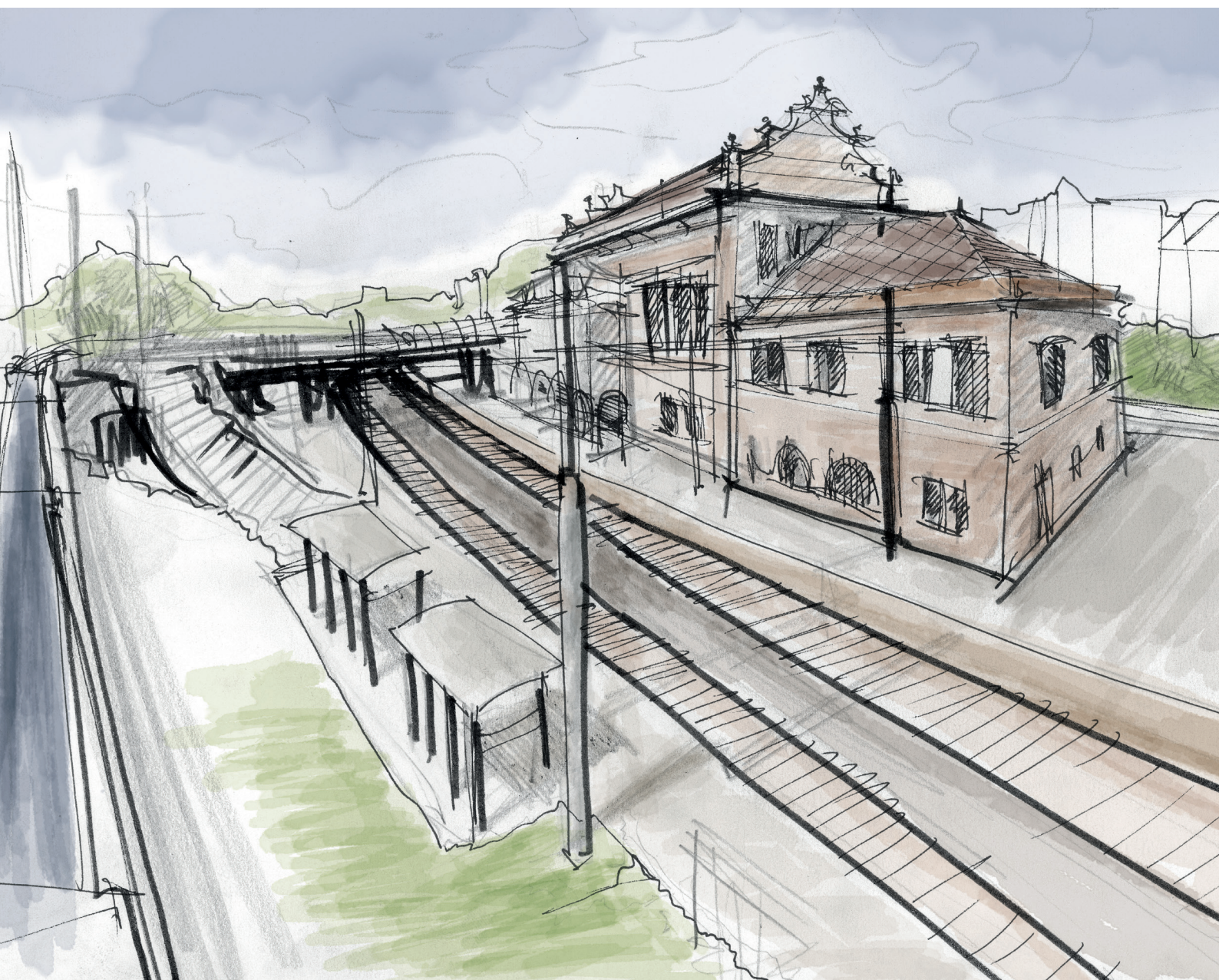


Annual report 2015

Správa železniční dopravní cesty,
státní organizace

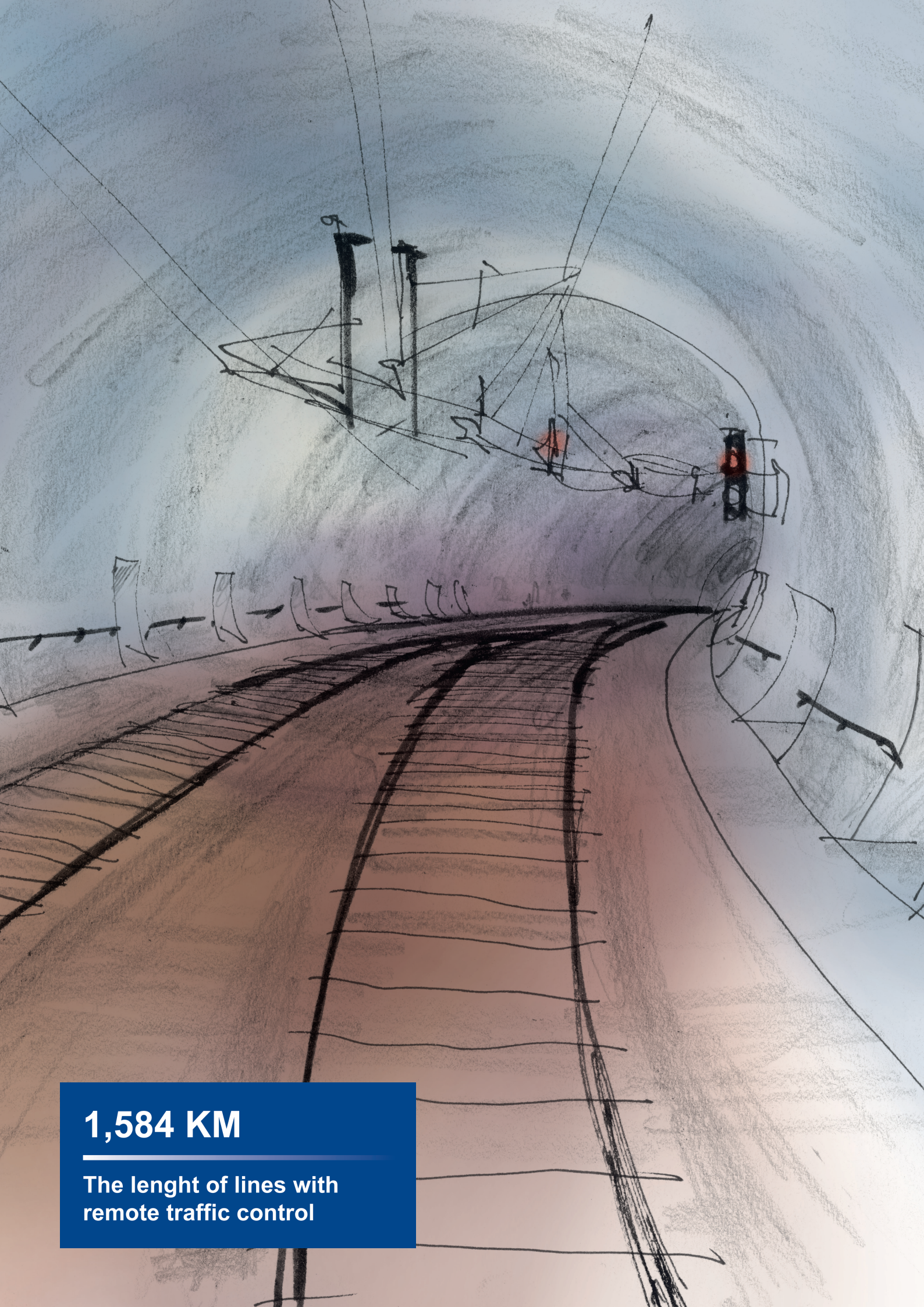


Správa železniční dopravní cesty



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1,584 KM

The length of lines with
remote traffic control

1.

Opening statement

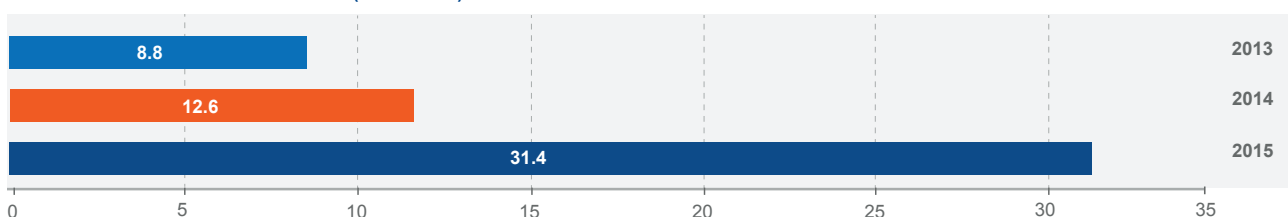
Record-breaking full stop behind investments in the Czech railway

Správa železniční dopravní cesty, státní organizace, (“SŽDC”) has undergone a demanding period, in which it managed to invest tens of billions of crowns from the EU funds (“EU”) intended not only for improving the parameters of railway infrastructure.

From the point of view of the infrastructure administrator, 2015 has truly been very demanding. The Czech Railway obtained the European funds from the expiring Operational Programme Transport (“OPT”) necessary to help improve its technical condition. However, extraordinary construction efforts and lock-out activities were connected with the usage of these record-breaking funds. Although the infrastructure administrator made efforts to minimise the impact of the ongoing work on operations, in practice, the railway was bound by certain limitations during the entire year. “Therefore, at this point it is necessary to thank all railway employees for their work and primarily all passengers for the understanding they showed during the entire year. We believe that the results will convince them that it was worth it,” says SŽDC’s Director General Pavel Surý in his assessment of 2015.



Financial means used for investments (billion CZK)



We point out that the OPT programme which has just finished was the largest in Czech history. It involved EUR 5.821 billion, that is approximately 22 percent of all funds allocated to the Czech Republic from EU funds for the 2007–2013 period. Out of this amount, approximately CZK 71.3 billion was set aside for the construction of railway infrastructure.

“Although the programming period was limited to 2007 to 2013, the project financing of the SŽDC constructions took place in 2008–2015; the EU determined that the payment of OPT funds to the contractors had to be made by this time,” says SŽDC’s Director General Pavel Surý. Therefore, 2015 was primarily a period in which individual recipients tried to successfully utilise all allocated finances.

“At the end of 2015 SŽDC managed to utilise all allocated funds and at the same time, our organisation used the opportunity to draw also other funds that other recipients were unable to use,” notes Pavel Surý. “In fact, the railway handled the preparation, competition and realisation of important infrastructure projects in respect of modernisation, new construction or repair very well. There is a lot of hard work of our people behind all this,” adds the director general. According to him, another approximately CZK 7 billion was used beyond the scope of the original allocation, designated for the construction of railway infrastructure. Drawing on OPD funds has thus stopped at CZK 78 billion.

However, there were not always signs of ultimate success in all programme stages. In fact, periods of intensive preparations were followed by periods of unexpected political changes.

The first indicative lists of constructions planned for OPT were created as early as before 2007. In the first three years, drawing was successful, other projects were under preparation and at the same time, drawing reached on average CZK 9 billion from the OPT funds per year; there were no signs of possible danger of not utilising the remaining funds.

However, parliamentary elections in 2010 brought great changes in the management of the transportation department; a period of considerable savings and organisational changes started, under which the former Civil Engineering Administrations in Prague and Pilsen were merged and the preparation and realisation of constructions were temporarily suspended. The decline also considerably affected the drawing of OPT funds. As a result of the suspended preparation, a small number of constructions was assigned for realisation and the volume of funds for the preparation of projects decreased significantly. A change did not occur until 2012. Estimates at that time claimed that SŽDC would be able to draw only 72 percent of the allocated OPT funds. “Now we know that it was a turning point, when the threat of not being able to utilise the EU subsidies was diverted by the maximum acceleration in the construction preparations,” describes Surý.

The grand finale came in 2014–2015, when practically all investment projects were prepared in order to use EU subsidies – from the smallest project, which was the reconstruction of the train stop building in Žďár nad Orlicí totalling CZK 1.8 million, up to projects worth billions. The acquisition of selected special tractive units (MUV), non-investment projects to eliminate speed drops and other specific projects were also prepared for drawing from OPT.

The implementation of construction projects which had been stationary for a long time, and high-risk projects also commenced successfully. The drawing of investment funds increased; in case of constructions preparation, the growth was record-breaking. 2015 thus brought investments equalling the sum of the investments in the previous four years. “This will probably break all records in the number of realised constructions, the volume of invested funds and all related indicators in the long run,” said Pavel Surý in connection with this issue.

Among all this information, it is sufficient to mention the two following examples:

- in 2015 SŽDC drew investment funds (including projects to eliminate speed drops) totalling approximately CZK 39 billion, which corresponds with the sum of all investments in the previous four years;
- due to the transfer of available funds from other recipients, SŽDC ultimately drew approximately 110 percent from the allocated OPT funds.

“It is necessary to emphasise the work done by all colleagues who got through the entire depicted period or some parts of it with all the twists that turned up. The cooperation with the Ministry of Transport of the Czech Republic and the State Fund for Transport Infrastructure (“SFTI”) improved significantly near the end and contributed to the success. It is necessary to thank everyone for their great effort thanks to which we managed to bring OPT in the area of railway constructions to a successful conclusion,” states SŽDC’s Director General Pavel Surý.

2.

Organisation's profile

Basic information

Who we are

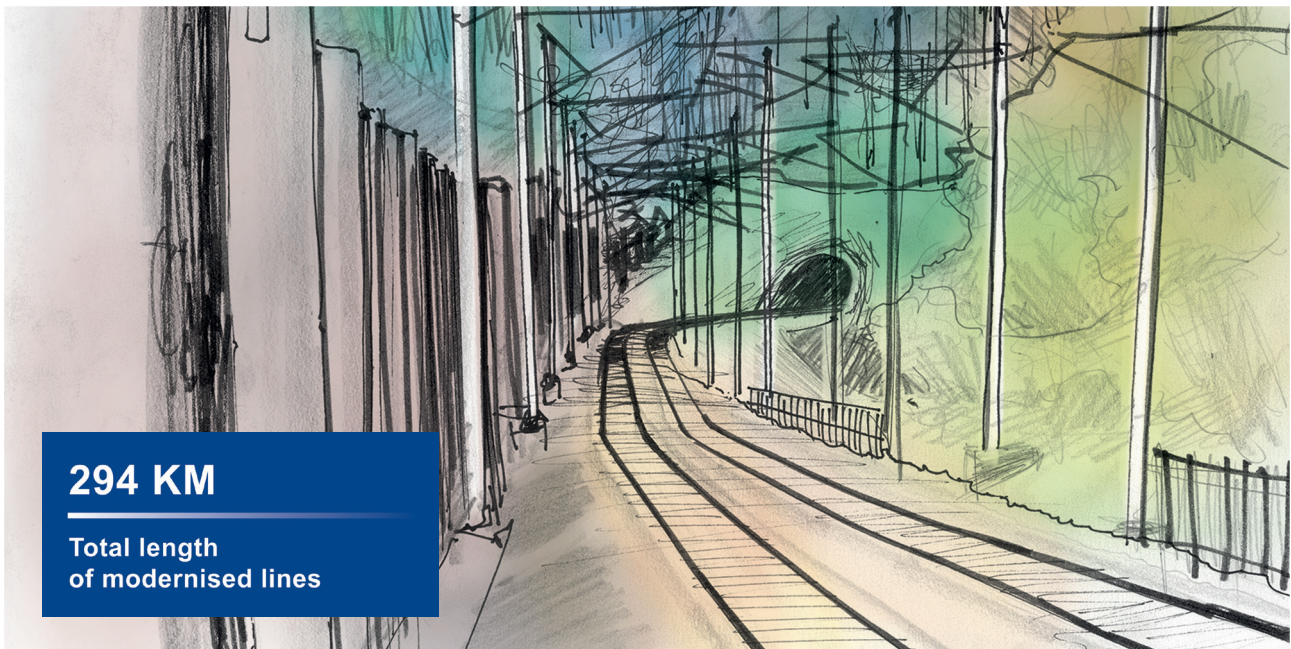
Pursuant to applicable legal regulations, Správa železniční dopravní cesty, státní organizace, acts as a rail owner and operator.

Our legal status

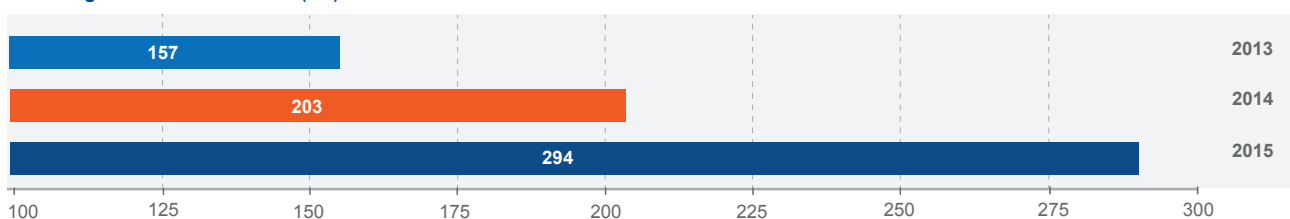
The state organisation was incorporated on 1 January 2003 pursuant to Act No. 77/2002 Coll., on Czech Railways, a joint-stock company, the Railway Infrastructure Administration, a state organisation, and on the Amendment to Railway Act No. 266/1994 Coll., as amended (the "Railway Act"), and Act No. 77/1997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

Business activity

- Operation of the railway infrastructure;
- Ensuring the operability of the railway infrastructure;
- Maintenance and repairs of the railway infrastructure;



Total length of modernised lines (km)



- Development and modernisation of the railway infrastructure;
- Preparation of documents to fulfil public service obligations;
- Supervision over the use of the railway infrastructure, rail operation and its operability.

SŽDC manages

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

Legal grounds of business activity

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

Our strategic goals

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

SŽDC does not carry out any significant activities in the area of research and development.

Management

Statutory body (as at 25 May 2016)

Director General

Pavel Surý

(aged 57, graduated from the Jan Perner Transport Faculty at the University of Pardubice, holding the post since 1 June 2014)

Deputy Director General

Bohuslav Navrátil

(aged 58, graduated from the Faculty of Operation and Economy of Transport and Communications at the University of Transport and Operations in Žilina, representing the Director General in his absence since 11 February 2004)

SŽDC management (as at 25 May 2016)

Assistant Director General for Finance

Aleš Krejčí

(aged 56, graduated from the Faculty of Production and Economy of the University of Economics, Prague, holding the post since 1 June 2012)

Assistant Director General for Asset Management

Tomáš Drmola

(aged 52, graduated from the Universität Nürnberg and Institute for Industrial and Financial Management in Prague, holding the post since 1 November 2014)

Assistant Director General for Rail Modernisation

Mojmír Nejezchleb

(aged 53, graduated from the Faculty of Civil Engineering at the Brno University of Technology, holding the post since 1 July 2013)

Assistant Director General for Rail Operability

Bohuslav Navrátil

(aged 58, graduated from the University of Transport and Operations in Žilina, holding the post since 1 June 2012)

Assistant Director General for Traffic Control

Josef Hendrych

(aged 62, graduated from the University of Transport in Žilina, holding the post since 1 August 2014)

Corporate governance

Statutory body

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

Director General

Pavel Surý

Deputy Director General

Bohuslav Navrátil

SŽDC management

As at 31 December 2015	As at 25 May 2016
Assistant Director General for Finance Aleš Krejčí	Assistant Director General for Finance Aleš Krejčí
Assistant Director General for Asset Management Tomáš Drmola	Assistant Director General for Asset Management Tomáš Drmola
Assistant Director General for Rail Modernisation Mojmír Nejezchleb	Assistant Director General for Rail Modernisation Mojmír Nejezchleb
Assistant Director General for Rail Operability Bohuslav Navrátil	Assistant Director General for Rail Operability Bohuslav Navrátil
Assistant Director General for Traffic Control Josef Hendrych	Assistant Director General for Traffic Control Josef Hendrych

Management board

As at 31 December 2015	As at 25 May 2016	Changes in 2015
Chairman: Vladimír Novotný	Chairman: Vladimír Novotný	Members: Tomáš Čoček from 17 March 2015
Vice-chairman: Milan Feranec	Vice-chairman: Milan Feranec	
Members: Tomáš Čoček Jaroslav Foldyna Václav Horák Karel Korytář Jan Volný	Members: Tomáš Čoček Jaroslav Foldyna Václav Horák Karel Korytář Jan Volný	

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

Audit committee

As at 31 December 2015	As at 25 May 2016	Changes in 2015 and 2016
Chairman: Milan Feranec	Chairman: Milan Feranec	Chairman: Position vacant until 28 May 2015 Milan Feranec from 29 May 2015
Members: Vladimír Novotný Václav Horák	Members: Vladimír Novotný Václav Horák Eva Janoušková	Members: Eva Janoušková from 1 January 2016

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

Strategy and development committee

As at 31 December 2015	As at 25 May 2016
Chairman: Václav Horák	Chairman: Václav Horák
Members: Karel Korytář Jan Volný	Members: Karel Korytář Jan Volný

The strategy and development committee issues standpoints or prepares position documents, primarily in respect of SŽDC's strategic materials, strategic proposals of the Ministry of Transport of the Czech Republic of both a legislative and non-legislative nature with impact on the railway sector, proposals for the railway sector arrangement, strategic proposals of the Transport Policy of the EU and directives which directly influence SŽDC's activities, SŽDC's management system, SŽDC's organisational structure and its changes.

3.

Strategy

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

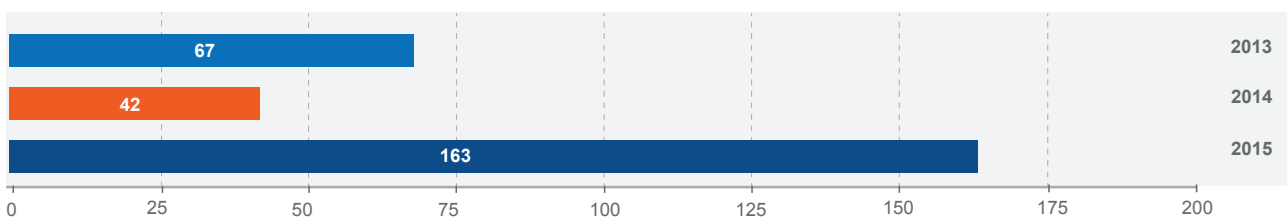
We take an active part in EU programmes and projects and cooperate with our partner organisations, EU institutions and bodies and international organisations, jointly forming a single European railway corridor. We are one of the leaders in implementing new technologies, innovations and trends in our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

Increase of the market share of rail transport

One of the EU's objectives is to increase the market share of rail transport, namely to spread risks and ensure energy security. Our goal is the comprehensive development of the rail infrastructure, focusing on a gradual increase of capacity and speed by efficiently using EU funds available. We continue enhancing our positive customer approach and approach all carriers equally.



Reconstructed railway crossings (psc)



Transport policy of the Czech Republic and modernisation of rail network

In line with the document Transport Policy of the Czech Republic in the 2014-2020 period, SŽDC focuses on the accelerated completion of railway transit corridors and continues modernising railways on the main TEN-T network and railways that are part of the freight railway corridor network. We put great emphasis on projects ensuring the interoperability and sufficient capacity for freight transport. In the past, sufficient attention was primarily not paid to the area of freight transport, therefore we intend to deal with this topic more thoroughly when planning future railway network development concepts. In respect of environment-friendliness and economy of operation, an important issue is also increasing the number of electrified tracks in the Czech Republic. The modernisation of the rail infrastructure also comprises technological construction arising from the context of European standards. These include in particular the construction of GSM-R and ETCS (European Train Control System) in compliance with the amendment to the ERTMS (European Rail Traffic Management System) National implementation plan.

Support to regions

Besides enhancing the quality of the infrastructure through larger projects, we are involved in minor projects in individual regions which are funded primarily by national funding. These include the lifting of speed limits and also increasing the speed limits in the current path. An important step is the rationalisation of the operation on selected regional railways while respecting the transport requirements of regional authorities.

Optimisation of processes

We focus on internal process optimisation using modern management tools and are strengthening external and internal pro-client communication; we introduce new trends to the HR management concept. We would like SŽDC to be viewed as a reliable partner and an important and attractive employer possessing unique know-how.

The prepared transaction “Purchase of part of the railway station establishment”

With the proceeding liberalisation of rail transport it is problematic when one of the carriers owns a significant portion of railway infrastructure, i.e. a passenger railway station. Therefore, project work connected with the preparation and realisation of the purchase of station buildings and the related land based on the contract on the purchase of part of establishment was practically completed in 2015

Discussions in the relevant EU bodies (DG Competition) were crucial for the realisation of the transaction with the aim to eliminate the risks of illicit public support for the transaction.

Resolution of the Government of the Czech Republic No. 1071, dated 21 December 2015, approved the intention to transfer part of the establishment České dráhy, a.s. (“ČD”) into the state assets which will be managed by SŽDC.

The transaction “Purchase of part of the railway station establishment” including technical and legal aspects, has been prepared.

SŽDC is participating in the preparation of the transfer itself and is also preparing to take over the duties of the passenger railway stations’ operator. SŽDC’s principal goals relating to the administration of passenger railway stations are defined as follows:

- passenger railway stations real estate will be in good technical, operating and aesthetic condition;
- economic and technical assessment of the possibilities of building size reduction, or the entire railway stations premises reduction, must always precede the construction realisation;
- constructions are realised comprehensively, i.e. apart from the building or infrastructure reconstruction itself, the entire station and the front of the station premises will always be resolved, including interconnection with other modes of transport;
- the quality of passenger railway stations services must meet the demands of modern transport for both passengers and carriers; the scope of services is given by the station category; some services are provided on a supplier basis;
- over-proportioned real estate will be used (leased) in part also for alternative purposes;
- management of the passenger railway stations segment will be separate under SŽDC conditions.

4.

Organisation's activities in 2015

2015 highlights

January

Firefighters from the Nymburk unit received a CAS tanker truck, which enabled them to replace the LIAZ vehicle from 1988.

A special tunnel boring machine was ceremonially launched near Pilsen; the construction of the longest railway tunnel in the Czech Republic thus began on the Pilsen – Rokycany track section, using this tunnel boring machine.

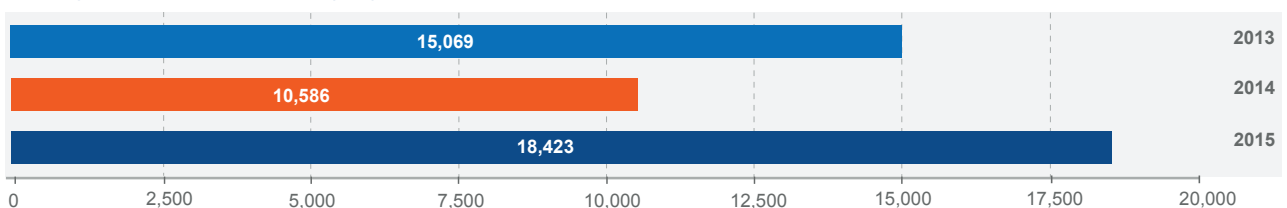
February

Modernisation of the track section Brno-Horní Heršpice – Modřice was commenced, as well as the revitalisation of the line from Klatovy to Železná Ruda.

A multi-annual project "Rail Transport for Regions" focusing on the improvement of quality of travelling by train in regions was launched in Pilsen.



Total length of reconstructed boarding edges (km)



March

The premiere of "To nedáš!" ("You won't manage!"), a students' film on safety and prevention took place in Prague.

Works to increase the safety on level crossings started on the regional railway from Kutná Hora to Zruč nad Sázavou.

The Lanžhot – Břeclav – Brno track was included in the Central Traffic Control ("CTC") in Přerov.

April

Trains travelled to Ostrava Airport for the first time. This was made possible by the modernisation of the Studénka – Veřovice track section and the construction of a new section leading to the Mošnov, Ostrava Airport station.

An interactive student conference was held in Prague for the second time; this time, the subject of the conference was the future of regional railway in the Czech Republic.

May

First lock-outs signified and started the full revitalisation of another regional track from Pardubice to Ždírec nad Doubravou.

June

SŽDC again joined the International Level Crossing Awareness Day ("ILCAD"). It demonstrated a rescue action during a collision of a train with a car in the Prague-Libeň depot.

The construction of a new station building on the upper railway station was commenced in Karlovy Vary.

July

Three people were killed in a tragic collision of a truck with a pendolino at Studénka level crossing.

The Ministry of Transport of the Czech Republic selected the most convenient option for modernising the track from Prague to Kladno with a turn-off for Ruzyně Airport.

August

The modernisation of the Soběslav – Veselí nad Lužnicí track section and the Strakonice station significantly improved travelling by rail in Southern Bohemia.

September

SŽDC's Student Cup was held in Brno for the second time. It was held in Hradec Králové for the first time.

The Preventive Train arrived at Vysočina. It introduced rules of safe behaviour on the railways to students.

October

The reconstruction of platforms connected with the extension of the underpass beneath the entire station was completed in Český Brod; Týniště nad Orlicí obtained entirely new underpasses.

The modernisation of the track section from Bubeneč to Holešovice was completed in the capital city and due to this, a new stop in Podbaba was established.

November

Activity on the North Sea – Baltic rail freight corridor, which also passes through the Czech Republic, commenced.

The restored turnout at Harrachov increased the capacity of the tourist trail from Tanvald to Polish Szklarske Poręby.

December

The renewal of the cross-border track from Aš to Selb was completed; regular passenger trains started to ride again on this track after seventy years.

The reconstruction of the Harrachov tunnel and the adjacent Viadukt over the Jizera River brought further improvement in travelling by train between the Czech Republic and Poland.

Track section anniversaries in the period from 1840 to 2015

Year	Event	Anniversary
2 Mar 1840	Břeclav state border – Břeclav – Brno Main Station – launch of freight transport	175
20 Aug 1845	Prague Masaryk Railway Station – Pardubice – Česká Třebová – Olomouc – celebration of the track section opening	170
1 Jun 1850	Prague Masaryk Railway Station – Kralupy nad Vltavou – Ústí nad Labem – Děčín – launch of entire transport	165
17 Dec 1855	Ostrava-Svinov – Opava East, Bohumín – Petrovice u Karviné state border – launch of entire transport	160
15 Oct 1865	Kralupy nad Vltavou – Neratovice – Mladá Boleslav – Turnov – launch of operation	150
1 Nov 1865	Cheb – Františkovy Lázně – Vojtanov state border/Aš state border – launch of entire transport	150
1 Jul 1875	Kořenov – Tanvald – Železný Brod, Liberec – Frýdlant in Bohemia – Černousy – launch of entire transport	140
26 Jul 1875	Choceň – Týniště nad Orlicí – Meziměstí – Broumov – launch of entire transport	140
15 Oct 1875	Prague-Těšnov – Prague-Rohanský ostrov – launch of operation on track section, which was liquidated in 1984	140
1 Dec 1875	Jindřichov ve Slezsku – Jindřichov ve Slezsku state border – launch of entire transport	140
20 Dec 1875	Protivín – Písek – Březnice – Zdice – launch of entire transport	140
1 May 1885	Rudoltice in Bohemia – Lanškroun – launch of entire transport	130
18 May 1885	Hrob – Moldava in the Ore Mountains – Moldava state border – launch of transport	130
1 Jul 1885	Valašské Meziříčí – Vsetín – launch of entire transport	130
26 Sep 1885	Aš – Hranice in Bohemia Old Station – launch of entire transport	130
16 Jan 1895	Tachov – Planá u Mariánských Lázní – launch of entire transport	120
16 Sep 1895	Louny Suburbs – Postoloprty – launch of entire transport	120
17 Sep 1895	Hrušovany u Brna – Židlochovice, Vranovice – Pohořelice – launch of entire transport, at present without regular passenger transport	120
1 Oct 1895	Kojetín – Tovačov – launch of passenger transport, regular passenger transport discontinued in 1981	120
28 Oct 1895	Dívčice – Netolice – launch of entire transport, at present without regular passenger transport	120
15 Dec 1895	Benešov u Prahy – Vlašim – launch of entire transport	120
1 May 1900	Skochovice turning – Jílové u Prahy – launch of transport	115
3 May 1900	Raspenava – Bílý Potok pod Smrkem – launch of transport	115
23 Jun 1905	Tišnov – Žďár nad Sázavou Old Station – launch of entire transport	110
24 Sep 1905	Teplice nad Metují – Trutnov Centre – launch of entire transport	110
12 Oct 1905	Újezdec u Luhačovic – Luhačovice – launch of operation	110
1 Nov 1905	Kutná Hora City – Zruč nad Sázavou – launch of entire transport	110
26 Nov 1905	Skalsko – Mladá Boleslav – Dolní Bousov – celebration of the track section opening	110
21 Dec 1945	Staré Město u Uherského Hradiště – Uherské Hradiště – launch of entire transport on relocated track	70
9 Apr 1950	Pečky – Radim – launch of entire transport on relocated track	65
28 May 1960	Prague-Vršovice Passenger Station – Prague-Krč – launch of transport	55

Operability of the railway infrastructure

One of the main duties of SŽDC as a rail operator is to ensure the operability of the railway infrastructure, i.e. Such a technical condition of the railway infrastructure ("RI") that guarantees safe and smooth operation.

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

The operability of the RI is facilitated primarily by the managing activities of the individual regional headquarters' technical administration centres, which diagnose the technical condition of the operated RI through their operating centres. Based on an analysis of outputs, they prepare repair and maintenance plans to fulfil all rail operator duties in this area.

One of the indicators of the operability of RI is the number of limited speed sections, aka "slow rides". For 2015, the limit for assessed slow rides in the whole network as at 31 December 2015 was set at 8 km. The actual length of assessed slow rides as at that date was 3.537 km. Assessed slow rides are those rides that have been introduced due to the unsuitable technical condition of the infrastructure and as a result of inadequate views at level crossings.

Table of selected activities

Indicator	Unit of measurement	Amount
GP modification – rails	km	1,677
GP modification – switches	s.u.	920
Track bed cleaning – rails	km	251
Track bed cleaning – switches	s.u.	264
CFT, welding – rails	km	401
CFT, welding – switches	s.u.	453
Replacement of rails	km	481
Replacement of railroad tiles	quantity	428,885

Basic description of railway network

Indicator	Unit of measurement	Amount
Total length of tracks	km	9,467
Length of electrified tracks	km	3,218
Length of standard-gauge tracks	km	9,444
Length of narrow-gauge tracks	km	23
Length of single-track lines	km	7,503
Length of double- and multiple-track lines	km	1,964
Total construction length of tracks	km	15,467
Number of switch units	s.u.	23,575
Bridges	quantity	6,792
Tunnels	quantity	164
Total length of bridges	m	153,783
Total length of tunnels	m	45,732
Level crossings	quantity	7,969

Expenses incurred on ensuring operability

SŽDC ensures the operability of the national and regional rail infrastructure, comprising the following sectors: railroad tracks (superstructure and substructure), rail substructures, bridges and tunnels, buildings and structures, electrical and energy equipment, and communication and signalling equipment under its management. To ensure operability, it uses both its own HR, engineering and technical capacity (primarily the capacity of its own organisational units – the Regional Directorates and specialised units) and contractual relations with suppliers operating in the respective market. These suppliers are selected by means of public procurement. In 2015, payment of expenses incurred on events financed from the SFTI subsidy was concluded. These events were connected with the removal of the aftermath of flood damage caused in June 2013 to the railway infrastructure primarily in the Labe (Elbe) and Vltava (Moldau) river basins. The operability of the railway infrastructure is ensured using the budget of SFTI, which provides SŽDC with non-investment funds to finance the repair and maintenance of the state-owned national and regional networks. The total expenses incurred in ensuring the operability of RI, excluding depreciation and including the allocation of centrally recorded expenses relating to the division of the Assistant Director General for Rail Operability, amounted to CZK 18,038 million in 2015. In terms of operability, repairs of lines co-financed from OPT were carried out in 2015; they are a follow-up of the repairs preparatory project work which occurred in 2014 and 2015. The repairs were carried out by Regional Directorates primarily in the second half of 2015 and they focused on superstructure replacement, improvement of security at level crossings, repairs of platforms and lighting at stations and stops, modifications to drainage and repairs of bridges and culverts. Out of the total volume of expenses incurred on ensuring the operability of RI (excluding depreciation), the expenses incurred on the repairs of lines co-financed from OPT amounted to CZK 6,729 million.

Operating the railway infrastructure

Operating the railway infrastructure

In accordance with the Act on Rail Systems, SŽDC must ensure the operation of the rail network for the public benefit. Operating RI means ensuring and servicing the rail and organising rail transport. The rules and procedures concerning these activities are specified by internal SŽDC regulations.

In 2015, emphasis continued to be placed on accommodating carriers as much as possible when organising possession activities necessitated by the restoration, maintenance or modernisation of the railway infrastructure.

The scope of rail networks operated by SŽDC is currently stabilised at 9,467 km of track. Changing the categorisation of a rail network from national to regional does not affect its operation.

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

SŽDC also operates state-owned sidings (e.g. Oldřichov u Duchcova – Duchcov, Vranovice – Pohořelice, sidings owned by the Administration of State Material Reserves) and certain sidings owned by private persons. In addition, SŽDC operates the newly built regional Sedlnice – Mošnov, Airport Ostrava line, which is owned by the Moravian-Silesian Region.

SŽDC incorporated in its internal policy principles for using the General STOP function in the GSM-R radio system as an optional national application in the Czech Republic and also the specification of technical solutions of track radio systems on junction lines connected to the lines with the GSM-R track radio system. In respect of the national RI environment in the interoperable GSM-R system, another step was commenced at the end of 2015 to fulfil the usage of system accessibility for the shunting mode, currently in the “point-point” mode, and the implementation of a single numbering of shunting among operational points, including the solution of this issue in the border-line regions in connection to legislation of the neighbouring countries.

Applications support

Based on OPT, information technology grew significantly in 2015. Data connectivity in communication on a TSI basis allowed new data links to the neighbouring infrastructure managers and increased the quality of exchanging information important for operation organisation. At the same time, a new generation of information systems was activated to manage and organise rail transport where further progress is expected in the following years.

The Central Traffic Control (CTC) Prague project

In 2015, as part of the approved timetable, the CTC Prague building project continued with the construction stage. Construction work completion and a trial run of the CDP Prague building is planned for the beginning of 2016. Alongside the construction of the CTC Prague building, the design documentation for the first constructions continued to be prepared in track sections that are planned to feature remote control of signalling installations to be connected to CTC Prague as part of the first stage in 2016. These included the following four track sections: Beroun (exclusive) – Rokycany (inclusive), Prague-Uhřetěves (exclusive) – Olbramovice (inclusive), Česká Třebová (exclusive) – Kolín (inclusive), Kolín (exclusive) – Kralupy nad Vltavou (exclusive). The activation of traffic control rooms for remote control of these track sections from CTC Prague has been set in a timetable and starts in March 2016 and will finish in October 2016. Eventually, track sections of approximately 2,200 km are expected to be connected and centrally controlled from CTC Prague.

CTC Přerov

In 2015, the track sections Brno (exclusive) – Lanžhot (inclusive) and Veselí nad Moravou (exclusive) – Vlárský Pass were transferred to the central remote control management. In addition, a training room used for the training of new employees was opened and preparatory work was under way to transfer the control of the Olomouc Main Station railway station and the track sections Ostrava-Svinov – Petrovice u Karviné and Dětmárovice – Mosty u Jablunkova to central management.

Expenses incurred in ensuring the operational control

The expenses incurred in ensuring the operational control of RI primarily include track operation activities ensured by the Regional Directorates and Central Traffic Controls, as well as centrally recorded expenses relating to the division of the Assistant Director General for Traffic Control. SŽDC employees perform the operational control of railway traffic, dispatcher's traffic control, operation of signalling installations and information systems for passengers, preparation of timetables, and path capacity allocation to carriers. Expenses related to these activities are mainly covered by: SŽDC's own resources, comprising primarily revenue from the use of RI and the capacity allocation and timetable preparation from rail transport operators; contributions from the Czech Ministry of Transport for railway infrastructure not paid from SFTI; and other income of SŽDC from own activities of SŽDC's organisational units. Total expenses incurred in ensuring the operational control of the railway infrastructure amounted to CZK 5,015 million in 2015.

Modernisation and development of the railway infrastructure

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

- Modernisation of railway transit corridors;
- Modernisation of railway junctions;
- Modernisation of other lines integrated into the European railway system;
- Ensuring the interoperability of selected lines;
- Investment in the railway infrastructure to support the development of suburban transport and integrated transport systems;
- High-speed connections.

Modernisation of railway transit corridors

The modernisation of railway transit corridors means higher quality railway transport in the Czech Republic and a significant reduction of travel times on key lines, especially Prague – Ostrava and Prague – Brno. The completed modernisation of the First Corridor on the Břeclav – Brno – Česká Třebová – Prague – Děčín line and of the Second Corridor on the Břeclav – Přerov – Ostrava – Petrovice u Karviné line was followed by the modernisation of the Third and Fourth Corridors.

The Third Corridor passes via Mosty u Jablunkova, the Slovak/Czech state border – Dětmarovice – Ostrava – Přerov – Česká Třebová – Prague – Pilsen – Cheb, the Czech/German state border. The Česká Třebová – Prague track section was completed as part of the First Corridor, and the Přerov – Dětmarovice track section as part of the Second Corridor. The following table contains the incomplete track sections of the Third Corridor, which are in ongoing or design preparation stages.

Overview of works at the Third Corridor

Project	Length Km	Stage of completion	Timeframe Start	End
Optimisation of the Bystřice nad Olší – Český Těšín track section, second construction of the Český Těšín railway station	3.1	Ongoing	1/2014	10/2016
Modernisation of the Rokycany – Pilsen track section	20.2	Ongoing	7/2013	6/2017
Optimisation of the Beroun – Králův Dvůr track section	4.9	In preparation	6/2016	7/2018
Optimisation of the Český Těšín – Dětmarovice track section	20.9	In preparation	2017	2018
Optimisation of the Prague Smíchov – Černošice track section	10.9	In preparation	2018	2020
Optimisation of the Černošice – Beroun track section	24.9	In preparation	2018	2020

The following projects are in ongoing or design preparation stages in the Fourth Corridor, which spans the Horní Dvořiště – České Budějovice – Prague track section.

Overview of works at the Fourth Corridor

Project	Length Km	Stage of completion	Timeframe Start	End
Modernisation of the Ševětín – Veselí nad Lužnicí track section, part 1, Ševětín – Horusice	4.4	Ongoing	4/2014	5/2016
Modernisation of the Nemanice I – Ševětín track section, first construction, ETCS adjustments, part 1	22.2	In preparation	2017	2018
Modernisation of the Nemanice I – Ševětín track section, first construction, ETCS adjustments, part 2	4.3	In preparation	2017	2018
Modernisation of the Veselí n. L. – Tábor track section, part II, Veselí n. L. – Doubí u Tábora track section, stage 2 Soběslav – Doubí	8.6	In preparation	2017	2019
Modernisation of the Sudoměřice – Votice track section	17.0	In preparation	2017	2020

Modernisation of railway junctions

In connection with the modernisation of corridor lines, significant railway junctions are being modernised in their track sections. Thoroughfares through the railway junctions of Děčín, Ústí nad Labem, Kolín, Choceň, Ústí nad Orlicí, Břeclav, Přerov (first construction project) and Bohumín have been completed. The projects related to the construction of thoroughfares through the junctions of Pilsen and Olomouc are ongoing. The projects "Modernisation of the western part of Prague Main Station", "the New Link" (connecting Prague Main Station and Prague Masaryk Station with Libeň, Holešovice and Vysočany Stations) and "Modernisation of the track section Prague-Libeň – Prague-Běchovice" have been completed at the Prague

junction. The Prague-Běchovice – Prague-Libeň and Prague-Holešovice – Prague-Bubeneč track sections have also been completed. “Modernisation of the Úvaly – Prague-Běchovice track section” will be finished in 2016, which will complete the First Corridor’s thoroughfare at the Prague junction. The project relating to the construction of the Prague-Hostivař railway station is ongoing and in 2016 the construction project of the Prague-Hostivař – Prague-Vršovice track section will start, which will ensure the admission of the Fourth Corridor to the Prague junction. In addition, preparatory work continues on the construction project Prague Main Station – Prague-Smíchov, which will connect the Third Corridor to the Prague junction. Preparatory project work also continues on the thoroughfares through the junctions of Brno, Pilsen, Přeřov, Ostrava, Pardubice and Česká Třebová.

Modernisation of other lines integrated into the European railway system

Optimisations of lines in the track sections Kolín – Havlíčkův Brod – Křižanov – Brno, where some track sections have already been modernised, Ústí nad Labem – Cheb, Lysá nad Labem – Prague-Vysočany, Kolín – Všetaty – Děčín, and České Budějovice – Pilsen are under preparation. New lines in the track sections Choceň – Ústí nad Orlicí, Brno – Přeřov, and Pilsen – Česká Kubice are in the design preparation stage.

Ensuring the interoperability of selected lines

Other significant investments include construction projects ensuring the interoperability of the railway network in the area of communication and signalling equipment. Following the completion of the GSM-R digital radio system at the First Corridor’s Břeclav – Česká Třebová – Prague – Děčín section and at the Second Corridor’s Břeclav – Přeřov – Petrovice u Karviné section, the GSM-R in the track sections Mosty u Jablunkova – Ostrava, Přeřov – Česká Třebová, Kolín – Všetaty – Děčín, Beroun – Prague – Benešov and Benešov – Votice was completed. Installation of the GSM-R is underway in the track sections Kolín – Havlíčkův Brod – Křižanov – Brno and Beroun – Pilsen – Cheb and other track sections are under preparation.

After the completion of the ETCS (European Train Control System) pilot project in the Poříčany – Kolín track section, installation of the ETCS is now underway in the track section Kolín – Břeclav – Austrian/Slovak state border. Preparations are made for the track sections Petrovice u Karviné – Ostrava – Přeřov – Břeclav and Kralupy nad Vltavou – Prague – Kolín, other track sections will follow.

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 modernisation projects of track sections are under preparation: Prague-Vysočany – Lysá nad Labem, Prague – Kladno (with a link to Václav Havel Airport Prague), Brno – Zastávka u Brna or Hradec Králové – Pardubice, where the modernisation and double-tracking of the first section Stěblová – Opatovice nad Labem will be completed in 2016.

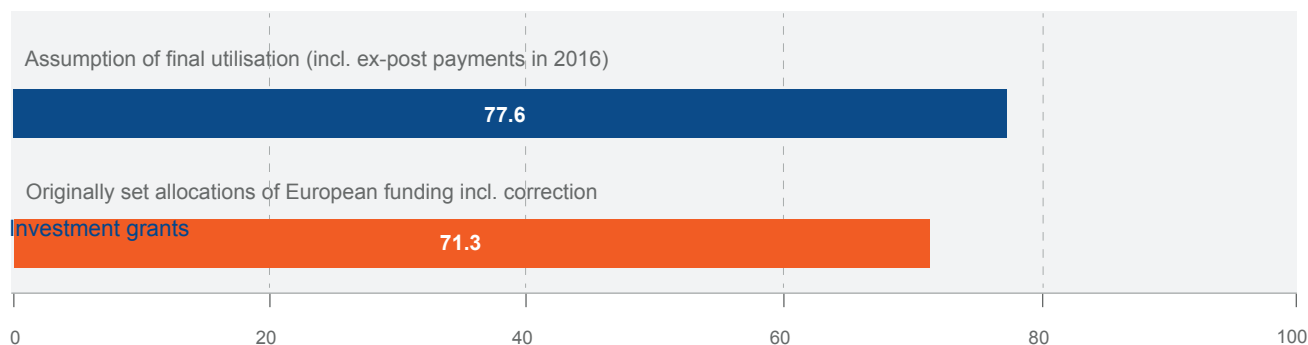
High-speed connections

Current objectives include the development of so called High Speed Connections (“hcs”) network that includes both new high-speed lines as well as modernised and new conventional lines. This will help fulfil the vision of two-way fast links between the country’s regional cities and other major economic hubs. HC sections in the vicinity of major cities will enable the introduction of very quick suburban transport, allowing passengers from more distant as well as nearby locations to regularly commute. Present tasks include using high-quality preparatory design work to record new HC lines in zoning documentation, and defining the operating parameters and standards of the comprehensive network. The HC network is prepared based on close cooperation between SŽDC, the Ministry of Transport of the Czech Republic and relevant regions. Construction projects represent a priority in the longer term and it is expected that investments in this area will increase.

Utilisation of Operational Programme Transport (“OPT”) (budget period from 2007 to 2013)

At the end of 2015, SŽDC managed to fully utilise all allocated OPT funds; at the same time, our Company used the opportunity to draw also other funds beyond the originally set allocations of European funding which were not managed to be utilised within the projects of other recipients. Through SFTI, CZK 24,260 million was drawn within investments and CZK 4,403 million within nominal non-investment projects in 2015, using the subsidies from OPT for the 2007–2013 period (“OPT1”).

Assumption of final utilisation of OPT funds (in CZK billion)



Investment grants received for 2015 (in CZK million)

Investment grant	Amount
SFTI for construction and modernisation, nat. Share, OPT, subsidy of the Ministry of Transport	31,097
Pre-financing	143
EU funds	140
Contributions from cities, municipalities, regions and other entities	33
Total investment grants	31,413

Subsidies from SFTI for the construction and modernisation include funds from OPT and subsidies from SFTI for projects financed from national funds.

Funding for investment projects came mostly from public sources. In 2015, the most significant were again subsidies from EU funds. With respect to the railway infrastructure, SŽDC, acting as the final beneficiary and investor, is the main entity responsible for EU fund utilisation in the Czech Republic.

Subsidies from OPT of CZK 24,260 million accounted for the largest share of funding. Other sources of financing included the fund from the Czech Ministry of Transport 2015, SFTI and the TEN-T fund; rarely also small contributions from regions, cities and municipalities.

The volume of investment subsidies received in 2015 for the preparation and implementation of investment projects relating to the railway infrastructure totalled CZK 31,413 million.

Further development

After 2015, which was record-breaking in the number of realised investment projects and the total volume of invested funds, 2016 will be significant primarily because the financing of the first constructions within the new EU programming period 2014-2020 from the OPT2 and CEF sources will be commenced. They will be the most important sources for financing investment projects in the entire upcoming programming period.

In 2016, selected projects which commenced their implementation in the previous years will continue using subsidies from OPT1; the subsequent continuation of projects in 2016 will be financed from the new OPT for the period 2014-2020 (OPT2); these are so called phased projects. In the following period, the utilisation of the OPT2 sources will be possible (compared to OPT1) exclusively on constructions within the TEN-T network (or with a direct link to the TEN-T network). Utilisation of the OPT2 sources for minor projects, the so-called implementation of global items, is not expected either. The OPT2 sources will be primarily aimed at modernising railway transit corridors, railway infrastructure within the TEN-T network and technological projects.

Within the CEF programme, it will be only possible to finance projects on the main European rail network (Core network). Apart from modernising lines, funds will also be directed at modernising selected junctions and ETCS implementation constructions. At present, EC has already approved all projects submitted by SŽDC under the so called first call; a selection of constructions has already been sent to EC for assessment under the second call. If the proposed projects are approved, the Czech Republic will have a sufficient number of projects approved to draw CEF allocated funds (so called national envelopes) for the railway infrastructure area. In respect of selected projects, drawing on CEF sources will be commenced in 2016.

Overview of CEF projects approved so far:

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

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

Compliance with the above standards is paramount in developing so-called freight corridors, established under Regulation (EU)

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

Utilisation of the railway infrastructure by carriers

The number of carriers that have concluded a contract with SŽDC for the operation of rail transport using the state-owned national and regional railway infrastructure increased to 94. However, this does not mean that all the carriers use the railway infrastructure regularly throughout the year. The average number of carriers using the infrastructure was 55 per month and in total, 74 carriers used the infrastructure at least in one month per year.

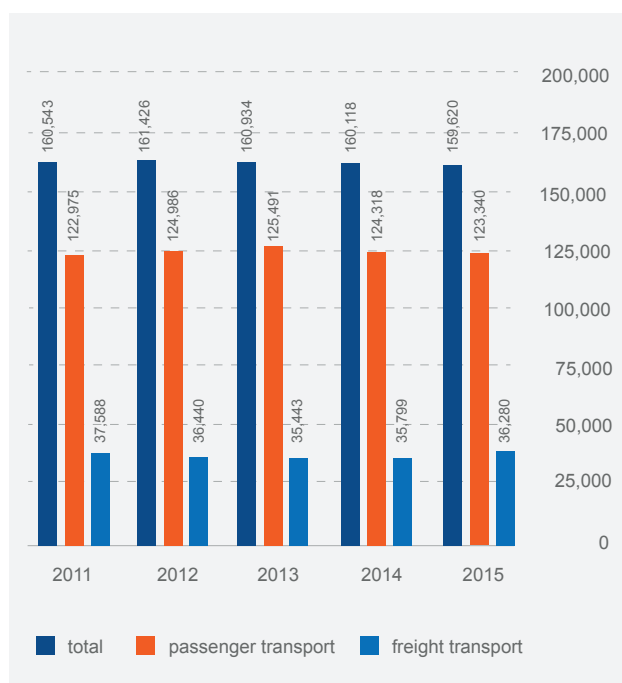
In passenger transport, the output of carriers in 2015 compared to 2014 slightly decreased in terms of the number of train kilometres (- 0.8%), while gross tonne kilometres remained the same. České dráhy, a.s. Continues to maintain the dominating share of output in passenger transport, with 95.0% (trkm) and 92.7% (gtkm), although this share slightly decreases from year to year. The output of other passenger carriers (regiojet a.s. And LEO Express a.s.) Slightly increased and thus increased their share in total output.

2015 also confirmed that the declining trend in freight transport output was stopped, with the number of both indicators even slightly higher than in 2014. However, a continued decrease in both indicators is recorded by the largest carrier, ČD Cargo, a.s., whose share of total output fell again. Nevertheless, this drop in output was fully offset by other carriers, whose total share increased compared to 2014. The METRANS Rail s.r.o. Carrier recorded the greatest increase in output.

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

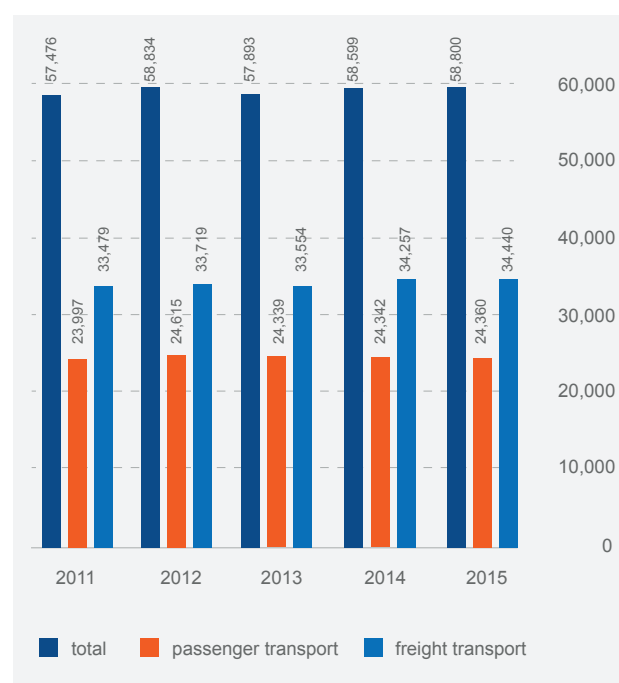
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Number of carriers	52	53	56	53	62	68	75	79	84	89	94

Output of carriers on network operated by SŽDC (thousands of trkm)



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

Output of carriers on network operated by SŽDC (millions of gtkm)



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

Carriers' percentage share of passenger transport production (2014 versus 2015)

Carrier/indicator, year	Trkm 2014	Gtkm 2014	Trkm 2015	Gtkm 2015
České dráhy, a.s.	95.34	93.27	95.01	92.68
Regiojet a.s.	2.09	5.01	2.17	5.44
LEO Express a.s.	1.68	1.45	1.87	1.60
GW Train Regio a.s.	0.35	0.08	0.35	0.08
Vogtlandbahn-GmbH, organisational unit	0.32	0.13	0.38	0.14
Other carriers	0.22	0.06	0.22	0.06

Carriers' percentage share of freight transport production (2014 versus 2015)

Carrier/indicator, year	Trkm 2014	Gtkm 2014	Trkm 2015	Gtkm 2015
ČD Cargo, a. s.	67.97	69.90	65.12	66.52
Advanced World Transport a.s.	9.48	12.43	7.57	9.21
METRANS Rail s.r.o.	1.16	1.51	3.90	6.14
UNIPETROL DOPRAVA, s.r.o.	3.82	4.21	3.55	4.21
IDS CARGO a.s.	1.57	2.99	2.64	2.58
Rail Cargo Austria Aktiengesellschaft	1.41	2.26	1.63	2.33
SD – Kolejová doprava a.s.	1.90	1.88	1.45	1.95
LTE Logistik a Transport Czechia	0.91	1.23	1.11	1.71
PKP CARGO SPÓŁKA AKCYJNA	0.72	0.95	0.71	0.89
BF Logistics s.r.o.	0.80	0.94	0.82	0.98
Other carriers	10.26	1.7	11.50	3.48

By allocating railway infrastructure capacity, SŽDC ensures that the carriers' requirements relating to train lines are satisfied for the period of entire year as well as for individual cases. The flexible response of SŽDC supports economic assurance of our customers and helps to cultivate the business environment.

Number of track sections in timetables according to category (irrespective of carrier)

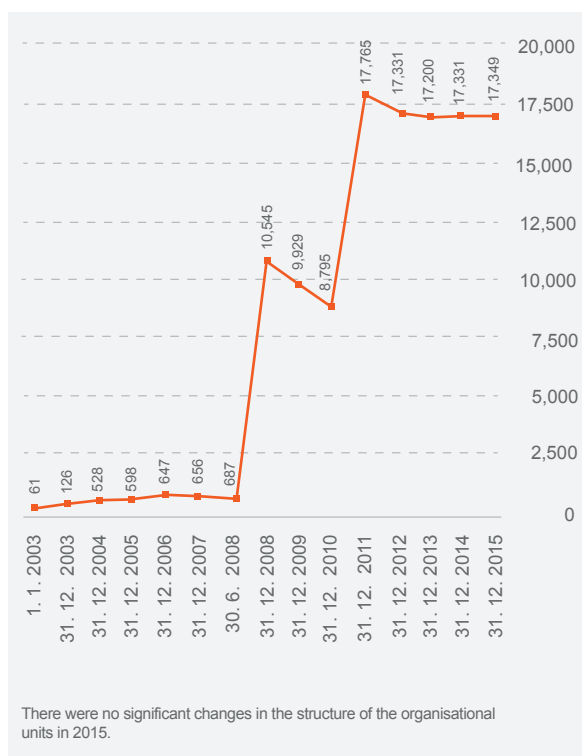
Indicator	Number
Passenger trains	8,063
Limited-stop trains	362
Express trains	446
Higher-quality trains (EC, EN, Ex, IC, LE, SC, railjet)	171
Express freight trains	306
Through freight trains	696
Slow goods and work-siding trains	767
Trainsets	550
Locomotive trains	472
SŽDC's catalogue (offer) routes	1,925

Human resources

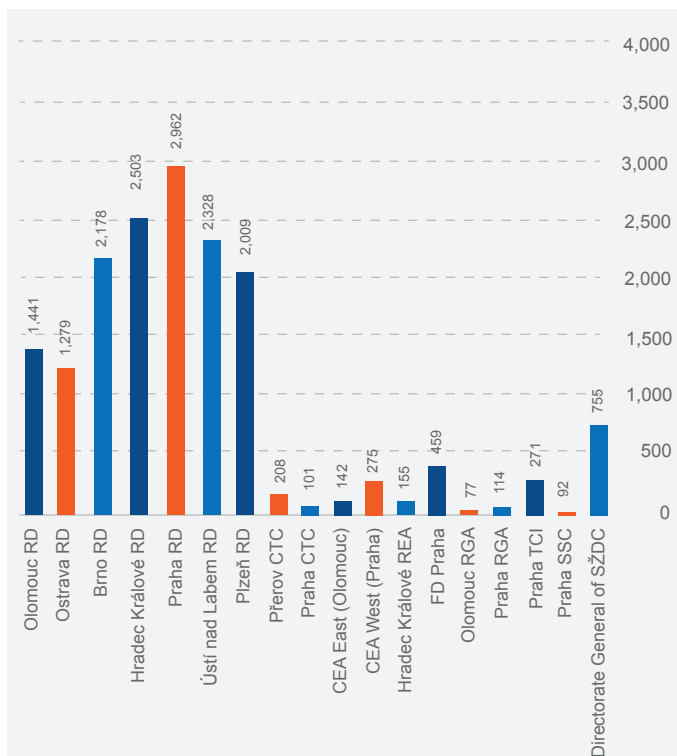
Employees

As at 1 January 2015, SŽDC had 17,332 employees working in 203 professions across its 17 organisational units, which operate in the individual regions of the Czech Republic, and at the Directorate General. SŽDC has no organisational unit abroad. Since its inception 12 years ago, when it had just 61 employees, SŽDC has become a major employer in the Czech Republic and the largest employer in the rail transport sector.

Number of SŽDC's employees from 2003 to 2015



Number of employees by organisational unit at 31 December 2015



Based on the decision of the Management Board of 5 September 2014, employee recruitment continued in 2015 in order to achieve the optimal number of operational staff in technical administration centres (specialising in the railway infrastructure, electrical engineering, power engineering, and communication and signalling equipment). As at 31 December 2015, 436 of these employees were recruited, i.e. 93% of the total approved number. The recruitment of the remaining 33 employees will be completed in the first quarter of 2016. In order to achieve the goals established in the area of investment projects, project preparation and also on the grounds of fulfilling the thematic preliminary conditions of OPT 2014–2020, the staff numbers in the rail modernisation division also increased. However, at the same time, the process of rationalisation and optimisation connected with putting the investment projects into operation continued, resulting in the decrease of the number of operational employees in traffic control by 315 persons. 194 employees were paid severance payments during 2015.

Remuneration and employee benefits

The remuneration policy and the extent of employee benefits provided were negotiated in SŽDC's Collective Agreement for 2015. A uniform payroll system continued to be applied. The tariff and motivational wage component was increased and new rules were set for certain bonuses. In 2015 SŽDC met all of the obligations towards its employees in terms of remuneration and employee benefits.

The range of employee benefits, which are provided to stabilise and motivate employees, did not change in 2015. In addition to benefits relating to working hours and holidays, SŽDC continued to provide, among other things, contributions towards its employees' supplementary pension insurance and life insurance schemes. A total of 2,065 employees performing selected professions determined to be exhausting attended a reconditioning treatment programme at one of the four designated spa facilities (Jeseník Priessnitz Spa, Luhačovice Spa, Lúčky Spa and Rajecké Teplice Spa).

In accordance with the financial principles and the approved budget negotiated with the trade union organisations, the Cultural and Social Needs Fund was used to provide funds for meal vouchers and cultural and sports activities, including participation in international railway events and regional and national qualifiers. Employees and their family members could also use employer-contributed holiday packages.

Cooperation with trade union organisations

As keeping social peace is the priority of its social policy, SŽDC places great emphasis on cooperation with trade union organisations. As at 31 December 2015, nine trade union organisations – both multi-profession organisations as well as organisations representing a single profession – continued to operate at SŽDC. During 2015, representatives of the employer and the trade unions held regular joint meetings, where information was provided and discussed with the social partners in accordance with the Labour Code and SŽDC's Collective Agreement in force. From 14 August 2015, collective bargaining was held and on 14 December 2015 it culminated in the conclusion of SŽDC's Collective Agreement for the period of 2016-2017.

Training

The main training objective was the consolidation of technical training for rail maintenance and repair and traffic control staff. On 15 October 2015, the second amendment to the regulation on the professional qualification and knowledge of rail operation personnel entered into force. In addition, the in-house psychological centre in Česká Třebová was used to full capacity, as psychological evaluation is a necessary requirement for the most demanding traffic control jobs and for fire department staff. Monitoring activity focused on the provision of employee training and the professional skills of lecturers. SŽDC maintained and further developed its contractual cooperation with selected high schools and universities, primarily support of recruitment from these schools.

Medical care at work

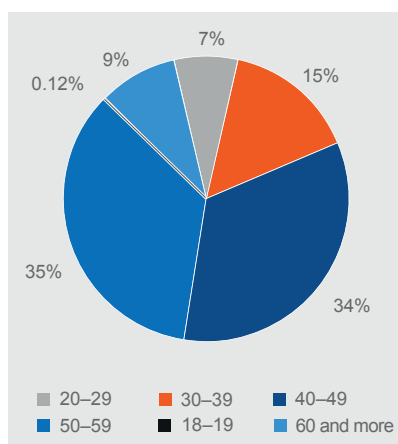
Occupational medical care was provided to SŽDC employees through a contractual healthcare provider. In addition to the prescribed types of medical examinations (entry, regular, extraordinary and exit check-ups), it also focused on workplace monitoring as part of occupational safety and health inspections. Job applicants and SŽDC employees used these occupational medical care services throughout the Czech Republic (approx. 100 physicians provided their services to SŽDC).

Occupational safety and health

Health and safety activities primarily focused on eliminating the deficiencies detected during inspections or ordinary activities as well as on updating the classification of jobs and requirements for occupational medical check-ups.

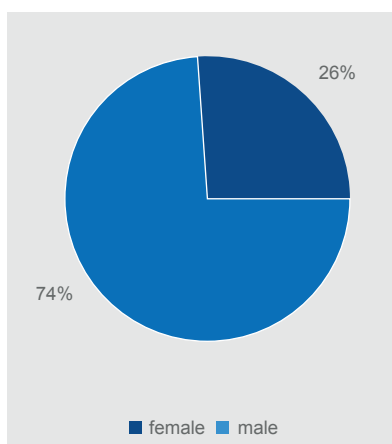
In 2015 we recorded a total of 414 work injuries, including two fatal injuries. Four work injuries required hospitalisation for more than five days; 151 work injuries were classified as other work injuries with subsequent sick leave longer than three calendar days; one injury was included in other work injuries with subsequent sick leave of up to three calendar days; and 256 injuries were classified as other work injuries without subsequent sick leave.

Age structure of employees as at 31 December 2015



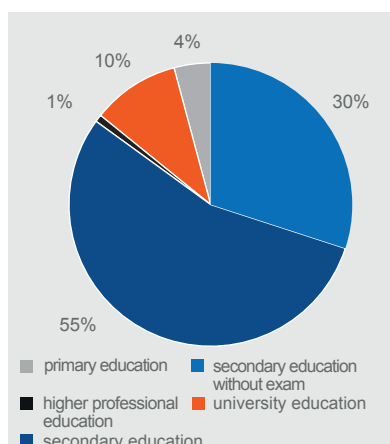
The age structure of employees did not change significantly year-on-year. As at 31 December 2015, the average age of SŽDC's employees was 47.45 years (year-on-year increase by 0.2%).

Gender structure of employees as at 31 December 2015



Rail transport is a male-dominated industry. This is confirmed by the prevailing share of male employees, which was 74% as at 31 December 2015.

Employee structure by educational attainment as at 31 December 2015



In comparison with 2014, SŽDC employees by educational attainment did not change in 2015.

International cooperations

In terms of international cooperation, SŽDC continued to support and promote the interests of the Czech railway infrastructure with the aim of creating a functional and reliable network for passenger and, most importantly, freight transport. The incorporation of Czech paths into the main European routes is a necessary condition for the development of Czech railways and for their future co-funding from EU funds. SŽDC, as a railway infrastructure manager, must continue providing all European carriers with a high-quality, reliable, fast and safe railway infrastructure that is interoperable from an international point of view. Meeting this objective is conditional on intensive Europe-wide cooperation. In 2015, SŽDC continued to negotiate effectively with its international partners in all areas and on all levels, both within international railway organisations and through direct involvement in European Commission committees. Experts also worked with CEN and CENELEC on the development of European standards. Last but not least, a number of bilateral and multilateral talks with neighbouring and other European railways were held and also work continued on updating contracts on track connections, primarily borderline provisions with the aim to increase safety and smoothness of transport over state borders.

Rail freight corridors. SŽDC continues to be actively involved in the work of bodies of rail freight corridors (“rfcs”) in accordance with the Regulation of the European Parliament (“EP”) and the EU Council. The Czech Republic is a part of four rfcs, namely: Baltic – Adriatic, Orient/East – Med, North Sea – Baltic and Czech-Slovak corridors. Two corridors, namely Baltic – Adriatic and North Sea – Baltic were put into operation in November 2015. SŽDC also became a full member of the RFC North Sea – Baltic, which ensured better access to the ports of Rotterdam, Amsterdam and Antwerp. Preparations of the intention to extend the Orient corridor from Prague to the North Sea ports continued. SŽDC experts cooperated to prepare the integration of the Czech-Slovak corridor with the Rhine – Danube corridor, which means better rail connection with Germany towards the French borders.

International railway organisations:

International Union of Railways. (UIC). SŽDC continues to strive for harmonising the technical standards for railways, which has been the main role of UIC since its inception. SŽDC experts actively participated in various working groups and projects, primarily within the Rail System Forum. We succeeded in incorporating SŽDC’s comments and influencing both new and revised guidelines. We continued sharing experience related to railway superstructure and substructure, artificial structures, communication and signalling equipment, energy systems, electric traction and environment. Also related to rail operation and the maintenance of relations with other European railways was our experts’ activity in other working groups. The issues of rising crime levels (primarily metal theft), terrorism, secure operation on railway were the topics of various negotiations within the UIC’s Security Forum. SŽDC became the leader of a newly established UIC group – New Technologies.

Community of European Railway and Infrastructure Companies (CER). Within this organisation, SŽDC cooperates on the preparation of opinions on EU draft legislation affecting rail transport and participates in negotiations with European bodies and institutions. In April 2015, the top management of SŽDC held talks with the members of EP. SŽDC experts are engaged in several groups, e.g. Infrastructure, safety, human resources, rail traffic management.

Railneturope (RNE). SŽDC actively participated in the activities of the international organisation RNE and also in 2015 continued to concentrate on providing support to carriers with respect to their cross-border activities (both in terms of passenger and freight transport) and on improving the efficiency of processes of infrastructure managers, primarily by further harmonising the conditions for cross-border rail transport. It coordinated also the preparation of timetables across Europe and ensured the unification of the marketing and sale of international paths. Of particular note was the cooperation of infrastructure managers with regard to railway operation.

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

North Atlantic Treaty Organisation (NATO). SŽDC was actively involved in the work of NATO’s Civil Emergency Planning Committee, specifically in the work of the Planning Board for Inland Surface Transport.

European Telecommunications Standards Institute (ETSI). SŽDC, as a member of ETSI, has access to all published standards and specifications relating to the area of telecommunication standards.

5.

Financial performance

Financial performance of SŽDC

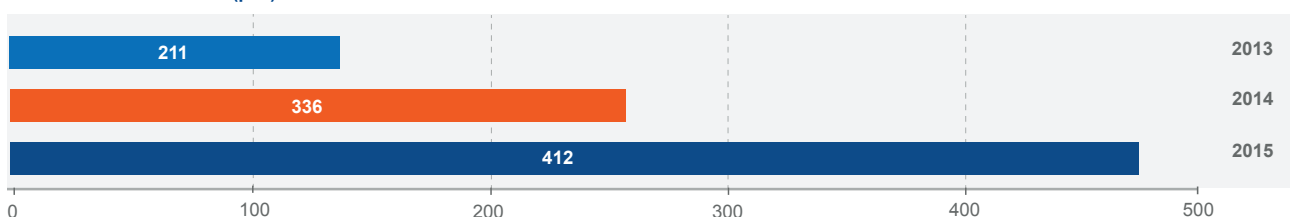
An accounting loss of CZK -1,056 million was generated for the 2015 accounting period. It is primarily a result of accounting depreciation and revenue from the remission of SŽDC's liabilities ("debt remission"). Both items are only accounting transactions, not affecting the balance of income and expenses. The amount of depreciation charged exceeds the amount of debt remission this year and it will exceed this amount also in the following years.

The financial indicator EBITDA reached a positive amount of CZK 3,203 million. EBITDA represents the difference between the SŽDC's revenues and expenses, which does not include taxation, interest, depreciation and amortisation.

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



Modernised switch units (psc)



SŽDC's financial performance for 2015 was primarily influenced by the following items:

Revenue from use of RI	4,219
Revenue from allocated RI capacity	102
Subsidies for RI not paid from SFTI	1,979
Subsidies from SFTI for repairs and maintenance	11,114
Subsidies from SFTI for repairs and maintenance related to June 2013 floods	39
Subsidies from SFTI co-financed from OPT	6,779
Other subsidies	46
SŽDC debt remission as per Czech Government Resolution No. 1553 from 2005	1,727
Purchase and sale of energy and distribution services	338
Materials, energy consumption and services	-15,242
Personnel expenses	-8,982
Accounting depreciation	-4,064
Other operating revenues and expenses	993
Operating profit/loss	-952
Interest income	1
Interest expense	-195
Exchange rate differences	95
Other financial revenues and expenses	-5
Profit/loss from financial operations	-104
Profit/loss after tax for the year	-1,056
EBITDA	3,203

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

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

Subsidies for RI not paid from SFTI comprise contributions provided by the Czech Ministry of Transport to cover expenses relating to railway operation which are not covered by SŽDC's other income and for which SFTI subsidies cannot be used. SFTI subsidies constitute the most significant revenue and cash-generating item of SŽDC, and are used to cover expenses relating to the operability of RI. The SFTI provides, on a contractual basis, non-investment funds for the repair and maintenance of the state-owned national and regional networks managed by SŽDC.

Subsidies from SFTI for repairs and maintenance related to floods were used in 2015 to cover expenses relating to the removal of damage caused by the June 2013 floods at RD Ústí nad Labem. In respect of this subsidy, the payment of expenses incurred on repair and maintenance work connected with the removal of damage caused by the floods was completed in 2015.

Subsidies from SFTI co-financed from OPT were used in 2015 to repair track sections. The realisation of track section repairs is a follow-up of the project preparation of repairs carried out in 2014 and 2015. The repairs will be completed in 2016 from the national sources of SFTI.

Other subsidies primarily comprise subsidies from OPT (wage reimbursement – EU Funds Section), operational subsidies from SFTI for studies, and subsidies from OPE pre-financed from SFTI for the restoration of biotopes along the railway infrastructures and minor non-investment subsidies for Civil Engineering Administrations.

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

Purchase and sale of energy and distribution services includes expenses relating to the purchase of distribution services and electricity (low- and high-voltage transfer points outside electric traction to cover SŽDC's internal consumption and to supply electricity to external customers connected to the local distribution network of the railways) and expenses relating to the purchase of distribution services and electricity for the supply and transfer points of electric traction. The item also includes revenue from the sale of distribution services and electricity as well as revenue from the sale of distribution services for electric traction.

The most significant expense item comprises **operating expenses relating to consumption**, i.e. Consumption of materials and consumables and services. The services mainly include expenses related to ensuring the operability of the railway infrastructure and incurred in connection with repairs and maintenance provided by external suppliers and expenses incurred on projects paid from the SFTI subsidy co-financed from OPT.

SŽDC's **personnel expenses** include wages and salaries, social security expenses and social expenses. Significant operating expenses also include **accounting depreciation**, i.e. The recognition of the depreciation of fixed assets in expenses.

SŽDC's **other operating revenues and expenses** include other revenue and expense items, e.g. Payment of rail replacement bus service to carriers due to a planned limitation of rail operation in accordance with the Network Statement, revenue from the sale of fixed assets and materials less their net book value. They also include changes in other provisions and adjustments, revenue from external production and leases, own work capitalised, revenue from salvaged materials, expenses incurred on property and liability insurance, a contribution for personal protective equipment to be used at work or membership fees paid to organisations, taxes and fees. In addition, they include damage compensation in relation to ČEZ Prodej, s.r.o., for electricity which was not drawn in 2010 and default interest in accordance with the court judgement, including costs of proceedings. At the same time, the appropriate provision established for this litigation with ČEZ was utilised.

Interest expense primarily results from bank loans relating to capital expenditures that were taken over from the former state organisation ČD, s. o. As stated in the notes to the financial statements, interest owed to the banks is paid by the Ministry of Finance of the Czech Republic on behalf of SŽDC. Only in the case of the loan provided by Česká spořitelna, a. s. For railway infrastructure improvement projects does SŽDC use its own resources to pay all expenses related to the loan agreement, (including interest).

Exchange rate differences arise from the translation of foreign currency liabilities, loans and interest at the exchange rate valid as at 31 December 2015. The loans taken over from the former state organisation ČD, s. o. Are now denominated only in euros. As the Czech crown appreciated against the euro in 2015, the Czech crown value of these liabilities decreased. The resulting difference was recognised as a revenue in accordance with applicable regulations.

Financial outlook for 2016

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

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

SŽDC's objective is to operate efficiently and to provide a railway infrastructure enabling reliable and safe passenger and freight rail transport.

Risk management

The main objective of SŽDC's risk management system is to mitigate, to the full extent possible, any negative impact of risks on meeting the organisation's plans and objectives and on the organisation's financial performance.

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

Operational risk

The primary objective of operational risk management is to ensure the safe and failure-free operation of RI. With regard to traffic control and operability, risks are minimised by recruiting new employees with appropriate physical and mental fitness who undergo training and take exams set for their future position. For selected professions, periodic training sessions and exams are organised. Risk management also involves developing and constantly maintaining a system of internal policies that define the requirements for the individual components of the railway infrastructure as well as the correct procedures for performing work related to RI. In addition, regular inspections and measurements are carried out to assess the technical condition of the railway infrastructure.

In the event of accidents, the cause and circumstances of their occurrence are investigated, and corrective measures to prevent such accidents, including implementation deadlines, are proposed. The implementation of corrective measures is subsequently monitored and documented. Where an accident is proven to have been caused by an employee, relevant penalties and compensation of damage are applied. Damage caused to third parties is covered by liability insurance.

Financial risk

In terms of finance, SŽDC is exposed to liquidity risk, interest rate risk, currency risk and credit risk. As SŽDC's activities related to modernisation and ensuring the operability of RI are financed almost exclusively from subsidies, liquidity in these areas is managed in relation to the respective grants for the relevant fiscal period, with emphasis on complying with conditions for their utilisation and minimising possible penalties. In other areas, financed primarily from revenues, the key liquidity management tool comprises the continuous monitoring of cash flows and the utilisation of the appropriate volume of suitable loan products.

The interest rate and currency risks are connected primarily with long-term loans for the construction and reconstruction of rail corridors denominated both in euros and Czech crowns taken over from ČD, s. o. With one exception, all loans are guaranteed by the state, which eliminates any potential risk. Given the low interest rates that are prevailing and expected, the interest rate risk from the non-guaranteed loan denominated in Czech crowns is not currently hedged.

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

Information technology risks

Significant risks in terms of information technologies include the misuse, damage to or loss of data and a possible breach in the functionality of significant information systems. SŽDC eliminates these risks by applying various measures. Primarily a controlled administration of applications, servers and networks, a functioning anti-virus protection, limitation of individual users' access rights and creating backup data are used. At present, as part of SŽDC's Safety Policy update, the implementation of individual provisions of Act No. 181/2014 Coll., on Cyber Security and its implementing regulations is being prepared.

HR risks

SŽDC's interests regarding the requirements on future employees have been secured through cooperation with secondary (high) schools and universities, as well as through the organisation's participation in the transportation sector council's activities regarding the preparation of the national qualifications system. In accordance with the implemented concept of human resources management, the age structure of the key professions is analysed and selected employees undergo special training process in order to ensure the succession of key positions.

Observing both external and internal legislation as well as the Collective Agreement ensures the conditions for social consensus and a low employee turnover level, which is supported by a funding guarantee for rail operation and operability by the Czech Ministry of Transport.

Anti-corruption measures

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

6.

Corporate social responsibility

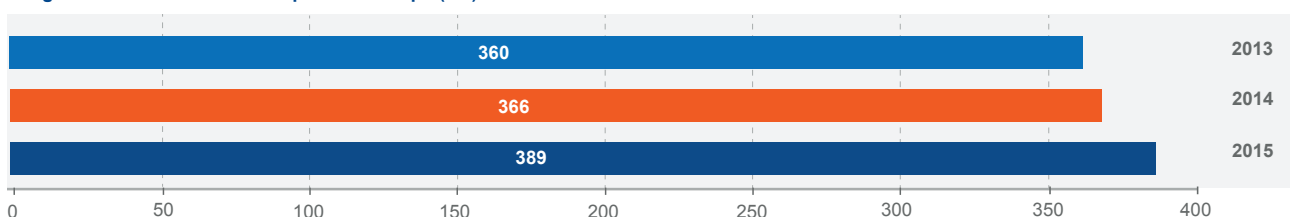
SŽDC is one of the largest employers in the Czech Republic. Due to this, SŽDC is committed to corporate social responsibility (CSR) vis-à-vis its employees and the general public. It develops its activities in social, economic and environmental areas. As part of its internal programmes, SŽDC creates conditions for the personal and professional development of its employees, and cooperates with partner entities from the transportation sector as well as with secondary schools and universities specialising in subjects relating to transportation.

Cooperation with schools

In 2015, SŽDC continued and developed its cooperation with selected technical and business secondary schools and universities, whose graduates may find employment with SŽDC in the future. This cooperation gives students the opportunity of on-the-job training under the supervision of experienced professionals. In addition, SŽDC's employees give lectures and teach certain technical subjects, define topics for students' theses, and attend professional conferences organised by partner schools. For more information on SŽDC's cooperation with schools, including a list of cooperating schools and student events, visit www.szdc.cz/studenti.



Length of lines with maximum speed of 160 kph (km)



Preventive Train

2015 again saw the continuation of a joint project of ČD, SŽDC, the Police of the Czech Republic and ČD Cargo, which is aimed at primary and secondary school students. Its goal is to use films and discussions with professionals dealing with railway accidents to raise public awareness of the main risks of inappropriate railway and train behaviour. This time, the Preventive Train visited the Vysočina Region and the Capital City of Prague.

Student Cup

In 2015, the third year of the project, which focuses mainly on 8th and 9th grade primary school pupils, was organised in three cities, namely in Prague, Brno and Hradec Králové. At these events, SŽDC presented selected railway professions and highlighted the issue of safety at level crossings. In addition, partner schools and their programmes related to SŽDC's activities were presented to the pupils.

Student conference

In 2015 SŽDC held the second interactive conference aimed at secondary school and university students specialising in technical subjects who wish to get actively involved in the development of Czech railways. The purpose of this year's event was to present the latest news in regional rail transport and familiarise students with job opportunities at SŽDC and other partner organisations. Professional lectures were supplemented with discussions that students could join actively via a web interface.

The SŽDC Team

In 2015, SŽDC continued in an internal communication project, entitled the SŽDC Team, whose purpose is to increase employee engagement, connect individual employees and professions, and develop the ability to communicate and cooperate within the organisation beyond the call of duty. It helps the employees to be proud of the SŽDC brand. People voluntarily participate in a knowledge quiz and internal communication via discussions with members of management or colleagues. Through activities such as the posting of messages, comments, pictures or videos, motivate their colleagues to get involved and share their own story as well. An electronic version of the in-house bulletin My Railways (Moje železnice) can also be found here.

Environment

SŽDC is fully aware of its environmental role. In 2015, it continued in the commenced trend of eliminating potentially dangerous trees, which could, primarily in case of falls, threaten the safety of rail transport and impede traffic. These usually include non-indigenous species of low environmental and aesthetical value. Having successfully completed a pilot project involving the replacement of unsuitable vegetation along selected track sections in the Vysočina Region, a project of similar character was carried out on several track sections in the Karlovy Vary Region. The goal was to increase the stability of embankments, support biodiversity and reduce the risk of snow covering the tracks in winter.

2015 was also defined by implementing the project of placing new waste bins for waste separation to a number of railway stations and stops. The effort to effectively utilise the funds from the technical assistance of the Operational Programme Environment 2007-2013 and the subsequent cooperation of the Ministry of the Environment of the Czech Republic with SŽDC, ČD and the Czech National Disability Council resulted in a mutual project. More than a thousand new waste bins appropriately draw attention to activities connected with the support and promotion of the above operational programme, but most importantly, they provide passengers with a new possibility to separate waste produced while travelling by train on a greater scale. In looking for a producer of the bins, the condition was set for the future supplier to employ a certain portion of disabled people.



87%

The observance
of passenger transport

7.

Financial section

Správa železniční dopravní cesty,
státní organizace

Content of financial section

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Independent auditor's report to the institutor of Správa železniční dopravní cesty, státní organizace

We have audited the accompanying financial statements of Správa železniční dopravní cesty, státní organizace, prepared in accordance with Czech accounting legislation, which comprise the balance sheet as of 31 December 2015, 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, 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 about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Správa železniční dopravní cesty, státní organizace as at 31 December 2015 and of its financial performance for the year then ended in accordance with Czech accounting legislation.



Emphasis of matter

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

Going concern basis

As stated in note 7.2 to the financial statements, Správa železniční dopravní cesty, státní organizace provides carriers with railway infrastructure for use in the public interest for an officially determined price which is set in compliance with Pricing Act No. 526/1990 Coll. The proceeds from payments for the use of the railway infrastructure are not sufficient to offset the costs involved in operating, maintaining and developing the railway infrastructure in 2016 and the repayment of bank loans balances as at 31 December 2015. As such, the financing of Správa železniční dopravní cesty, státní organizace activities is dependent upon subsidies from the state and/or other entities. These conditions indicate the existence of a material uncertainty that may cast doubt on the Company's ability to continue as a going concern. For 2016, Správa železniční dopravní cesty, státní organizace has contractually ensured funding of TCZK 43 498 706 from the State Fund of Transport Infrastructure for investment and non-investment activities and TCZK 550 000 from the Ministry of Transport for non-investment activities. These funds should enable the Company to provide its activities within the same scope as in 2014. Hence, Správa železniční dopravní cesty, státní organizace will continue as a going concern and therefore the financial statements do not include adjustments to the valuation and classification of assets and liabilities that would be necessary if the Company was unable to continue as a going concern. Our opinion is not qualified in respect of this matter.

The Transformation Act

As stated in note 7.1 to the financial statements, for the purpose of preparation of the opening balance sheet as at 1 January 2003 it was required that the management of Správa železniční dopravní cesty, státní organizace applied, based on the Transformation Act, the general principles of division of the assets and liabilities of České dráhy, státní organizace (Czech Railways, a state organisation) to individual items or performed some estimates, or used certain assumptions 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 therefore cannot be excluded that in the future some of these alternative interpretations may be considered better suitable. The alternative interpretations may concern primarily the presentation of tangible fixed assets and the sources of their funding in the balance sheet. Our opinion is not qualified in respect of this matter.

Settlement of bank liabilities and debt remission

As stated in note 7.1 to the financial statements, most liabilities of České dráhy, státní organizace were transferred to Správa železniční dopravní cesty, státní organizace as of 1 January 2003. As further stated in notes 3.14 and 4.12.2 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 instalment plans. Once settled, they are transferred to long-term payables to the state and are subject to debt remission. Net financial income from the 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 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 2015, payables totalling CZK 1.73 billion (CZK 2.09 billion in 2014) were waived and this amount was recorded as part of other operating revenues. The Czech Republic is liable for the liabilities of Správa železniční dopravní cesty, státní organizace. Our opinion is not qualified in respect of this matter.



Tangible fixed assets under construction acquired from subsidies

As stated in notes 4.2.1 and 3.10 to the financial statements, Správa železniční dopravní cesty, státní organizace recognised assets with a net book value of CZK 1.65 billion in tangible fixed assets under construction. This item also includes tangible fixed assets under construction acquired from subsidies, costing CZK 1.25 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 the entitlement to subsidies to tangible assets under construction as at the reporting date as an incontestable entitlement to the subsidy arises only upon its use for payment of supplier invoices. Until that moment the funds still belong to the provider. Our opinion is not qualified in respect of this matter.

Other Information

Other information is defined as information (other than the financial statements and our auditor's report) included in the annual report. The statutory body is responsible for the other information.

Our opinion on the financial statements of Správa železniční dopravní cesty, státní organizace as of 31 December 2015 does not cover the other information and we do not express any form of opinion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information included in the annual report is not materially inconsistent with the financial statements or our knowledge obtained in the audit, whether the annual report has been prepared in accordance with applicable legislation and whether such information otherwise does not appear to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Prague
25 May 2016

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

Otakar Hora
Partner
Registration number 1197

Financial statements

Správa železniční dopravní cesty,
státní organizace

Name and regist. office of the company:

Správa železniční dopravní cesty, státní organizace
 Dlážďená 1003/7, 110 00 Praha 1 – Nové Město
 Czech Republic

Identification number: 709 94 234

Balance sheet in full format

as at 31 December 2015

Ident.	Assets	line	Current period			Prior period
			Gross	Adjust.	Net	Net
	TOTAL ASSETS (L. 02+03+31+63)	001	178,871,562	-106,530,459	72,341,103	73,865,780
A.	Receivables for subscribed registered capital	002				
B.	Fixed assets (L. 04+13+23)	003	172,914,082	-106,016,431	66,897,651	70,448,915
B.I.	Intangible fixed assets (L. 05 to 12)	004	695,778	-496,799	198,979	158,944
B.I.1.	Incorporation expenses	005				
2.	Research and development	006				
3.	Software	007	682,858	-492,893	189,965	116,263
4.	Intellectual property rights	008				
5.	Goodwill	009				
6.	Other intangible fixed assets	010	5,032	-3,906	1,126	1,266
7.	Intangible fixed assets under construction	011	7,442		7,442	40,969
8.	Advance payments for intangible fixed assets	012	446		446	446
B.II.	Tangible fixed assets (L. 14 to 22)	013	172,218,304	-105,519,632	66,698,672	70,289,971
B.II.1.	Land	014	6,560,360	-6,906	6,553,454	6,552,424
2.	Buildings	015	134,154,935	-86,086,067	48,068,868	50,597,843
3.	Plant and equipment	016	20,214,234	-15,269,447	4,944,787	5,279,044
4.	Cultivated areas	017				
5.	Adult livestock	018				
6.	Other tangible fixed assets	019	1,514	-140	1,374	887
7.	Tangible fixed assets under construction	020	1,647,271	-59,710	1,587,561	2,835,916
8.	Advance payments for tangible fixed assets	021	1,280,756		1,280,756	204,703
9.	Adjustments to acquired fixed assets	022	8,359,234	-4,097,362	4,261,872	4,819,154
B.III.	Long-term investments (L. 24 to 30)	023				
B.III.1.	Equity investments – subsidiaries	024				
2.	Equity investments – associated companies	025				
3.	Other long-term securities and ownership interests	026				
4.	Loans – group undertakings, associated companies	027				
5.	Other long-term investments	028				
6.	Long-term investments (provisional value)	029				
7.	Advance payments for long-term investments	030				

Ident.	Assets	line	Current period			Prior period
			Gross	Adjust.	Net	Net
C.	Current assets (L. 32+39+48+58)	031	5,674,349	-514,028	5,160,321	3,384,828
C.I.	Inventories (L. 33 to 38)	032	732,968	-17,923	715,045	371,479
C.I.1.	Raw materials	033	732,504	-17,923	714,581	371,064
2.	Work-in-progress and semi-finished products	034	217		217	342
3.	Finished goods	035				
4.	Young and other livestock	036				
5.	Goods for resale	037	5		5	6
6.	Advance payments for inventories	038	242		242	67
C.II.	Long-term receivables (L. 40 to 47)	039	281,651		281,651	75,977
C.II.1.	Trade receivables	040	279,603		279,603	74,351
2.	Receivables – group undertakings	041				
3.	Receivables – associated companies	042				
4.	Receivables from shareholders/members	043				
5.	Long-term advances paid	044	2,015		2,015	1,626
6.	Estimated receivables	045				
7.	Other receivables	046	33		33	
8.	Deferred tax asset	047				
C.III.	Short-term receivables (L. 49 to 57)	048	3,864,462	-496,105	3,368,357	2,032,205
C.III.1.	Trade receivables	049	2,100,789	-427,053	1,673,736	1,488,263
2.	Receivables – group undertakings	050				
3.	Receivables – associated companies	051				
4.	Receivables from shareholders/members	052				
5.	Social security and health insurance	053				
6.	Tax receivables	054	155,518		155,518	223,312
7.	Short-term advances paid	055	1,247,453		1,247,453	131,494
8.	Estimated receivables	056	260,313		260,313	174,248
9.	Other receivables	057	100,389	-69,052	31,337	14,888
C.IV.	Short-term financial assets (L. 59 to 62)	058	795,268		795,268	905,167
C.IV.1.	Cash	059	2,148		2,148	2,547
2.	Bank accounts	060	793,120		793,120	902,620
3.	Short-term securities and ownership interests	061				
4.	Short-term investments (provisional value)	062				
D.I.	Deferrals (L. 64+65+66)	063	283,131		283,131	32,037
D.I.1.	Prepaid expenses	064	9,510		9,510	31,462
2.	Complex prepaid expenses	065				
3.	Accrued revenues	066	273,621		273,621	575

Ident.	Liabilities	line	Current period	Prior period
	TOTAL LIABILITIES AND EQUITY (L. 68+89+122)	067	72,341,103	73,865,780
A.	Equity (L. 69+73+80+83+87+88)	068	54,436,631	55,432,059
A.I.	Registered capital (L. 70+71+72)	069	54,041,664	54,025,970
A.I.1.	Registered capital	070	54,041,664	54,025,970
2.	Own shares and ownership interests (-)	071		
3.	Changes in registered capital	072		
A.II.	Capital contributions (L. 74 to 79)	073	1,166,447	997,065
A.II.1.	Premium	074		
2.	Other capital contributions	075	1,166,447	997,065
3.	Revaluation of assets and liabilities	076		
4.	Revaluation reserve on transformations	077		
5.	Differences resulting from transformations	078		
6.	Change in revaluation reserve on transformations	079		
A.III.	Funds from profit (L. 81+82)	080	291,270	847,084
A.III.1.	Reserve fund	081	291,270	840,852
2.	Statutory and other funds	082		6,232
A.IV.	Retained earnings (L. 84+85+86)	083	-6,967	1,926,058
A.IV.1.	Retained profits	084		1,932,431
2.	Accumulated losses	085		
3.	Other retained earnings	086	-6,967	-6,373
A.V.1.	Profit (loss) for the current period (+/-)	087	-1,055,783	-2,364,118
A.V.2.	Approved advance profit distribution (-)	088		
B.	Liabilities (L. 90+95+106+118)	089	16,510,554	18,277,154
B.I.	Provisions (L. 91 to 94)	090	2,013,976	2,532,802
B.I.1.	Tax-deductible provisions	091		
2.	Provision for pensions and other similar payables	092		
3.	Income tax provision	093		
4.	Other provisions	094	2,013,976	2,532,802
B.II.	Long-term liabilities (L. 96 to 105)	095	4,244,732	5,101,911
B.II.1.	Trade payables	096	40,407	564,620
2.	Liabilities – group undertakings	097		
3.	Liabilities – associated companies	098		
4.	Liabilities to shareholders/members	099		
5.	Long-term advances received	100		
6.	Debentures and bonds issued	101		
7.	Long-term bills of exchange payable	102		
8.	Estimated payables	103		
9.	Other payables	104	685,144	1,018,110
10.	Deferred tax liability	105	3,519,181	3,519,181

Ident.	Liabilities	line	Current period	Prior period
B.III.	Short-term liabilities (L. 107 to 117)	106	4,833,711	4,391,699
B.III.1.	Trade payables	107	2,219,962	2,684,079
2.	Liabilities - group undertakings	108		
3.	Liabilities - associated companies	109		
4.	Liabilities to shareholders/members	110		
5.	Payables to employees	111	507,441	442,918
6.	Social security and health insurance liabilities	112	276,100	234,735
7.	Tax liabilities and subsidies	113	1,347,825	537,161
8.	Short-term advances received	114	126,529	103,448
9.	Debentures and bonds issued	115		
10.	Estimated payables	116	355,548	389,028
11.	Other payables	117	306	330
B.IV.	Bank loans and overdrafts (L. 119 to 121)	118	5,418,135	6,250,742
B.IV.1.	Long-term bank loans	119	3,222,317	4,749,517
2.	Short-term bank loans	120	2,195,818	1,501,225
3.	Short-term financial liabilities	121		
C.I.	Accruals (L. 123+124)	122	1,393,918	156,567
C.I.1.	Accrued expenses	123	57,420	82,376
2.	Deferred revenues	124	1,336,498	74,191

Name and regist. office of the company:

Správa železniční dopravní cesty, státní organizace
Dlážděná 1003/7, 110 00 Praha 1 – Nové Město
Czech Republic

Identification number: 709 94 234

Income statement

for the year ended 31 December 2015

Ident.	Line	Current period	Prior period
I.	Revenue from goods	2	3
A.	Cost of goods sold	2	2
+	Gross profit (L. 01-02)	03	1
II.	Revenue from production (L. 05+06+07)	7,063,597	6,919,028
II.1.	Revenue from own products and services	6,649,848	6,592,766
II.2.	Change in inventory of own production	-125	303
II.3.	Own work capitalised	413,874	325,959
B.	Cost of sales (L. 09+10)	16,512,617	11,357,933
B.1.	Materials and consumables	2,771,008	2,680,503
B.2.	Services	13,741,609	8,677,430
+	Added value (L. 03+04-08)	-9,449,020	-4,438,904
C.	Personnel expenses (L. 13 to 16)	8,982,343	8,459,703
C.1.	Wages and salaries	6,387,795	6,004,242
C.2.	Remuneration of board members	1,794	2,656
C.3.	Social security and health insurance expenses	2,143,300	2,014,853
C.4.	Social expenses	449,454	437,952
D.	Taxes and charges	89,059	38,356
E.	Depreciation of intangible and tangible fixed assets	4,063,803	4,131,548
III.	Proceeds from disposals of fixed assets and raw material (L. 20+21)	354,586	259,826
III.1	Proceeds from disposals of fixed assets	23,885	19,090
III.2	Proceeds from disposals of raw material	330,701	240,736
F.	Net book value of fixed assets and raw material sold (L. 23+24)	334,576	248,489
F.1.	Net book value of fixed assets sold	4,605	7,966
F.2.	Raw materials sold	329,971	240,523
G.	Change in provisions and adjustments relating to operating activity and change in complex prepaid expenses	-860,744	222,682
IV.	Other operating revenues	22,477,242	15,419,406
H.	Other operating expenses	1,725,645	172,499
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)	-951,874	-2,032,949

Ident.	Line	Current period	Prior period
VI.	Proceeds from sale of securities and ownership interests	31	
J.	Securities and ownership interests sold	32	
VII.	Revenue from long-term investments (L. 34+35+36)	33	
VII.1.	Revenue from investments in group undertakings and associated companies	34	
VII.2.	Revenue from other long-term securities and ownership interests	35	
VII.3.	Revenue from other long-term investments	36	
VIII.	Revenue from short-term financial investments	37	
K.	Financial assets expenses	38	
IX.	Revenue from revaluation of securities and derivatives	39	
L.	Expenses for revaluation of securities and derivatives	40	
M.	Change in provisions and adjustments relating to financial activity	41	
X.	Interest revenue	42	891
N.	Interest expense	43	194,888
XI.	Other financial revenues	44	96,914
O.	Other financial expenses	45	6,826
XII.	Transfer of financial revenues	46	
P.	Transfer of financial expenses	47	
*	Profit (loss) from financial operations (L. 31-32+33+37-38+39-40-41+42-43+44-45+46-47)	48	-103,909
Q.	Income tax on ordinary profit (loss) (L. 50+51)	49	4,999
Q.1.	– current	50	
Q.2.	– deferred	51	4,999
**	Profit (loss) on ordinary activities after tax (L. 30+48-49)	52	-1,055,783
XIII.	Extraordinary revenues	53	
R.	Extraordinary expenses	54	
S.	Income tax on extraordinary profit (loss) (L. 56+57)	55	
S.1.	– current	56	
S.2.	– deferred	57	
*	Extraordinary profit (loss) (L. 52+58-59)	58	
T.	Transfer of profit or loss to shareholders/members	59	
***	Profit (loss) for the accounting period	60	-1,055,783
****	Profit (loss) before tax (L. 30+48+53-54)	61	-1,055,783

Notes to the financial statements

Správa železniční dopravní cesty,
státní organizace

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General Information

1.1. General information

Správa železniční dopravní cesty, státní organizace ("SŽDC" or "the Organisation") 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 Dlážděná 1003/7, Prague 1 - Nové Město, postcode 110 00.

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

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

The financial statements of SŽDC for 2015 have been prepared as at 31 December 2015.

These notes have been prepared for the period starting 1 January 2015 and ending 31 December 2015 and include significant events which occurred after this date as well as significant changes as of the date of SŽDC's registration.

1.2. Principal activities

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

Throughout 2015 the operation of the railway infrastructure was ensured by SŽDC's internal capacities.

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

SŽDC generates additional major revenues from grants, which are used to cover expenditure related to modernisation and development, and to some extent maintenance, as discussed in note 3.10.

SŽDC also administers the assets and liabilities set out in Sections 20 and 38a of the Transformation Act. In addition to assets relating to the railway infrastructure, these principally involve assumed receivables and payables, including the loans of ČD, s.o., and the assets specified in the Appendix to the Act that had been administered by the Czech Ministry of Transport until 30 June 2004. The assumed payables are the subject of debt remission (refer to note 3.14.).

On 30 May 2007, having complied with all the requirements arising from Act No. 458/2000 Coll., the Energy Act, as amended, SŽDC was granted a licence for electricity distribution by the Energy Regulatory Office in Jihlava.

SŽDC began conducting this activity on 1 July 2007. On 3 December 2007 SŽDC also received a licence for electricity trading. This activity was started on 1 January 2008.

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

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

1.3. SŽDC's organisational structure and bodies

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

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

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

The members of the SŽDC's management as at 31 December 2015 were:

Name	Position	Date
Pavel Surý	Director General	since 1 Jun 2014
Bohuslav Navrátil	Deputy Director General	since 11 Feb 2004
Aleš Krejčí	Assistant Director General for Finance	since 1 Jun 2012
Mojmír Nejezchleb	Assistant Director General for Rail Modernisation	since 1 Jul 2013
Bohuslav Navrátil	Assistant Director General for Rail Operability	since 1 Jun 2012
Josef Hendrych	Assistant Director General for Traffic Control	since 1 Aug 2014
Tomáš Drmola	Assistant Director General for Asset Management	since 1 Nov 2014

The members of the Management Board as at 31 December 2015 were:

Name	Position	Date
Vladimír Novotný	Chairman	since 25 March 2014
Milan Feranec	Vice-chairman	since 30 Apr 2014
Tomáš Čoček	Member	since 17 March 2015
Jaroslav Foldyna	Member	since 25 March 2014
Václav Horák	Member	since 25 March 2014
Karel Korytář	Member	since 25 March 2014
Jan Volný	Member	since 25 March 2014

The members of the Audit Committee as at 31 December 2015 were:

Name	Position	Date
Milan Feranec	Chairman	since 29 May 2015
Václav Horák	Member	since 1 June 2014
Vladimír Novotný	Member	since 1 June 2014

The members of the Strategy and Development Committee as at 31 December 2015 were:

Name	Position	Date
Václav Horák	Chairman	since 1 June 2014
Jan Volný	Member	since 1 June 2014
Karel Korytář	Member	since 1 June 2014

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

1.4. Changes in the Commercial Register

No changes were recorded in the Commercial Register in 2015.

1.5. SŽDC's organisational structure as at 31 December 2015

The following chart shows the organisational structure of SŽDC as at 31 December 2015:



2.

Accounting Policies and General Accounting Principles

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

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

3.

Significant Accounting Policies and Procedures

3.1. Tangible and intangible fixed assets

SŽDC administers state assets pursuant to the Transformation Act.

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

Purchased fixed assets are stated at cost.

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

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

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

Plant and equipment costing up to TCZK 40 and intangible assets costing up to TCZK 40 are expensed at the date of acquisition and further maintained in off-balance sheet records, except for vehicles marked with a registration sign and, based on individual assessment, significant assets for which SŽDC is not the first user and which have a significant original acquisition cost (e.g. assets acquired through the purchase of a part of a business). Additional easements established over third-party property have been recorded since 2014 as other tangible fixed assets, irrespective of their cost.

Technical improvements totalling more than TCZK 40 in respect of an asset for the period increases the cost of that fixed asset.

Assets identified during a fixed asset count that have not been previously included in the accounting records as well as received gifts are measured at replacement cost. When the competence for state assets management is changed free of charge, the valuation of assets follows the valuation in the accounts of the accounting entity which is transferring the competence.

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

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

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

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

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

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

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

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

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

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

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 prefabricated components, uniforms, personal protective equipment, solid fuels, fuels, electrical materials, safety installations, sleepers and other operating materials.

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

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

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

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

3.3. Receivables

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

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

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

3.4. Payables

Upon origination, payables are stated at their nominal value.

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

3.5. Loans and long-term payables

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

Any part of long-term loans and payables that is due within one year of the reporting date is included in short-term loans and payables, except as disclosed in note 4.12.2.

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

3.6. Equity

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

On 1 July 2004, the assets specified in the Appendix to the Transformation Act, which were transferred from the Ministry of Transport of the Czech Republic to SŽDC, were recorded in the registered capital account. In addition, subsidies granted by the Ministry of Transport for the purchase of parts of business from ČD as at 1 July 2004 were also recorded in the registered capital account. Changes in registered capital are recorded in respect of transfers of land to the Land Fund of the Czech Republic, free-of-charge transfers of assets, privatisation (refer to note 3.15.), corrections of accounting errors in the register of land by matching them with the Real Estate Cadastre, or in respect of additional refinements made to the scope and value of assets and liabilities taken over by SŽDC as at 1 January 2003.

SŽDC contributes to the reserve fund when profit is generated.

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

3.7. Provisions

SŽDC establishes provisions for: litigations; compensation for work injuries and occupational diseases (also for former employees of ČD, s.o.); extra pension payments to former employees of ČD, s.o.; severance pay associated with a loss of employees' work capability; severance pay provided to employees on legal grounds; unpaid payroll expenses and other personnel expenses; damages and potential penalties; and budget discipline violations.

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

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

A provision for unpaid payroll expenses and other personnel expenses comprises unpaid salaries estimated to be paid to the management primarily based on the assessment using key performance indicators.

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

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

3.8. Foreign currency transactions

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

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

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

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

3.9. Income tax

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

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

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

3.10. Grants

SŽDC receives grants in accordance with applicable Czech legislation.

Non-investment grants primarily comprise grants from the State Fund for Transport Infrastructure ("SFTI") and from the state budget of the Czech Republic. These grants are intended to cover expenses related to ensuring the operability and operation of the railway infrastructure. Non-investment grants are credited to other operating revenues, observing the matching and accrual principle of expenses, for the payment of which they have been provided. In 2015, SŽDC received also non-investment grants from EU funds.

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 SFTI, EU and the state budget. Investment grants are accounted for as a reduction in the cost of the respective fixed asset(s). SŽDC does not account for an entitlement to a grant as a receivable from the grant provider.

SŽDC records assets under construction until the moment the investment grant is received. After the grant has been received and payments to suppliers made, the cost of the fixed asset under construction is reduced by the grant and the asset is further recorded off balance sheet. An undisputable entitlement to a grant only arises upon utilising the funds granted and billing them to the provider. Until utilised and billed, the funds belong to the provider.

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

3.11. Revenues

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

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

3.12. Use of estimates

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

3.13. Change in accounting policies

No changes were made to accounting policies in 2015.

3.14. Debt remission

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

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

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

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 dated 30 November 2005.

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

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

3.15. Privatisation

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

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

In 2015 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 7.4.

3.16. Sale of assets

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

3.17. Lease of assets

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

4.

Additional Information on the Balance Sheet and Income Statement

4.1. Intangible fixed assets

	Other intangible fixed assets	Intangible fixed assets under construction	Advances paid	Software	Total
Acquisition cost					
Balance at 1/1/2015	4,489	40,969	446	519,629	565,533
Additions	500	2,781	66	146,843	150,190
Disposals	–	–	-66	–	-66
Transfers to off balance sheet	–	-19,879	–	–	-19,879
Transfers	43	-16,429	–	16,386	–
Balance at 31/12/2015	5,032	7,442	446	682,858	695,778
Accumulated depreciation					
Balance at 1/1/2015	3,223	–	–	403,366	406,589
Depreciation expense	683	–	–	89,527	90,210
Disposals	–	–	–	–	–
Transfers	–	–	–	–	–
Balance at 31/12/2015	3,906	–	–	492,893	496,799
Net book value 1/1/2015	1,266	40,969	446	116,263	158,944
Net book value 31/12/2015	1,126	7,442	446	189,965	198,979

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

4.2. Tangible fixed assets

4.2.1. Continuity schedule in tangible fixed assets

	Land	Constructions	Machinery and equipment	Motor vehicles	Adjustment to acquired fixed assets	Tangible fixed assets under construction	Other tangible fixed assets	Advances paid	Total
Acquisition cost									
Balance at 1/1/2015	6,559,072	135,060,052	19,292,785	865,569	8,359,234	2,902,361	913	204,703	173,244,689
Additions	8,871	169,074	159,046	174,060	–	25,887,651	600	3,193,802	29,593,104
Disposals	-7,599	-1,134,461	-348,842	-22,169	–	-1,388	–	-2,117,749	-3,632,208
Transfers to off balance sheet	–	–	–	–	–	-26,987,281	–	–	-26,987,281
Transfers	16	60,270	87,025	6,760	–	-154,072	1	–	–
Balance at 31/12/2015	6,560,360	134,154,935	19,190,014	1,024,220	8,359,234	1,647,271	1,514	1,280,756	172,218,304
Accumulated depreciation									
Balance at 1/1/2015	–	84,324,967	14,343,178	534,136	3,540,080	–	26	–	102,742,387
Depreciation expense [1]	–	2,690,482	662,967	62,748	557,282	–	114	–	3,973,593
Other additions [2]	–	8,081	12,584	3,598	–	–	–	–	24,263
Disposals	–	-1,034,095	-328,470	-21,530	–	–	–	–	-1,384,095
Transfers	–	-131	358	-227	–	–	–	–	–
Balance at 31/12/2015	–	85,989,304	14,690,617	578,725	4,097,362	–	140	–	105,356,148
Adjustments									
Balance at 1/1/2015	6,648	137,242	1,821	175	–	66,445	–	–	212,331
Change in adjustments	258	-40,479	-1,776	-115	–	-6,735	–	–	-48,847
Balance at 31/12/2015	6,906	96,763	45	60	–	59,710	–	–	163,484
Net book value 1/1/2015	6,552,424	50,597,843	4,947,786	331,258	4,819,154	2,835,916	887	204,703	70,289,971
Net book value 31/12/2015	6,553,454	48,068,868	4,499,352	445,435	4,261,872	1,587,561	1,374	1,280,756	66,698,672

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

[2] Additions which arose differently than through depreciation expense, i.e. additions as a result of allocating assets or additions created due to a free-of-charge transfer of assets.

A major addition to tangible fixed assets put into use in 2015 includes free-of-charge asset transfers at a replacement cost of TCZK 161,841. These include for example relocations of SŽDC's cable networks and modifications of safety installations at level crossings from ČEPS, a.s., construction sites of RI as part of the induced investment "Otrokovice – entry in the industrial area Toma a.s., intersecting the railway line" from the City of Otrokovice and the reconstruction of the safety installation on the Sednice – Příbor line, where ČEZ Distribuce was the investor.

The most important tangible asset disposals in 2015 include the liquidation of assets as a result of new constructions related to the modernisation of railway corridors with an acquisition cost of TCZK 1,342,359 and net book value of TCZK 120,581 and the sale of assets with an acquisition cost of TCZK 12,940 and net book value of TCZK 4,605.

As at 31 December 2015 the Organisation records tangible fixed assets under construction of TCZK 1,587,561. This item also comprises tangible fixed assets under construction acquired as part of grants, with an acquisition cost of CZK 1.25 billion.

The balance of tangible assets under construction mainly represents the construction of railway corridors (as described in note 6.4.), and the construction works to modernise and renovate the railway infrastructure incomplete as at 31 December 2015. For example, this concerns the modernisation of the Ševětín – Veselý nad Lužnicí line, the renovation of the Olomouc railway station, and the modernisation of the Prague–Běchovice – Úvaly line.

Additions to tangible assets under construction predominantly include the acquisition cost of railway corridors and construction works to modernise and renovate the railway infrastructure in 2015 where the grant used to finance the constructions has not been accounted for before 31 December 2015. Transfers to off-balance sheet are made once the investment grant that decreases the asset's acquisition cost is recorded. In 2015, subsidised tangible and intangible assets totalling TCZK 27,007,160 (2014 – TCZK 11,503,766) were included in the off balance sheet records.

Based on the update of the Methodological Instruction for Recipients of the Subsidy from the Operational Programme Transport (2007 – 2013) for Call 1, SŽDC, as the recipient of subsidies, was allowed to use, in respect of payment requests, invoices for advance payment, the amount of which corresponds with the expected invoicing for the payment of expenses that will arise at the beginning of 2016. Advances created this way which were utilised in 2015 for the acquisition of investments connected primarily with construction parts related to the modernisation and reconstruction of railway infrastructure are reported in advances for the acquisition of tangible fixed assets and total TCZK 1,280,756 as at 31 December 2015. The advances will be utilised during 2016.

4.2.2. Investment grants

Investment grants received in 2014 and 2015 were as follows:

	1/1 – 31/12/2014	1/1 – 31/12/2015
SFTI for construction and modernisation, state share, OPT, EIB	12,376,110	31,096,926
Pre-financing	67,744	143,240
Total investment grants from SFTI including pre-financing	12,443,854	31,240,166
EU funds	202,787	139,635
Contributions from cities, municipalities, regions and other entities	–	28,319
State Environmental Fund	2,668	5,041
Total investment grants	12,649,309	31,413,161

Grants from SFTI for construction and modernisation include funds from the Operational Programme Transport (“OPT”) and grants from SFTI for projects financed from national sources. The European share pre-finances SFTI and at the same time, it partly participates in financing. In connection with the completion of OPT1 programme, a higher amount of subsidies from SFTI totalling TCZK 31,240,166 was drawn in 2015. Funds from the Operational Programme Transport of TCZK 24,259,522 were provided in 2015 and of TCZK 6,553,495 in 2014. In 2015, grants received from SFTI in form of pre-financing amounted to TCZK 143,240 in 2015 and TCZK 67,744 in 2014.

EU funds totalling TCZK 139,635 include a subsidy for OPE of TCZK 85,690 and a subsidy for technical assistance of OPT of TCZK 53,945.

4.2.3. Assets not recorded in the balance sheet

The amount of fixed assets financed from grants and other sources recorded off-balance sheet is TCZK 195,762,067 and TCZK 169,133,580 as at 31 December 2015 and 31 December 2014, respectively.

The aggregate amount of low-value tangible assets not reported in the balance sheet is TCZK 896,019 and TCZK 808,450 as at 31 December 2015 and 31 December 2014, respectively. These balances are composed of assets with a cost not exceeding TCZK 40 which are retained in the off balance sheet records at historical cost. These balances were recognised in expenses when acquired in accordance with the effective legislation.

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

	Software	Other intangible assets	Intangible assets under construction	Land	Constructions	Machinery and equipment	Motor vehicles	Tangible assets under construction	Total
Acquisition cost									
Balance at 1/1/2015	42,920	25,678	4,064	617,347	100,776,478	27,364,738	337,428	39,964,927	169,133,580
Additions (Transfers from the balance sheet)	–	–	19,879	–	–	–	–	26,987,281	27,007,160
Disposals	–	–	-4	-43	-79,770	-57,929	–	-240,927	-378,673
Transfers (including putting in use)	24,344	113	-20,408	93,160	9,351,998	2,510,109	21,444	-11,980,760	–
Balance at 31/12/2015	67,264	25,791	3,531	710,464	110,048,706	29,816,918	358,872	54,730,521	195,762,067

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.

In 2015, major additions to tangible assets under construction represent constructions such as “Modernisation of the Prague-Běchovice – Úvaly track section”, “Optimisation of the Prague-Hostivař – Prague Main Station track section, part I – Prague-Hostivař Railway Station”, “Modernisation of the Rokycany – Pilsen line”, “Revitalisation of the České Budějovice – Volary line”, “Reconstruction of the Klatovy – Železná Ruda line”, “Reconstruction of Olomouc Railway Station”, “Optimisation of the Bystřice nad Olší Český Těšín line – part 2 Český Těšín Railway Station.

In 2015, major disposal of tangible assets under construction in the off-balance sheet represents the liquidation of constructions due to new construction works.

4.2.5. Pledged assets

SŽDC held no pledged assets as at 31 December 2015 and 31 December 2014.

4.2.6. Assets held under finance and operating leases

In 2015, no new fixed assets were acquired by SŽDC through lease. As at 31 December 2015, SŽDC reports fixed assets acquired on an operating lease or leaseback basis in the aggregate acquisition cost of TCZK 418,109, which is the same amount as at 31 December 2014. Operating lease contracts are used for leasing cars and leaseback arrangements for leasing low-value rolling stock (motor all-purpose trolleys) used to repair and maintain the railway infrastructure.

4.2.7. Assets acquired free of charge

In 2015, SŽDC acquired free of charge tangible fixed assets at the replacement cost of TCZK 155,980 (2014 – TCZK 51,044), in form of delimitations of TCZK 5,861 and it acquired fixed assets by donation at the replacement acquisition cost of TCZK 4 (2014 – TCZK 13,201) and low-value tangible assets at the replacement acquisition cost of TCZK 11,411 (2014 – TCZK 0). This came to a total of TCZK 173,256 for 2015. Over its entire existence, SŽDC has acquired fixed assets free of charge or by donation, the balance of which is TCZK 2,844,123 (2014 – TCZK 2,670,867). Assets acquired free of charge and by donation include assets recorded within tangible fixed assets and low-value tangible 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, ČEZ Distribution 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

	Balance at 31/12/2014	Balance at 31/12/2015
Material in stock	390,994	732,437
Material in transit	60	67
Work in progress	342	217
Goods in stock	6	5
Advances paid for inventory	67	242
Adjustment to inventory	-19,990	-17,923
Total inventory	371,479	715,045

The increase in acquired material (material in stock) was created by purchasing material from Klement a.s. based on an agreement to terminate the contract for construction work done of TCZK 159,136. Another increase of TCZK 107,223 occurred at the Regional Directorate in Prague and this concerned cancelled projects or projects postponed until 2016.

Adjustments of TCZK 17,923 were established for certain types of materials at the Regional Directorates in Olomouc and Hradec Králové stored in superstructure material centres in Hranice na Moravě and Hradec Králové primarily in respect of idle inventories and the relevant spare parts of switches.

4.4. Long-term receivables – trade receivables

	Balance at 31/12/2014	Balance at 31/12/2015
Long-term receivables before due date	74,351	279,603
Total	74,351	279,603

The increase in long-term receivables is caused by transfers of a receivable from ČD Cargo in the amount of TCZK 186,694 in respect of contracted, but unpaid electricity after implementing an amicable agreement concluded in 2015.

4.5. Short-term receivables

4.5.1. Trade receivables

	Balance at 31/12/2014	Balance at 31/12/2015
Short-term receivables before due date	1,351,507	1,209,214
Short-term receivables past due date	851,149	891,575
Total	2,202,656	2,100,789

As at 31 December 2015, an adjustment for doubtful receivables amounted to TCZK 427,053 (2014 – TCZK 714,393).

A significant amount of receivables before and past their due date include receivables from ČD and ČD Cargo for using the infrastructure and communication technologies and a receivable from ČD Telematika arising from Appendix No. 2 to the Contract on Operating a High Capacity Transmission Telecommunication Network.

The total amount of receivables more than five years overdue as at the balance sheet date is TCZK 184,744 (gross); these receivables are fully provided for and are receivables relating to the commencement of court proceedings, or receivables in respect of bankruptcy or insolvency proceedings. Out of these receivables, the highest receivable is from the former Yugoslav Railways which SŽDC assumed during the transformation in 2003, in the amount of TCZK 112,981 (gross). This receivable is fully provided for.

4.5.2. Short-term advances paid

Short-term advances paid total TCZK 1,247,453 (2014 – TCZK 131,494) and include primarily advances paid to contractors of projects within activities connected with repairs and maintenance of RI. In 2015, EU funds were used to finance expenses incurred on repair and maintenance of RI, through OPT, which, in terms of payment requests, made it possible to use advance invoices, the amount of which corresponds with the expected invoicing for the payment of expenses incurred at the beginning of 2016. These advances will be recognised during the first half of 2016.

4.6. Short-term financial assets

As at 31 December 2015, the total amount of short-term financial assets was TCZK 795,268 (2014 – TCZK 905,167). The most significant item is the balance of bank accounts of TCZK 793,120 (2014 – TCZK 902,620).

4.7. Deferred expenses

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

4.8. Equity

Movements in the individual components of equity from 1 January 2015 to 31 December 2015

	Registered capital	Capital contrib.	Reserve fund	Statutory and other funds	Retained profits	Other retained earnings	Current year profit or loss	Total
Balance at 1/1/ 2015	54,025,970	997,065	840,852	6,232	1,932,431	-6,373	-2,364,118	55,432,059
Assets identified during stock counts	–	1,987	–	–	–	–	–	1,987
Free-of-charge transfers of assets and other transfers	17,166	167,395	–	–	–	–	–	184,561
Privatised assets	-1,472	–	–	–	–	–	–	-1,472
Distribution of profit or loss	–	–	-431,687	–	-1,932,431	–	2,364,118	–
Use of the culture and social needs fund	–	–	–	-137,539	–	–	–	-137,539
Creation of the culture and social needs fund	–	–	-117,895	131,307	–	–	–	13,412
Other profit or loss	–	–	–	–	–	-594	–	-594
Current year profit or loss	–	–	–	–	–	–	-1,055,783	-1,055,783
Balance at 31/12/2015	54,041,664	1,166,447	291,270	–	–	-6,967	-1,055,783	54,436,631

In accordance with Czech Accounting Standard No. 22, the amount of registered capital was reduced by the net book value of privatised assets in 2015.

The registered capital in 2015 was influenced by delimitation – assets added free-of-charge total TCZK 5,861 (2014 – TCZK 51,044) and handed over of TCZK 2,262 (2014 – TCZK 19,934). Other reduction in the registered capital was due primarily to repairs of mistakes in the land register office.

In connection with the process of making the transformation of ČD, s.o. more precise, the registered capital was increased by TCZK 13,584 as the issue of the ownership of assets from the transformation of former ČD, s.o. was solved. Based on the physical count and examination of assets in 2015, land with a replacement cost of TCZK 1,987 (2014 – TCZK 2,274) was included in SŽDC's assets.

An increase in the value of capital contributions by TCZK 167,395 was caused by free-of-charge asset transfers. The major additions were the transfers of assets relating to the induced investments from the statutory town of Otrokovice totalling TCZK 67,308 and from ČEZ Distribuce in the amount of TCZK 51,107.

4.9. Provisions

	Balance at 31/12/2014	Additions	Utilisation	Balance at 31/12/2015
Provision for legal disputes with ČEZ Prodej	2,195,284	66,491	1,093,240	1,168,535
Provision for other legal disputes	23,706	13,512	3,354	33,864
Provision for compensation for job-related accidents and occupational illness	52,516	45,060	52,516	45,060
Provision for extra pension payments	27,927	22,576	27,927	22,576
Provision for unpaid payroll and other expenses	50,000	120,000	50,000	120,000
Provision for violating budget discipline	183,369	461,340	20,768	623,941
Total provisions	2,532,802	728,979	1,247,805	2,013,976

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 of SŽDC and their current underlying court or out-of-court proceedings. The important part of the provision for legal disputes 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 2011 (refer to note 6.2.1.). In 2015, the dispute was concluded and the principal and interest relating to damage compensation claimed by ČEZ Prodej, s.r.o. in respect of not purchasing the contracted amount of electricity for 2010 was paid; therefore, a part of the provision, amounting to TCZK 1,093,240 was released.

A provision for violating budget discipline is established for payment orders received from the specialised tax authority ("STA") and for the expected payment orders based on control findings of STA's investigations known to the SŽDC's management by 31 December 2015.

4.10. Long-term payables

4.10.1. Trade payables

Type of payables	31/12/2014	31/12/2015
Retention	544,362	19,204
Bid-bonds, security deposits, sureties	3,000	3,000
Cash deposits received from customers	17,258	18,203
Total	564,620	40,407

In 2015, SŽDC ensured by contract potential warranty repairs at constructions by means of bank guarantees from contractors. This caused the decrease in retained warranty amounts from supplier invoices.

4.10.2. Other payables

Creditor	31/12/2014	31/12/2015
Czech Ministry of Finance – payment under the state guarantee for loan interest, after the remission	124,660	85,241
Czech Ministry of Finance – payment under the state guarantee for loan principal, after the remission	893,450	599,903
Total	1,018,110	685,144

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

In 2005, the Czech Government adopted Resolution No. 1553 on the remission of these payables (refer to note 3.14.). In 2015 and 2014, payables of MCZK 1,727 and MCZK 2,087 were remitted.

4.11. Short-term payables

4.11.1. Trade payables

	Balance at 31/12/2014	Balance at 31/12/2015
Payables before due date	2,603,052	2,153,755
Payables past due date	81,027	66,207
Total trade payables	2,684,079	2,219,962

Payables before their due dates predominantly relate to STRABAG Rail a.s., Subterra a. s. and Skanska a.s. regarding their construction works.

Payables which are more than 5 years overdue as at the balance sheet date do not exist.

4.11.2. Tax liabilities and subsidies

Liability type	Balance at 31/12/2014	Balance at 31/12/2015
Undrawn investment subsidies from SFTI	80,532	1,149,800
SFTI – TEN-T recoverable subsidy	27,958	89,596
SFE – OPE recoverable subsidy	18,727	11,491
OPT recoverable subsidy	70,421	1,158
TEN-T investment grants	136,120	–
Undrawn non-investment subsidy TEN-T	2,457	14,467
Non-investment subsidy for repair and maintenance	112,181	–
Non-investment subsidy for certain OPT projects	26,228	428
Undrawn non-investment subsidy for OPE projects	200	–
Investment contributions of cities, municipalities, regions and other entities	–	109
Income tax withheld on behalf of employees	61,320	79,659
Other taxes	1,017	1,117
Total tax liabilities and subsidies	537,161	1,347,825

The bulk of the balance of investment subsidies as at 31 December 2015 includes the payable from undrawn subsidies from SFTI amounting to TCZK 1,149,800 (2014 – TCZK 80,532).

In terms of investments, the main reasons for not drawing the limit for 2015 to the full limit amount is primarily the significant increase in the number of projects and financial volume. Due to a high number of constructions, a part of the total contracted volume was not drawn, primarily as it was not possible to buy the necessary land, because there were complications in planning permission proceedings and construction proceedings and because the preparation contractors did not meet the deadlines for submitting documentation.

The balance from pre-financing investment subsidies in terms of a recoverable subsidy (refer to note 3.10.) for constructions co-financed from EU funds was TCZK 117,106 in 2014 and TCZK 102,245 in 2015.

In 2015, subsidies financed from OPT were drawn for certain non-investment projects.

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

4.11.3. Short-term advances received

Short-term advances received amount to TCZK 126,529 and TCZK 103,448 as at 31 December 2015 and 2014, respectively. Advances are received predominantly for ancillary services relating to the lease of residential and non-residential premises, provision of easements when SŽDC is the obligated party, and prepayments for the purchase of electricity.

4.12. Bank loans and overdrafts

4.12.1. Long-term bank loans

SŽDC's debt portfolio principally includes payables arising from loan agreements previously held by ČD, s.o. The loans carry a state guarantee and were received primarily in connection with the financing of the construction and renovation of railway corridors pursuant to Government Resolutions No. 798/1999 and No. 1201/2000. These loans will be subject to debt remission (refer to note 3.14).

The debt portfolio includes also a non-guaranteed loan from Česká spořitelna, a.s. for performance improvements where SŽDC pays for all expenses associated with the loan agreement including interest from own sources. This loan is secured by bills and notes which are liquidated after payments are made.

Bank	Loan maturities	Currency	Balance at 31/12/2014	Drawing in 1-12/2015	Repayments 31/12/2014	FX differences	Balance at 31/12/2015
The 1st corridor:							
KfW Frankfurt	30/12/2015	EUR	35,439	–	34,656	783	–
EIB Luxembourg	15/4/2017	EUR	349,735	–	137,459	7,733	204,543
KfW Frankfurt	30/12/2018	EUR	340,094	–	83,145	8,319	248,630
The 2nd corridor:							
EIB Luxembourg	30/11/2016	EUR	739,333	–	362,833	16,167	360,333
EIB Luxembourg	15/12/2020	EUR	1,901,143	–	311,000	45,857	1,544,286
KfW Frankfurt	30/6/2017	EUR	708,778	–	277,376	16,872	414,530
Subtotal			4,074,522	–	1,206,469	95,731	2,772,322
Performance improvements							
Česká spořitelna, a.s.	31/12/2018	CZK	674,995	–	225,000	–	449,995
Subtotal			674,995	–	225,000	–	449,995
Total			4,749,517	–	1,431,469	95,731	3,222,317

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.

4.12.2. Summary of loan maturities

	Payable in 2016	Due in subsequent years	Total
Long-term loans	1,389,782	1,832,535	3,222,317
Total	1,389,782	1,832,535	3,222,317

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, or the Czech Ministry of Finance. When the repayment is made by the State, the relevant balance is reallocated to “Other long-term payables”. The Czech Ministry of Finance repaid principals amounting to TCZK 1,206,469 (2014 – TCZK 1,781,813) in the year ended 31 December 2015.

The debt service arising from the non-guaranteed loan provided by Česká spořitelna, a.s. was paid by SŽDC in full in the amount of TCZK 225,000 (2014 – TCZK 75,000).

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

4.12.3. Short-term bank loans

	31/12/2014	31/12/2015
Payable from cash pool account	1,236 902	1,432 455
Overdraft	264,323	763 363
Short-term bank loans	1,501,225	2,195,818

The increase in the overdraft drawing is caused by making payment orders to STA for violating budget discipline. The overdraft loan contract is concluded for the period of twelve months.

At the end of 2015, the Organisation drew the allowed overdraft limit from the cash pool account to settle payables arising from operability and operations of the railway infrastructure, including the rail servicing.

4.13. Deferred revenues

Deferred revenues total TCZK 1,336,498 (2014 – TCZK 74,191) and include primarily deferred/accrued expected volumes of non-investment subsidies from SFTI and the payment of retentions of works carried out until 31 December 2015, in accordance with the accounting policy described in note 3.10. These funds will be demanded from SFTI in 2016.

4.14. Deferred tax

SŽDC has determined deferred tax as follows:

	31/12/2014	31/12/2015
Tangible and intangible fixed assets	-4,103,285	-4,149,479
Adjustments to fixed assets	39,080	29,750
Adjustments to inventory	3,798	3,405
Trade receivables	59,993	54,513
Provisions	481,233	264,107
Tax losses	1,425,524	1,378,402
Total deferred tax (asset +, liability -)	-2,093,657	-2,419,302
Unrecognised deferred tax	-1,425,524	-1,099,879
Total recognised deferred tax (asset +, liability -)	-3,519,181	-3,519,181

SŽDC reports tax losses of TCZK 7,254,749 (2014 – TCZK 7,502,756) for 2013–2015 (information for 2015 is based on a preliminary calculation of tax loss).

In accordance with the accounting policy described note 3.9., a tax rate of 19% was used to calculate deferred tax (2014 – 19%).

4.15. Income from own products and services

Item	2014	2015
Income from use of the railway infrastructure by ČD – freight transport	33,877	38,234
Income from use of the railway infrastructure by ČD – passenger transport	1,784,869	1,770,086
Income from use of the railway infrastructure by ČD Cargo, a.s.	1,481,260	1,467,050
Income from use of the railway infrastructure by external carriers – freight	774,716	811,728
Income from use of the railway infrastructure by external carriers – passenger	118,604	132,247
Income from allocated capacity	91,122	102,616
Rental income	233,326	230,334
Income from other external services	452,337	485,656
Income from the sales of electricity	1,620,116	1,609,022
Income from foreign carriers for provided services (extraordinary shipments, etc.)	2,539	2,875
Total income from own products and services	6,592,766	6,649,848

All income was generated in the Czech Republic.

Income from passenger transport in respect of the most important carrier ČD decreased slightly, but this drop was offset with a growth in respect of other passenger carriers (RegioJet a.s., LEO Express a.s.). Therefore, passenger transport stayed on the level of 2014.

Relating to freight transport, 2015 confirmed that the falling trend of revenues was stopped successfully. Again, the decrease in respect of the main freight carrier ČD Cargo was offset with a growth in respect of other freight carriers (e.g. METRANS, a.s.). In total, freight transport showed a slight increase.

4.16. Consumption of materials and energies

Item	2014	2015
Costs of material consumption	771,401	932,766
<i>Of which – activity that can be done by outsourcing</i>	<i>314,780</i>	<i>418,289</i>
Costs of energy consumption	404,305	376,057
Costs of water consumption	8,310	8,073
Costs of heat consumption	71,242	61,494
Costs of gas consumption	25,125	23,008
Costs of energy purchase	1,280,841	1,270,665
Costs of fuel consumption	112,422	93,164
Other	6,857	5,781
Total consumption	2,680,503	2,771,008

4.17. Purchased services

Item	2014	2015
Costs of construction repairs and maintenance excluding outsourced activity	31,070	6,506,569
<i>Of which OPT projects</i>	<i>–</i>	<i>6,475,520</i>
Costs of repairing apartments excluding outsourced activity	26,099	28,386
Costs of services provided by the statutory auditor	3,352	1,703
<i>Of which: – statutory audit of the financial statements</i>	<i>850</i>	<i>850</i>
– other review services	–	–
– tax advisory	–	–
– other non-audit services	2,502	853
Costs of cooperation in allocating the capacity of the railway infrastructure	496	564
Activity that can be done by outsourcing	6,863,773	5,498,713
<i>Of which: – repair and construction maintenance</i>	<i>5,357,104</i>	<i>4,393,607</i>
– other	1,506,669	1,105,106
Other	1,752,640	1,705,674
<i>Of which: – repair and maintenance</i>	<i>1,358,017</i>	<i>918,859</i>
– lease, software under TCZK 60, platform cleaning, etc.	394,623	786,815
Total services	8,677,430	13,741,609

Activity that can be done by outsourcing represents projects that are contracted based on the tender laws and that form part of SŽDC's Comprehensive plan for repairs and maintenance. In order to record activities which can be better provided through outsourcing, these services have been recorded separately since 2013. In 2015, EU funds were used to finance expenses incurred on repair and maintenance of RI, through OPT. A significant increase was caused by realising a high number of projects in 2015 which were at the preparatory stage in the previous year and by receiving a higher subsidy amount than in 2014.

4.18. Change in adjustments and provisions

Item	2014	2015
Change in provisions	295,149	-518,826
Change in adjustments to receivables	-70,692	-291,001
Change in adjustments to tangible fixed assets	-19,226	-48,849
Change in adjustments to inventory	17,451	-2,068
Total change in provisions and adjustments relating to operating activities	222,682	-860,744

In 2015, the change in provisions was mainly affected by the partial derecognition of a provision for damage compensation and default interest for not purchasing the contracted amount of electricity from ČEZ Prodej, s.r.o. In addition, a provision was established for payment orders from STA in respect of violating budget discipline.

Relating to adjustments to receivables, an adjustment to receivables from ČD Cargo was released as ČD Cargo and SŽDC concluded settlement agreements in 2015.

4.19. Other operating income

Item	2014	2015
Subsidies from SFTI for repairs and maintenance of the railway infrastructure	11,413,263	11,103,390
Subsidies from SFTI for repairs and maintenance after floods	534,376	38,876
Non-investment subsidies from the state budget	548,760	1,978,922
Non-investment subsidies from SFTI – special purpose	18,191	25,371
Non-investment subsidies – OPT programme	6,443	9,835
Subsidies from SFTI for the selected non-investment projects	249,103	10,281
Subsidies for the selected projects co-financed from OPT	120,098	6,778,693
Subsidies from SFTI for non-investment projects co-financed from OPE	2,054	4,128
Other subsidies	873	6,589
Remission of debt	2,087,251	1,727,091
Proceeds from recovered material	290,889	486,665
Received contractual penalties and default interest	51,147	136,238
Claims for compensation of shortages and damage	30,406	113,013
Other	66,552	58,150
Total other operating income	15,419,406	22,477,242

Other operating income represents primarily subsidies received for operability from SFTI for repairs and maintenance of the railway infrastructure of TCZK 11,103,390. In addition, these are subsidies for the selected non-investment projects co-financed from OPT of TCZK 6,778,693. The increase in these subsidies compared to 2014 was caused by the fact that the projects were in the preparatory stage in 2014 and were implemented in 2015.

In 2015, non-investment subsidies from SR comprise received funds for the payment of activities connected with rail servicing of TCZK 847,660 and also for the payment of sanction of ČEZ for not purchasing contracted electricity of TCZK 1,131,262.

4.20. Other operating expense

Item	2014	2015
Non-investment and investment default interest	–	310,841
Fines and penalties	429	6,810
Write-off of receivables	31,080	6,013
Write-off of failed investments	73	1,311
Retirement pension	10,471	9,423
Costs arising from the failure to employ the disabled	30,438	30,472
Insurance of assets and liability insurance	63,991	62,261
Membership contributions	7,258	9,185
Shortages and damage	-330	611
Liability for damage to third party assets	13,992	825,856
Expense arising from the Network Statement	–	428,865
Other	15,097	33,997
Total other operating expense	172,499	1,725,645

A significant increase in non-investment and investment default interest is caused by paying default interest in respect of a legal dispute with ČEZ amounting to TCZK 310,481. Liability for damage to third party assets was influenced by paying damages to ČEZ for failing to purchase the contracted amount of electricity of TCZK 805,474. For a more detailed description see note 6.2.1.

Under the National and Regional Network Statement valid for the 2015 timetable, SŽDC is newly obligated to pay for rail replacement bus service in case that SŽDC ensures, in accordance with the obligation assigned to it by provision of Section 36 (g) of the Rail Systems Act, replacement bus service for suspended rail transport due to a planned rail operation limitation. In such case, SŽDC will pay to the carrier a one-off amount of CZK 1,550 for each train that has been replaced by bus service on the entire planned line or its part. The total amount paid to carriers for 2015 was TCZK 428,865.

4.21. Other financial income

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

4.22. Other financial expense

Financial expenses predominantly include foreign exchange losses from the translation of foreign currency loans and bank charges.

5.

Employees, Executives and Statutory Bodies

5.1. Personnel expenses and number of employees

The following tables summarise the average recalculated number of SŽDC's employees and executives and the related current personnel expenses for the years ended 31 December 2014 and 2015:

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

*) Wages and salaries for 2014 (including expenses relating to former employees) drawn from the provision created in 2014 amount to TCZK 6,073.

2015	Average headcount	Wages and salaries	Social security and health insurance	Other expenses	Total personnel expenses
Employees	17,305	6,363,605	2,139,002	451,183	8,953,790
Executives *)	6	24,190	4,298	65	28,553
Total	17,311	6,387,795	2,143,300	451,248	8,982,343

*) Based on Resolution of the Government of the Czech Republic No. 606 dated 29 July 2015, the team of executives was re-qualified so that it includes SŽDC executives to whom this resolution applies.

As at 1 January 2015, SŽDC had 17,331 employees, divided into a total of 17 organisational units, according to the scope of their activities and individual regions. SŽDC also has the Directorate General in Prague, responsible for strategic and organisational activities.

During 2015, the organisational structure of organisational units did not change significantly. In order to reach an optimum number of operational staff in the infrastructure segment, based on the decision of SŽDC's Management Board from September 2014, the recruitment of employees dealing with specialised track administration, electrical technology and power engineering, and communications and safety engineering, continued. Out of the total number of 469 employees approved to be hired, 93% were employed as at 31 December 2015. In order to ensure achievement of goals set in investment activities, project preparation and also to fulfil thematic preliminary conditions for OPT 2014-2020, the number of employees in the railway modernisation division also increased. However, at the same time, the process of rationalisation and optimisation connected with putting investment constructions in operation continued, as a consequence of which the number of operational staff in traffic control decreased by 315 employees. During 2015, severance pay was provided to 194 employees.

As at 31 December 2015, SŽDC had 17,349 employees; due to the above impacts, the number of employees increased by 18 as compared with the balance as at 31 December 2014.

5.2. Provided loans, borrowings and other remuneration

In 2014 and 2015, members of the SŽDC's management did not receive any borrowings, loans or any other bonuses in addition to their basic salaries and bonuses agreed in management contracts or agreements on wages and salaries.

In 2015, bonuses totalling TCZK 1,794 were paid to members of the SŽDC's Management Board (2014 – TCZK 2,656).

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 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 (e.g. measuring the impact of noise of future operations and the following potential construction of sound barriers) are part of the acquisition cost of a new investment construction.

In 2015, total non-capital expenditures related to environment were approx. MCZK 299.2 (2014 – MCZK 365.7). Capital expenditures related to sound protection when modernising tracks were MCZK 257.9 (2014 – MCZK 80.2).

Other capital expenditures that primarily relate to the planned maintenance of buildings owned by SŽDC whose nature helps protect environment (by reducing electricity consumption, for example) were calculated at MCZK 25.1 in 2015 (2014 – MCZK 6.1).

6.2. Legal disputes

6.2.1. ČEZ Prodej, s.r.o.

In 2008, SŽDC entered into a contract for the supply of traction electricity for 2009 –2011 with ČEZ Prodej, s.r.o. pursuant to a tender. Given the changed legislative conditions, SŽDC discontinued supplying traction electricity to carriers on 1 January 2010 and accordingly decreased the purchase from ČEZ Prodej, s.r.o. Even though SŽDC believes that it proceeded in accordance with the concluded contract, ČEZ Prodej, s.r.o. has filed an action to seek damages from SŽDC equalling the difference between expected and realised complementary sales in 2010 and 2011. The issue is currently being dealt with through the courts. As concerns the damages equalling the difference between expected and realised complementary sales for 2010, on 19 March 2015 the High Court in Prague satisfied the action and SŽDC was obliged to settle the damage claimed. The judgement of the High Court became legally effective on 22 May 2015. After the judgement became legally effective, SŽDC paid to ČEZ Prodej, s.r.o. TCZK 1,131,262 and at the same time appealed the judgement to the Supreme Court of the Czech Republic. Concerning damage compensation equalling the difference between contracted and realised complementary sales for 2011, no decision has been issued yet. As at 31 December 2015, SŽDC creates a provision for this legal dispute in the amount of TCZK 1,168,535 (see note 4.9).

6.2.2. ČD Cargo

ČD Cargo issued invoices to SŽDC for damage incurred from increased costs related to alternate routes for reasons of line closures. SŽDC did not recognise these invoices and did not incorporate them into its accounting. However ČD Cargo unilaterally offset these receivables against invoices issued by SŽDC for the use of railway infrastructure. SŽDC did not recognise these unilateral offsets either and on 17 August 2011 put forth a proposal to the Prague Municipal Court to issue an order for payment to cover arrears for use of railway infrastructure. ČD Cargo filed a protest against the order for payment issued by the court. On 15 January 2014 the High Court in Prague issued Judgement ref. No. 12 Cmo 307/2013 – 254 on the ČD Cargo's duty to settle unpaid invoices to SŽDC for the use of infrastructure and supplies of electrical energy. The judgement became legally effective on 13 February 2014. As at 31 December 2015, based on the Settlement Agreement, ČD Cargo paid TCZK 86,636. As at this date, receivables due in 2016 were transferred from long-term to short-term receivables.

ČD Cargo did not pay for a part of purchased electricity for 2009 invoiced by SŽDC. The Organisation 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 filed a protest against this payment order. On 27 February 2015 the High Court in Prague issued Resolution ref. No. 3Cmo 422/2012-250 and approved court reconciliation between the parties in dispute with arranged instalments. The resolution became effective as at 30 March 2015. Based on this resolution, short-term and long-term receivables from ČD Cargo were newly recognised in the accounting period 2015 and the tax adjustment was cancelled in full.

6.3. Property relations

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

6.4. Projected commitments associated with corridor construction

With a view to fully link 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:

Balance at 31/12/2015	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	42,806,301	15,180,973	57,987,274
4th corridor	24,143,666	12,319,477	36,463,143
Total	146,725,826	27,500,450	174,226,276

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.

In 2015, the completion of the 3rd and 4th Transit Railway Corridors in 2019 and the above total expected expenses were approved by Government Resolution No. 269.

Based on valid legislation, SŽDC is obligated to contribute to the cultural and social needs fund (in 2016 the presumption is approximately MCZK 115) and, based on valid collective agreement, it is obligated to pay to its employees contributions to capital life insurance and additional pension insurance (in 2016 the presumption is approximately MCZK 304).

Other Information

7.1. Formation and incorporation of SŽDC

On 1 March 2002, Act No. 77/2002 Coll., on České dráhy, state organisation Správa železniční dopravní cesty as a joint stock company, an amendment to Railways Act No. 266/1994 Coll., as amended, and the State Enterprise Act No. 77/1997 Coll., as amended, took effect (hereinafter the "Transformation Act"). On the basis of the Transformation Act, ČD, s.o. discontinued its activities and operations on 31 December 2002 and SŽDC and ČD were formed as its legal successors effective from 1 January 2003.

SŽDC assumed the assets comprising the railway infrastructure while ČD assumed the assets used to operate railway transportation and railway infrastructure. In addition, SŽDC took over the majority of receivables and payables while ČD 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 ČD, s.o. earmarked for the settlement of the payables of ČD, s.o. which had passed on to the Czech Ministry of Transport under the original wording of the Transformation Act.

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

7.2. Significant factors impacting SŽDC's activities and operations

SŽDC was formed pursuant to, and its activities and operations are governed by, the Transformation Act, Act No. 266/94 Coll. and other general legal regulations governing the position of state organisations. The above legislation, inter alia, sets out the scope of SŽDC's assets or its role in operating and securing the operability of the railway infrastructure in the public interest.

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

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

SŽDC provides carriers with the railway infrastructure for use in the public interest for an officially determined price which is set in compliance with Pricing Act No. 526/1990 Coll. The proceeds from payments for the use of the railway infrastructure are not sufficient to offset the costs involved in operating, maintaining and developing the railway infrastructure. As such, the financing of SŽDC's activities is dependent upon subsidies from the state and/or other entities. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. However for 2016, SŽDC has contractually ensured funding from the State Fund of Transport Infrastructure for investment and non-investment activities of TCZK 43,498,706 (2015 – TCZK 46,795,951) and from the Czech Ministry of Transport for non-investment activities of TCZK 550,000 (2015 – TCZK 850,000). SŽDC's management believes that these funds will enable

SŽDC to provide services in the same extent as in 2015, accordingly, the financial statements have been prepared on a going concern basis. The financial statements therefore do not include adjustments to valuation and classification of assets and liabilities that would be necessary if the Company were not able to continue as a going concern.

7.3. Transactions with ČD and ČD Cargo

Significant revenues resulting from the transactions carried out with ČD:

	2014	2015
Revenues from using the railway infrastructure – passenger transport	1,784,869	1,770,086
Revenues from using the railway infrastructure – freight transport	33,877	38,234
Revenues from allocated railway infrastructure capacity	50,273	51,411
Revenues from electricity	1,412,535	1,405,900
Fire Department services	30,000	30,392
Telecommunication network operation services	59,725	61,478
Total	3,371,279	3,357,501

As at 31 December 2015, SŽDC recorded amounts due from and to ČD at the net amount of TCZK 420,747 (2014 – TCZK 585,010). The amount that is reported in the balance sheet as part of trade receivables and advances paid from ČD is TCZK 624,352 (2014 – TCZK 628,471). Trade payables including received prepayments amount to TCZK 203,605 (2014 – TCZK 43,461).

Revenues resulting from the transactions carried out with ČD Cargo:

	2014	2015
Revenues from using the railway infrastructure – freight transport	1,481,260	1,467,050
Revenues from allocated railway infrastructure capacity	21,912	26,708
Revenues from electricity	240	503
Fire Department services	3,800	15
Telecommunication network operation services	39,971	40,329
Total	1,547,183	1,534,605

As at 31 December 2015, SŽDC recorded amounts due from and to ČD Cargo at the net amount resulting in a receivable of TCZK 892,620 (2014 – TCZK 956,911). The amount that is reported in the balance sheet as part of trade receivables from ČD Cargo is TCZK 905,931 (2014 – TCZK 959,762). Trade payables including received prepayments amount to TCZK 13,311 (2014 – TCZK 2,851).

7.4. Privatisation

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

In 2015, SŽDC completed 12 privatisation projects for assets within the MOZ accounting circle in the aggregate amount of TCZK 1,472 (2014 – TCZK 1,421).

Of the 12 privatisation projects, SŽDC did not complete any projects related to the residential living fund or other assets not included in the residential living fund. Only projects related to the complete privatisation of land following the privatisation of the residential living fund have been realised.

As at 31 December 2015, SŽDC records assets intended for the settlement of payables assumed from ČD, s.o. listed in the Appendix to the Transformation Act in the net book value of TCZK 596,530. As at 31 December 2014, the net book value of these assets amounted to TCZK 601,179.

7.5. Sale of assets

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

In 2015, a total of 212 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 21,772 (2014 – TCZK 17,728).

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

In 2015, a total of 1 sale of assets was carried out within the Assets for Remission of Debts circle. Revenues totalled TCZK 169.

7.6. Leased assets

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

As at 31 December 2015, SŽDC reports 70 contracts for the lease of apartments. Revenues from these leases were TCZK 1,878 (2014 – TCZK 1,919).

With respect to immovable assets not included in the residential living fund, SŽDC records 184 lease contracts with total revenues of TCZK 43,194 (2014 – TCZK 44,378).

Total revenues from the lease of real estate were TCZK 45,072 (2014 – TCZK 46,297).

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

As at 31 December 2015, SŽDC reports 2,176 contracts for the lease of apartments. Revenues from these leases were TCZK 37,608 (2014 – TCZK 38,594).

With respect to other immovable assets not included in the residential living fund, SŽDC records 5,181 lease contracts with total revenues, including movable assets, of TCZK 141,905 (2014 – TCZK 141,557).

Total rental revenues were TCZK 179,513 (2014 – TCZK 180,151).

Subsequent Events

8.1. Changes in SŽDC's bodies

Under Resolution No. 58/2015 dated 16 December 2015, the existing audit and remuneration committee was cancelled and effective from 1 January 2016, an audit committee was established. Previous members Milan Feranec, Vladimír Novotný and Václav Horák were appointed members of the audit committee. Eva Janoušková was appointed a new member of this committee. Milan Feranec was elected the chairman of the audit committee.

8.2. Intention to transfer a part of a facility to SŽDC

At the session dated 21 December 2015 the Government of the Czech Republic approved the intention to transfer a part of a facility of České dráhy, a.s. comprising station buildings and land beneath these buildings. In April 2016, SŽDC's Management Board and the bodies of ČD, a.s. discussed the implementation of this intention.

8.3. New legislation

At present, SŽDC's management is carrying out an analysis of probable impacts of the acts below that will be relevant for SŽDC in 2016 and the following years:

- Act No. 128/2016 Coll., replacing Act No. 218/2000 Coll., on budget rules and on the change of some related acts (budget rules), as amended and some other acts;
- Act No. 129/2016 Coll., replacing Act No. 104/2000 Coll., on the State Fund of Transport Infrastructure, as amended.

Apart from the events described in previous sections of these notes, no other significant events occurred after the balance sheet date that would require modifications in recording or modifications in the scope of disclosure in the financial statements.

Prague, 25 May 2016



Ing. Pavel Surý
Director General

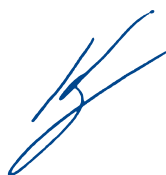
Persons responsible for the annual report

Affirmation

We affirm that the information stated in the annual report for 2015 is accurate and that no material circumstances known to us that may affect the accurate and proper assessment of Správa železniční dopravní cesty, státní organizace have been omitted.



Ing. Pavel Surý
Director General



Ing. Aleš Krejčí
Assistant Director General for Finance

The closing date of this annual report was 25 May 2016.



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The number of carriers

8.

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

Správa železniční dopravní cesty,
státní organizace
Dlážděná 1003/7
110 00 Prague 1

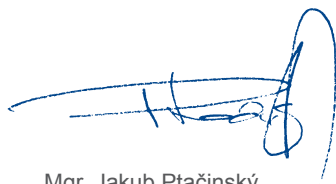
Annual Report on the provision of information in compliance with Section 18 of Act No. 106/1999 Coll., on Free Access to Information for 2015

In compliance with Section 18 of Act No. 106/1999 Coll., on Free Access to Information, as at 1 March 2016 we released the annual report for 2015 on the provision of information.

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

a) Number of submitted requests for information	79
Number of issued decisions on dismissal of the request	19
b) Number of submitted appeals against the decisions	8
c) Number of ongoing legal proceedings on rights and duties in accordance with Act No. 106/2999 Coll.	7
Number of completed legal proceedings	0
d) Number of exclusive licenses provided	0
e) Number of complaints submitted under Section 16a	0

Prague, 22 February 2016



Mgr. Jakub Ptačinský
Director of the Public Relations Department

9.

List of abbreviations

CFT – contact-free track
CEF – Connecting Europe Facility
CEN – European Committee for Standardisation
CENELEC – European Committee for Electrotechnical Standardization
EC – European Commission
ERTMS – European Rail Traffic Management System
ETCS – European Train Control System
GP – geometric position
GSM-R – Global System for Mobile Communication – Railway
TD – train diagram
TT – timetable
KPI – key performance indicator
LV – low voltage
OPT – Operational Programme Transport (EU)
OPE – Operational Programme Environment (EU)
DD – design documentation
RISC – Railway Interoperability and Safety Committee
SERAC – Single European Railway Area Committee
SFTI – State Fund for Transport Infrastructure
CEA – Civil Engineering Administration
TEN-T – Trans-European Network – Transport
TSI – technical specification for interoperability
HV – high voltage
RI – railway infrastructure

10.

Identification and contact details

Organisation name:	Správa železniční dopravní cesty, státní organizace
Established by:	Czech Republic (represented by the Ministry of Transport of the Czech Republic)
Date of incorporation:	1 January 2003
Identification number:	70994234
Registration court:	Prague
Registered under:	Section A, File 48384
Registered office:	Prague 1 – Nové Město, Dlážděníá 1003/7, postcode 110 00
Phone:	972 235 711
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Website:	www.szdc.cz

