272	283,406	5,367,351
Executives	55	59,890	20,040	970	80,900
Total	11,643	3,877,563	1,286,312	284,376	5,448,251

(TCZK)

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

In 2012, a number of significant changes were made to SŽDC's organisational structure in order to optimise and rationalise activities and increase the work productivity.

On 31 December 2011, thirteen Regional Infrastructure Administrations (Olomouc, Ostrava, Brno, Zlín, Jihlava, Pardubice, Prague, Hradec Králové, Liberec, Ústí nad Labem, Karlovy Vary, Pilsen, České Budějovice) and three Civil Engineering Administrations (Pilsen, Prague, Olomouc) were cancelled.

On 1 January 2012, seven Regional Infrastructure Administrations (Central Bohemia with the office in Prague, Northern and Western Bohemia with the office in Ústí nad Labem, Southern and Western Bohemia with the office in Pilsen, Northern and Eastern Bohemia with the office in Hradec Králové, Northern Moravia with the office in Ostrava, Central Moravia with the office in Olomouc and Southern Moravia with the office in Brno) as well and two Civil Engineering Administrations (West with the office in Prague and East with the office in Olomouc) were established.

In connection with the resolution of the Management Board, SŽDC carried out the integration of basic activities performed by the railway operator as at 1 April 2012. It cancelled 14 organisational units on 31 March 2012, which were as follows: seven Regional Infrastructure Administrations (ensuring management, control, supervision, repair and maintenance of the railway infrastructure within the specific region), six Regional Traffic Centres (ensuring operation of the railway infrastructure, traffic control and organisation of rail transport), and Economy-Personnel Service (ensuring economic and personnel activities for the Regional Traffic Centres). In order to utilise the synergy effects, effective from 1 April 2012 SŽDC established seven Regional Directorates with offices in Olomouc, Ostrava, Brno, Hradec Králové, Prague, Ústí nad Labem and Pilsen, ensuring operation traffic control of the railway infrastructure.

Effective from 1 December 2012, a new organisational unit, Prague Central Traffic Control, was established by detaching it from the existing organisational structure. This organisational unit is responsible for remote control of Czech railway traffic. As at 31 December 2012, SŽDC had 17,331 employees. As a result of the organisational changes and other rationalisation

and optimisation measures at organisational units, the number of employees decreased by 434 people (i.e. 2.4%) from 31 December 2011 to the end of 2012.

5.2. Provided loans, borrowings and other remuneration

In 2012 and 2011, members of the SŽDC's management did not receive any borrowings, loans or any other bonuses in addition to their basic salaries.

In 2012, bonuses totalling TCZK 1,752 were paid to members of SŽDC's statutory bodies – the Management Board.

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 2012, total non-capital expenditures related to environment were approx. CZK 389 million (2011 – CZK 382 million). Capital expenditures related to sound protection when modernising tracks were CZK 100.4 million (2011 – CZK 340 million). In contrast with previous years, modernisation of tracks in 2012 was carried out outside large residential areas (i.e. at sections where the degree of protection against high levels of noise is not as large as, for example, in the case of the Prague – Benešov line, etc.). Capital expenditures decreased as a result of changes in legislation in 2011 (modification of or less strict requirements).

Other capital expenditures that primarily relate to the planned maintenance of buildings owned by SŽDC whose nature helps protect environment (by reducing electricity consumption, for example) were calculated at CZK 29 million in 2012.

6.2. Legal disputes

6.2.1. ČEZ Prodej, s.r.o.

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

6.2.2. ČD Cargo, a.s.

ČD Cargo, a.s. issues invoices to SŽDC for damage incurred from increased costs related to alternate routes for reasons of line closures. SŽDC does not recognise these invoices and does not incorporate them into its accounting. However ČD Cargo, a.s. unilaterally offsets these receivables against invoices issued by SŽDC for the use of infrastructure. SŽDC does 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, a.s. filed a protest against this order for payment.

ČD Cargo, a.s. did not pay for a part of purchased electricity for 2009 invoiced by SŽDC. The Organization has filed suit, claiming disbursement of unjustified enrichment amounting to TCZK 294,681 with appurtenances. The Prague Municipal Court issued a payment order in favour of SŽDC. ČD Cargo has filed a protest against this payment order. A decision of the High Court of Justice in Prague is now expected.

6.3. Property relations

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

6.4. Projected commitments associated with corridor construction

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

Expenses that are projected to be incurred are as follows:

(TCZK)			
Balance at 31/12/2012	Construction work undertaken to date	The estimate of the remaining expenses	Total estimated expenses
1st corridor	40,759,568	--	40,759,568
2nd corridor	39,016,291	--	39,016,291
3rd corridor	36,317,472	24,748,119	61,065,591
4th corridor	18,511,927	27,544,729	46,056,656
Total	134,605,258	52,292,848	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.

Both government resolutions were updated on 13 July 2005 by Government Resolution No. 885, which was subsequently cancelled by Government Resolution No. 570 of 20 July 2011. 3rd and 4th corridor are planned to be completed in 2018.

7. Other information

7.1. Formation and incorporation of SŽDC

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

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

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

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

7.2. Significant 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, a.s. 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, a.s.

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.

For 2013, SŽDC has contractually ensured funding from the State Fund of Transport Infrastructure for investment and non-investment activities of TCZK 21,889,846 and from the Ministry of Transport for non-investment activities of TCZK 550,000. These funds will enable SŽDC to provide services in the same extent as in 2012.

7.3. Transactions with ČD and ČD Cargo, a.s.

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

(TCZK)		
2011	Expenses	Revenues
ČD		
Expenses for managing the operation of railway infrastructure	3,266,666	--
Revenues from using the railway infrastructure – passenger transport	--	1,577,338
Revenues from using the railway infrastructure – freight transport	--	57,903
Revenues from allocated railway infrastructure capacity	--	43,843
Revenues from electricity	--	1,420,223
Fire Department services	--	30,236
Telecommunication network operation services	--	83,801
Total	3,266,666	3,213,344

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

As at 31 December 2012, SŽDC recorded amounts due from and to ČD at the net amount of TCZK 612,826 (2011 – TCZK 524,997). The amount that is reported in the balance sheet as part of trade receivables from ČD is TCZK 644,611 (2011 – TCZK 569,406). Trade payables including received prepayments amount to TCZK 31,785 (2011 – TCZK 44,409). An estimated payable of CZK 43 million from ČD has been recorded as a result of a decrease in revenues from using the railway infrastructure (refer to Note 4.16.).

Expenses and revenues resulting from the transactions carried out with ČD Cargo, a.s.:

(TCZK)	2011	2012
Revenues from suing the railway infrastructure –freight transport	2,326,022	2,234,696
Revenues from allocated railway infrastructure capacity	13,797	12,936
Revenues from electricity	4,148	503
Fire Department services	20,298	11,240
Telecommunication network operation services	53,944	52,393
Total	2,418,209	2,311,768

As at 31 December 2012, SŽDC recorded amounts due from and to ČD Cargo, a.s. at the net amount resulting in a receivable of TCZK 937,406 (2011 – TCZK 935,318). The amount that is reported in the balance sheet as part of trade receivables from ČD Cargo, a.s. is TCZK 949,740 (2011 – TCZK 938,341). Trade payables including received prepayments amount to TCZK 12,334 (2011 – TCZK 9,265). Part of receivables from ČD Cargo, a.s. are currently subject to arbitral proceedings (refer to Note 4.4.1.). An estimated receivable of CZK 30 million from ČD Cargo, a.s. has been recorded as a result of additional recording of revenues from using the railway infrastructure (refer to Note 4.16.).

7.4. Economic benefits associated with fixed assets

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

7.5. Privatisation

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

In 2012, SŽDC completed 24 privatisation projects for assets within the MOZ accounting circle in the aggregate amount of TCZK 46,962 (2011 – TCZK 1,175).

With respect to privatisation of residential buildings, no projects were carried out in 2012. SŽDC only completed 21 privatisation projects relating to the sale of the land left after the privatisation of the residential living fund.

With respect to assets other than residential buildings, SŽDC completed 3 privatisation projects in 2012.

As at 31 December 2012, SŽDC records assets intended for the settlement of payables assumed from ČD, s.o. listed in the Appendix to the Transformation Act in the aggregate net book value of TCZK 576,555. As at 31 December 2011, the net book value of these assets amounted to TCZK 587,763.

7.6. Sale of assets

7.6.1 Sale of redundant assets – the Railway Infrastructure Assets circle

In 2012, a total of 116 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 31,570 (2011 – TCZK 60,370).

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

In 2012, a total of 3 sales of assets were carried out within the Assets for Remission of Debts circle. Revenues from these sales were TCZK 508 (2011 – TCZK 1,611).

7.7. Leased assets

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

As at 31 December 2012, SŽDC reports 103 contracts for the lease of apartments. Revenues from these leases were TCZK 2,914 (2011 – TCZK 2,546).

With respect to assets not included in the residential living fund, SŽDC records 269 lease contracts with total revenues of TCZK 39,369 (2011 – TCZK 40,374).

Total revenues from the lease of real estate were TCZK 42,283 (2011 – TCZK 42,920).

7.7.2 Lease of assets kept within the Railway Infrastructure Assets circle

As at 31 December 2012, SŽDC reports 1,626 contracts for the lease of apartments. Revenues from these leases were TCZK 42,968 (2011 – TCZK 44,825).

With respect to assets not included in the residential living fund, the SŽDC records 5,425 lease contracts with total revenues of TCZK 157,219 (2011 – TCZK 75,216).

Total revenues from the lease of real estate were TCZK 200,187 (2011 – TCZK 120,041).

8. Subsequent events

8.1. Changes in the organisational structure of SŽDC as at 1 January 2013

Effective from 1 January 2013, SŽDC established a new organisational unit, Prague Shared Service Centre by detaching it from the existing organisational structure. This unit ensures personnel and payroll services for SŽDC's organisational units.

8.2. Changes in SŽDC's management

Pursuant to Government Resolution No. 224 of 27 March 2013 the following changes were made to the Management Board:

The following members were recalled as at 27 March 2013:

Ivan Adamec
 Libor Joukl
 Jakub Hodinář
 Roman Jurečko
 Radim Vysloužil

The following members were appointed from 28 March 2013:

Jaroslav Deml
 Jiří Žák

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

Adolf Jílek
 Lukáš Hampl
 Jaroslav Deml
 Jiří Žák

At its meeting held on 28 March 2013 the Management Board recalled Mgr. Jakub Hodinář from the Audit Committee (Resolution No. 22/2013).

The following members were included in the Audit Committee as at the date of preparing the financial statements:

Hana Březinová
 Lukáš Hampl

8.3. "DG Regio"

In 2012, the European Commission carried out an audit of the Transport Operational Programme which was aimed at obtaining certainty about the functioning of the management and control systems of the operational programme. The entities subject to this audit were the managing body (Ministry of Transport), mediator (SFTI) and the auditing body (Ministry of Finance).

A sample of SŽDC's projects was also subject to this audit. The individual audit findings were delivered to the Office for the Protection of Competition and the tax authorities to be evaluated in terms of local legislation.

Since these evaluations are currently in process, it is quite hard to estimate the outcome and the resulting impacts on SŽDC in future.

8.4. “Optimisation of the Lysá nad Labem – Prague-Vysočany line, 1st construction”

In 2011, the Ministry of Transport carried out an inspection focusing on the course of tender proceedings. The inspection report states that the tender documentation raises doubts as to whether the tender committee has acted with transparency and non-discrimination when evaluating an exceptionally low bid price and excluding the bidder offering this price from the tender stating that the bidder has not provided reasons for such a price.

The Ministry of Transport assigned this case to the Office for the Protection of Competition on 10 January 2012. The Office issued a decision on 17 October 2012 stating that SŽDC has committed an administrative delict as it has not followed the procedures prescribed by the Act on Public Contracts relating to exceptionally low bid prices and has breached the principle of transparency when inviting to the tender. A penalty of TCZK 900 was imposed on SŽDC. SŽDC has filed remonstrance with the Chairman of the Office for the Protection of Competition within the statutory deadline of 15 days. The remonstrance has a suspensive effect on the penalty payment. The Office has not yet issued a new decision in this respect.

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

Prague, 6 June 2013



Jiří Kolář
Director General

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

Správa železniční dopravní cesty, státní organizace

Dlážděná 1003/7

110 00 Prague 1

Annual Report

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

for 2012

In compliance with Section 18 of Act No. 106/1999 Coll., on Free Access to Information, as at 1 March 2013 we released the annual report information for 2012 on the obligation to provide.

The requests made in accordance with the above Act are processed by SŽDC's authorised personnel working for the Director General's Office in cooperation with all organisational units and professional departments of SŽDC, depending on the nature of the request.

1. Number of submitted requests for information 18
2. Number of submitted remonstrances against the decisions on not providing information 1
including the reasoning of the need to create new information under Section 2 (4) of the Act on Free Access to Information
3. There were no legal proceedings related to Act No. 106/1999 Coll., on Free Access to Information
4. For the period of 2012, SŽDC received approximately 4,000 inquiries and suggestions from citizens and organisation via its central e-mail address. In accordance with Act No. 106/1999 Coll., 18 inquiries meeting the formal statutory requirements were processed for the period in question (see above); the other inquiries did not qualify as submissions defined by the cited act.

Prague, 28 February 2013



Vladimír Brzek

Director of the Director General's Office

Identification and contact details

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

1. line: Jirka Zápalka – 150.222-8 R710
2. line (from left): Jan Fichtner – They will meet at infinity, Michal Vlček – Kladno at night and Marek Binko – The tunnel at Říkov

Those photographs were chosen from among the pictures sent in as part of SŽDC first annual photo competition. They depict the railway as seen through the eyes of the public.

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Správa železniční dopravní cesty, státní organizace
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