

# Annual Report 2017



Správa železniční dopravní cesty





**A railway network  
is like a living organism...**

Like lifeblood arteries, it cuts through the landscape that surrounds us, maps our journeys and offers them countless possibilities and directions. Just like arteries in the human body, a railway network is an important part of our lives. It makes it easier to travel, enables efficient transport of commodities, and completes the urban characteristics of municipalities and villages.

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# Foreword

► Director General of SŽDC, Jiří Svoboda



## Ladies and gentlemen, dear business partners,

As regards the utilisation of subsidies from the EU Funds, 2017 was another successful year for SŽDC. At the same time, project applications submitted were successfully received too. The Company's top priority was to utilise funds allocated under the Operational Programme Transport 2 for the 2014–2020 period. The modernisation of the Pilsner railway junction can serve as an example of the successful utilisation of subsidies. An efficient streamlining of the modernisation into several sub-construction projects cuts the project duration to the necessary minimum. The contractors have kept up the schedule while the entire project moved to its second half in 2017. Thus, EU funds also supported the very important first stage of the optimisation of the Nymburk – Mladá Boleslav railway track. The construction was completed in May and enhanced the railway capacity of one of the most heavily used single-line tracks on the territory of the Czech Republic, thus contributing towards a greater influence of railway transportation, enhanced safety and security and greater passenger comfort.

Alongside the projects realised under the Operational Programme Transport 2, the constructions under the Connecting Europe Facility (CEF) were also launched. The extensive overhaul of the Negrelli's viaduct launched

in June 2017 is undoubtedly one of the major investments to be realised under this facility. The viaduct has been in operation for more than 160 years and will constitute an indispensable component of the modernised railway track from Prague centre to the Václav Havel Airport. The importance of a railway connection to the airport was one of the Company's most discussed topics in 2017, which SŽDC presented in public debates not only to the representative of Prague's but also to the wide public. The modernisation and expansion of the Veleslavín – Airport track was the example used. CEF provides subsidies solely for trans-European backbone networks TEN-T, with an emphasis on higher project added value and their readiness for implementation. Therefore I am very happy that the reconstruction of the Beroun - Králův Dvůr track section, a component of the third transit railway corridor, was launched. Besides the overall modernisation of the Beroun train station, the project also contributes towards enhancing the track speed and the modernisation of control-command and signalling units.

The preparations for the construction of Fast lines in the Czech Republic were another lively discussed issue. All stakeholders acknowledge the key importance of the high-speed railway for further economic development



of the Czech Republic and are aware of the necessity of its being interconnected with the developing European high-speed track network. 2017 saw a break-through when the Czech political representation stated a clear support to the Fast lines project. In March, the Chamber of Deputies adopted a resolution in respect of high-speed tracks. Immediately afterwards, the works on the feasibility study of the new railway connection between Prague and Dresden began; to be completed at the beginning of 2019. The preparations included the establishment of a joint team of professionals of SŽDC and DB Netz, which are expected to closely cooperate and share information.

A major step towards the fleet renovation was the signing of the contract for the provision of fifty motor track inspection vehicles. These should facilitate the track maintenance within the entire SŽDC network significantly. The current equipment is getting obsolete; and unless the Company modernises the means of mechanisation, it would be unable to maintain and repair the rail infrastructure appropriately. The acquisition of a special MTW vehicle for the checking, management and repair of overhead lines in April and its subsequent presentation and christening at the Czech Raildays held in Ostrava was also very significant. This was the

first foreign supply of an overhead line unit custom-made for SŽDC. In the past, motor vehicles originally used for passenger transport had been adopted for this purpose.

As a part of their nearly completed modernisation, railway corridors are being equipped with the European Train Control System (ETCS) and the GSM R digital radio signal, a commitment made by the Czech Republic before its accession to the European Union. The implementation of a standardised system across Europe shall not only enhance traffic safety but also increase the railway interoperability as such. On the Czech territory, this system is further enhanced with the 'Automatic train stop' feature the implementation of which had had some positive feedback.

In summer, we celebrated one-year anniversary of the takeover of the management of the train station buildings. First small-scale construction works were launched shortly afterwards. The stations in Kostomlaty nad Labem, Dobříš and Rakovník underwent larger reconstructions. In August, the last phase of the reconstruction of Náchod train station was completed; new buildings welcome passengers in Karlovy Vary or Česká Lípa. At the same time, the assessment of

the condition of recently acquired premises was performed. Subsequently, a mid-term reconstruction plan for the upcoming five years was put together at the end of summer. The plan provides a detailed schedule for comprehensive reconstructions, modernisation and revitalisation of station buildings rather than partial interventions and emergency repairs which had been carried out during the first year of our administration. Simultaneously, the negotiations with public authorities on the use of redundant premises were carried out, with the objective being gradually fulfilled.

Despite another increase in the number of carriers operating on the SŽDC's network in 2017, SŽDC has maintained the non-discriminatory approach to the carriers and responded flexibly to their requests submitted. This is of particular importance in freight transport where the number of operative requests for ad hoc routes continues to increase to the prejudice of pre-ordered routes.

I acknowledge that in order to tackle the challenges and achieve the objectives set, responsible and professional attitude of all employees across SŽDC is fundamental. In this context, I perceive the activities of

the rail infrastructure manager in 2017 as successful.

Prague, 8 June 2018



Jiří Svoboda  
Director General





Like blood streaming through the human body, trains run in a constant circulation within a railway network. Professional approach is an essential condition for us to be able to ensure such constant circulation. Owing to that, the number of dispatched trains reached a total of 10,154 trains per day in 2017.



# Organisation's profile

## Basic information

### WHO WE ARE

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

### OUR LEGAL STATUS

The state organisation was incorporated on 1 January 2003 pursuant to Act No. 77/2002 Coll., on Czech Railways, a joint-stock company, the Rail 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 (ČD, s. o.). The state organisation was incorporated without being founded; the Ministry of Transport (MT) of the Czech Republic is the establishing entity on behalf of the Czech Republic.

### BUSINESS ACTIVITY

- operation of the rail infrastructure;
- ensuring the operability of the rail infrastructure;
- maintenance and repairs of the rail infrastructure;
- development and modernisation of the rail infrastructure;
- preparation of documents to fulfil public service obligations;
- supervision over the use of the rail 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 ČD, s. o., 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 8 JUNE 2018)

#### Director General

Jiří Svoboda  
(aged 48 years, graduated from the European Polytechnic Institute, s.r.o. in Kunovice and Institute of Law and Law Science o.p.s., in Prague, holding the post since 23 March 2018)

#### Statutory Deputy Director General

Mojmír Nejezchleb  
(aged 55, graduated from the Faculty of Civil Engineering at the Brno University of Technology, representing the Director General in his absence since 23 March 2018)

### SŽDC MANAGEMENT (AS AT 8 JUNE 2018)

#### Deputy Director General for Economics

Aleš Krejčí  
(aged 58, graduated from the Faculty of Production and Economy of the University of Economics, Prague, holding the post since 1 June 2012)

#### Deputy Director General for Asset Management

Tomáš Drmola  
(aged 55, graduated from the Universität Nürnberg and Institute for Industrial and Financial Management in Prague, holding the post since 1 November 2014)

#### Deputy Director General for Infrastructure Modernisation

Mojmír Nejezchleb  
(aged 55, graduated from the Faculty of Civil Engineering at the Brno University of Technology, holding the post since 1 July 2013)

#### Deputy Director General for Rail Operability

Marcela Pernicová  
(aged 46 let, graduated from the Faculty of Civil Engineering at the Brno University of Technology, holding the post since 1 May 2018)

#### Deputy Director General for Traffic Control

Josef Hendrych  
(aged 64, graduated from the University of Transport in Žilina, holding the post since 1 August 2014)

## Corporate governance

### STATUTORY BODY

#### As at 31 December 2017

- Director General:  
Pavel Surý
- Statutory Deputy Director General:  
Jiří Svoboda

#### As at 8 June 2018

- Director General:  
Jiří Svoboda
- Statutory Deputy Director General:  
Mojmír Nejezchleb

#### Changes in 2017 and 2018

- Director General:  
until 28 February 2018 Pavel Surý  
since 1 March 2018 in charge of the management Jiří Svoboda  
since 23 March 2018 Jiří Svoboda
- Statutory Deputy Director General:  
until 22 March 2018 Jiří Svoboda  
since 23 March 2018 Mojmír Nejezchleb

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

### SŽDC MANAGEMENT

#### As at 31 December 2017

- Deputy Director General for Economics:  
Aleš Krejčí

- Deputy Director General for Asset Management:  
Tomáš Drmola
- Deputy Director General for Infrastructure Modernisation:  
Mojmír Nejezchleb
- Deputy Director General for Rail Operability:  
Jiří Svoboda
- Deputy Director General for Traffic Control:  
Josef Hendrych

#### As at 8 June 2018

- Deputy Director General for Economics:  
Aleš Krejčí
- Deputy Director General for Asset Management:  
Tomáš Drmola
- Deputy Director General for Infrastructure Modernisation:  
Mojmír Nejezchleb
- Deputy Director General for Rail Operability:  
Marcela Pernicová
- Deputy Director General for Traffic Control:  
Josef Hendrych

#### Changes in 2017 and 2018

- Deputy Director General for Rail Operability:  
until 22 March 2018 Jiří Svoboda  
since 26 March 2018 to 30 April 2018 in charge of the department Marcela Pernicová  
since 1 May 2018 Marcela Pernicová

### MANAGEMENT BOARD

#### As at 31 December 2017

- Chairman:  
Vladimír Novotný
- Vice-chairman:  
Milan Feranec
- Members:  
Tomáš Čoček  
Jaroslav Foldyna  
Václav Horák  
Karel Korytář  
Jan Volný

#### As at 8 June 2018

- Chairman:  
Vladimír Novotný
- Vice-chairman:  
Milan Feranec
- Members:  
Tomáš Čoček  
Jaroslav Foldyna  
Ladislav Němec  
Karel Korytář  
Jan Volný

#### Changes in 2017 and 2018

- Members:  
until 31 December 2017 Václav Horák  
since 1 January 2018 Ladislav Němec

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 2017

- Chairman:  
Milan Feranec
- Members:  
Vladimír Novotný  
Václav Horák  
Eva Janoušková

#### As at 8 June 2018

- Chairman:  
Milan Feranec
- Members:  
Vladimír Novotný  
Tomáš Čoček  
Eva Janoušková

#### Changes in 2017 and 2018

- Members:  
until 31 January 2018 Václav Horák  
since 1 February 2018 Tomáš Čoček

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 2017

- Chairman:  
Václav Horák
- Members:  
Karel Korytář  
Jan Volný

#### As at 8 June 2018

- Chairman:  
Ladislav Němec
- Members:  
Karel Korytář  
Jan Volný

#### Changes in 2017 and 2018

- Chairman:  
until 31 January 2018 Václav Horák  
since 1 February 2018 Ladislav Němec

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 European Union (EU) and directives which directly influence SŽDC's activities, SŽDC's management system, SŽDC's organisational structure and its changes.



# Strategy

The strategic objectives of SŽDC reflect the Czech Republic's and EU's transport policies and Organisation's objectives and mission. The key objective is the modernisation of the railway network and the interconnection of the Czech railway network to the European high-speed rail network. As regards the rail operability, the priority is to ensure the reliable, safe, smooth and environmentally friendly operation of the railway transport. To ensure the operability of rail infrastructure, we actively administer, inspect, maintain and repair the rail infrastructure.

We take an active part in EU programmes and projects and cooperate with our partner organisations, EU institutions and bodies and international organisations. 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.

## *Single European Railway Area*

The Railway has its irreplaceable position in transport industry. The EU endeavours to enhance the efficiency of railway functioning while respecting general priorities. In order to do so and to enhance the efficiency of the railway system as such, the Single European Railway Area has been established. Basic

conditions and principles for the functioning of all stakeholders including the rail infrastructure administrators have been set. Accordingly, SŽDC's activities are directed towards fulfilling the obligations prescribed by the Directive 2012/34/EU of the European Parliament and of the Council in respect of the conditions and principles.

SŽDC has been actively involved in the Rail Freight Corridors (RFC), the objective of which is to facilitate the planning and control of and the actual performance of freight train traffic on important European routes, and to establish the principles of technical harmonisation.

The interoperability of the European rail system remains a major issue. In order to ensure interoperability, SŽDC has adopted an active approach towards infrastructure parameter harmonisation and new technology implementation for instance as regards ERTMS and telematic applications.

## *Preparations for the construction of high-speed rail system*

In 2017, the concept stage of the preparations of high-speed rail system has been completed. This included the drafting of territorial

technical studies, defining of high-speed track design standards and the approval of government programme 'Development of high-speed rail system in the Czech Republic'. The main objective of the programme is to build efficient rail connection between principal Czech agglomerations and their interconnection with the European high-speed Dresden – Prague – Brno/Ostrava – Wien/Bratislava track. Where possible in terms of geographical conditions and feasible in terms of investments and operating costs, high-speed tracks shall be designed for speed between 300 and 350 km/h. The speed on individual tracks should always reflect the expert assessment within the currently performed feasibility studies. Once they have been completed, further high-speed track project preparations need to be carried out, exploiting all currently available means to speed the implementation up. SŽDC will continue to closely cooperate with MT and regions and towns/cities concerned.

## *Support to regions*

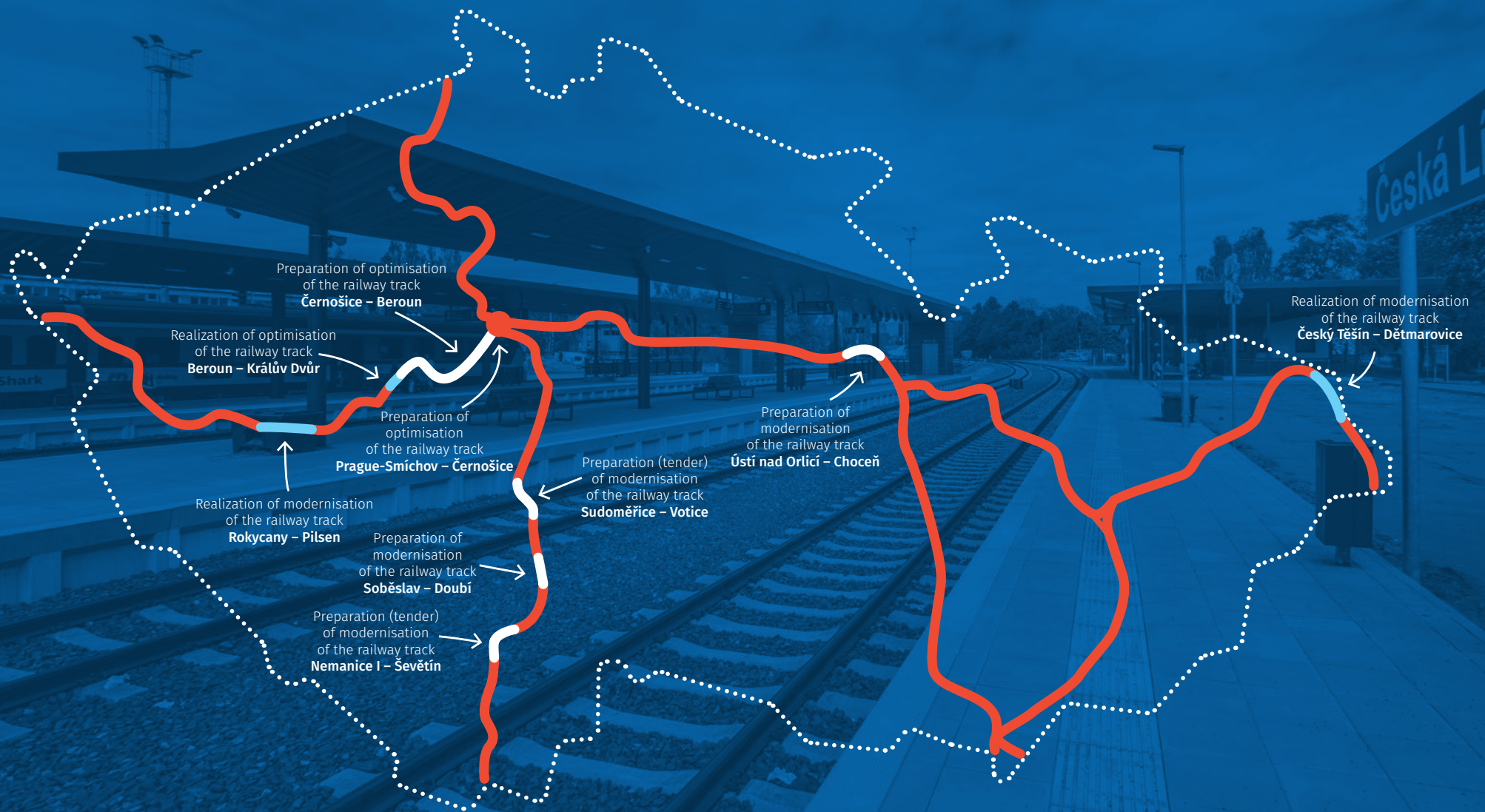
Besides enhancing the quality of the infrastructure through larger projects, we are involved in minor projects in individual regions which are funded primarily by national funding. These include the lifting of speed

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.

## *New projects*

When performing strategic activities, SŽDC puts forward the role of the project management. The implantation of Building Information Modelling (BIM) into SŽDC's environment is a new key project carried out in coordination with MT and SFTI. BIM enables digital modelling of structures starting with the design, through the actual construction to asset/track operation over the entire structure's span. Another major project is the creation of SŽDC's new visual style and new public website.

# Important construction projects in preparation or realization on the corridors





# Organisation's activities in 2017

## Track section anniversaries in the period from 1842 to 2017

Launch of railway transportation		
15/8/1842	Přerov passenger station – Lipník nad Bečvou	175
1/5/1847	Lipník nad Bečvou – Hranice na Moravě – Bohumín	170
4/11/1857	Pardubice – Hradec Králové – Jaroměř	160
14/11/1867	Bakov nad Jizerou – Česká Lípa	150
15/5/1877	Meziměstí – Odbočka Broumovská, Meziměstí – Meziměstí state border	140
15/5/1877	Osek město – Hrob	140
15/10/1877	Loket – Nové Sedlo u Lokte	140
20/10/1877	Nýrsko – Železná Ruda state border	140
1/3/1887	Počerady – Vrkmaň	130
4/6/1887	Bzenec – Veselí nad Moravou – Kunovice	130
10/10/1887	Brno hlavní nádraží – Blažovice – Holubice – Kyjov	130
10/10/1887	Sudoměřice nad Moravou – Veselí nad Moravou	130
3/11/1887	Jihlava – Jindřichův Hradec – Veselí nad Lužnicí	130
16/5/1897	Hodonín – Mutěnice – Čejč – Zaječí	120
22/6/1897	Mšeno – Mělník	120
22/6/1897	Lhotka u Mělníka – Střednice	120
27/6/1897	Rakovník – Blatno u Jesenice – Protivec – Žlutice	120
6/8/1897	Bernartice u Javorníku – Javorník ve Slezsku	120
6/8/1897	Velká Kraš – Vídnava	120
22/9/1897	Prague-Modřany – branch Skochovice – Dobříš	120
22/9/1897	Jílové u Prahy – Krhanice	120
6/10/1897	Polička – Žďárec u Skutče	120
23/10/1897	Vrátno – Dolní Cetno	120
4/12/1897	Vrátno – Mšeno	120

Launch of railway transportation		
16/12/1897	Lovosice – Řetenice	120
18/12/1897	Rudná u Prahy – Beroun-Závodí	120
24/9/1907	Sobotka – Libuň – Lomnice nad Popelkou	110
13/10/1907	Vraňany – Líbochovice	110
15/5/1927	Brno hlavní nádraží – Brno odbočka Slatinská	90
19/6/1927	Veselí nad Moravou – Lipov	90
8/12/1927	Lipov – Velká nad Veličkou state border	90
2/5/1937	Horní Lideč – Horní Lideč state border	80

Railway electrification		
27/4/1927	Prague main station – shunting loop Vítkov – Prague-Vysočany (1 500 V)	90
7/11/1957	Prague-Libeň – Kolín – Pardubice – Česká Třebová passenger station – Krasíkov (3 000 V)	60
19/5/1967	Modřice – Brno-Horní Heršpice – Brno main station (25 000 V)	50
22/6/1967	Horaždovice předměstí – Strakonice (25 000 V)	50
12/9/1967	Břeclav – Modřice (25 000 V)	50
2/10/1967	Břeclav – Lanžhot state border (25 000 V)	50
8/11/1967	Pilsen main station – Svojšíň (25 000 V)	50
5/6/1987	Beroun – Pilsen main station (25 000 V)	30
30/12/1987	Děčín main station – Děčín state border (elektrizace 3 000 V)	30

## 2017 highlights

### January

The construction works on the Kuřim station were launched. The objective is not only to increase the speed of passing-through trains but also to build a barrier-free access to the platform.

The reconstruction of the traction supply facility in Nymburk was completed together with the construction of the new switching facility in Poříčany.

### February

A public presentation and debate in respect of the project documentation for the modernisation and construction of the Prague-Veleslavín – Prague Václav Havel's Airport track was held.

### March

The reconstruction of the Hradec Králové – Jaroměř – Trutnov track was completed, enabling to increase track speed up to 120 km/h.

### April

The official handover of the unique MTW 100.013/7 vehicle for the checking, management and repair of overhead lines was held in Brno.

The overhaul reconstruction of the historic Negrelli's viaduct which has been in operation since mid 19<sup>th</sup> century, was launched.

### May

The new passenger dispatch hall at the upper Karlovy Vary station dispatched first passengers.

The reconstruction of the first section of the Mladá Boleslav – Nymburk track was completed; the revitalisation of the Rokycany – Nezvěstice track was also completed.

### June

SŽDC presented several new acquisitions to the fleet at the Czech Raildays.

The overhaul of the mountain track from Hanušovice to Jeseník was completed.

### July

The modernisation of the corridor section between Dětmárovice and Český Těšín was launched.

A summit of directors general of major European rail companies and associations was held in Prague under the auspices of the SŽDC's Director General.

### August

SŽDC unveiled a five-year plan for the reconstruction and repairs of rail station buildings across the Czech Republic.

The reconstruction of the busy rail junction Veselí nad Moravou was launched.

### September

SŽDC made the reconstructed premises of the Prostějov main station building available to the Czech Police.

The reconstruction of the control-command and signalling unit in Raspenava was completed. The reconstruction also included the refurbishment of the station and the station in Frýdlant v Čechách.

### October

The reconstruction of the historic roofs in the Prague main station, which had been carried out for several years, was completed.

The newly constructed station Havířov centre was opened to the public.

The boring of the second tunnel tube for the longest tunnel on the Czech railway to be was completed near Ejpovice.

### November

The reconstruction of the borderline station in Cheb was launched. The station should be barrier-free after the reconstruction.

### December

The first construction stage at the Pilsen main station was completed, enabling the trains in the direction of Prague to speed up significantly.

With the launch of the new railway schedule in 2018, new stations in Tábor-Měšice and Veselí nad Moravou-Milokoš were opened to the public.

## Operability of the rail infrastructure

One of the main duties of SŽDC as a rail operator is to ensure the operability of the rail infrastructure, i.e. such a technical condition of the rail 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 rail 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 rail 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

– Table 1 – Selected activities

Indicator	Unit of measurement	Amount
GP modification – rails	km	1,410
GP modification – switches	s.u.	1,076
Track bed cleaning – rails	km	144
Track bed cleaning – switches	s.u.	281
CFT, welding – rails	km	450
CFT, welding – switches	s.u.	361
Replacement of rails	km	413
Replacement of railroad tiles	pcs	228,137



**Table 2 – Basic description of railway network**

Indicator	Unit of measurement	Amount
Total length of tracks	km	9,408
Length of electrified tracks	km	3,218
Length of standard-gauge tracks	km	9,385
Length of narrow-gauge tracks	km	23
Length of single-track lines	km	7,438
Length of double- and multiple-track lines	km	1,970
Total construction length of tracks	km	15,356
Number of switch units	s.u.	23,011
Bridges	pcs	6,751
Tunnels	pcs	164
Total length of bridges	m	153,263
Total length of tunnels	m	45,295
Level crossings	pcs	7,870

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 2017, the limit for assessed slow rides in the whole network as at 31 December 2017 was set at 8 km. The actual length of assessed slow rides as at that date was 5,601 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.

*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 control-command and signalling units under its management. To ensure operability, it uses not only own HR, engineering and technical capacity (primarily the capacity of its own organisational units – the Regional Directorates and specialised units) but also contractual relations with suppliers operating in the respective market. These suppliers are selected by means of public procurement. The operability of the rail 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, and from SŽDC's own funds.

In 2017, the following projects were completed (in particular Žatec – Chomutov and Ústí nad Orlicí – Letohrad track sections) classified as non-investment projects co-financed from OPT1. The reconstruction of track sections focused on the replacement of superstructures, reconstruction of viaducts, platforms, station and stop lightning, alterations of drainage, repairs of bridges and culverts. The expenses also include the cost of obligatory publicity and promotion.

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 Deputy Director General for Rail Operability, amounted to CZK 13,144 million in 2017.

### Operating the rail infrastructure

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

In 2017, emphasis was placed on accommodating carriers as much as possible when organising possession activities necessitated by the restoration, maintenance or modernisation of the rail infrastructure.

The scope of rail networks operated by SŽDC is currently stabilised at 9,408 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 other sidings owned by private persons. As at 31 December 2017, SŽDC operates a total of 56 sidings. SŽDC also operates the regional line Sedlnice – Mošnov, Ostrava Airport owned by the Moravian-Silesian Region.

In respect of the national RI environment in the interoperable GSM-R system CZ (digital radio system), a presentation and real-life simulation of the General stop in the GSM-R network ('the G-Stop') was held in March 2017 in the Sadská train station, on the 363.5 and 122 engines provided by ČD Cargo, a.s. The project to implement this feature on tracks equipped with the GSM-R communication application was completed as scheduled by 30 September 2017. As of 1 March 2018, the G-STOP was implanted on the infrastructure of the GSM-R CZ radio network. The terms and conditions for the activation of this feature on driving vehicles for the carriers were published on the railway operation website.

In the foreseeable future, SŽDC plans to further enhance railway operation safety and security through prevention. This comprises another use of the G-STOP which should prevent passing through the principal signposts in the Stop position, and Warning in case the signposts is passed through without permission, similarly to the feature implemented in the TRS analogous radio network. The inter-connection both technologies were launched after the G-STOP had been put in operation.

In construction projects, SŽDC respects and adheres by the conclusions and requirements set by the Commission Regulation (EU) 2016/919 in the field of radio traffic on railways owned by the states.

#### *Operation applications*

In 2017, a number of partial novelties were implemented in the area of operation applications. The key features include for instance the feature enabling the SŽDC's applications to enter and accept data about the numbers of engine driver licences from the carriers and pass them for the review by the Czech Railway Authority (RA). This activity was initiated by the RA with the aim of enhancing railway safety and security. To enable direct traffic control, the development of a central command system continued in 2017. Moreover, a new generation of automatic train routes stops (on the Beroun /excl./ – Ejpvovice /excl./ track) was implemented. As regards the communication between the SŽDC's system and those of carriers, the new Web ComposT environment was launched and the data communication in the ComposT application was transferred to the communication based on TAF TSI 2.1 messaging.

#### *TCC Prague*

The pilot operation of the TCC Prague building was launched and it was handed over the operator in 2016. Several track sections, including a partial connection of the Kolín (excl.) – Kralupy nad Vltavou (excl.) section, and Velim – Úvaly and Prague-Holešovice – Libčice nad Vltavou sections were included in the TCC Prague remote control system. In 2017, the launch was completed with the incorporation of Prague-Běchovice, Prague-Libeň and Prague Masarykovo nádraží train stations. The plan for 2018 includes the incorporation of the Pilsen (excl.) – Cheb (excl.) track section into the TCC Prague remote control system.

#### *TCC Přerov*

In 2016, the reconstruction of the Olomouc main station was completed and its control was incorporated in the remote control system of Přerov (excl.) – Česká Třebová (excl.) track. In 2017 the preparatory works for the reconstruction of the safety facility of the Veselí nad Moravou station and its incorporation in the remote control system of TCC Přerov also continued. The underlying preparatory documentation for the Ostrava-Svinov – Petrovice u Karviné st. hr., Dětmorovice (excl.) – Mosty u Jablunkova st. hr.; the drawing of the preparatory documentation and the intent for the Modernisation and electrification of the Otrokovice – Vizovice track project and its incorporation into the remote control system of TCC Přerov were also completed.

#### *Expenses incurred in ensuring the operational control*

SŽDC employees perform the operational control of railway traffic, dispatcher's traffic control, operation of control-command and

signalling units and information systems for passengers, preparation of timetables, and path capacity allocation to carriers. In 2017, the expenses related to these activities are mainly covered by non-investment subsidy from SFTI for the railway operation. The overall cost less amortisation incurred to operate RI comprise in particular the track administration ensured by local directorates and central dispatching units and amounted to CZK 5,746 million in 2017, including the relevant portion of centrally recorded expenses of the DG department for traffic control.

#### **Passenger station asset management**

The portion of the Železniční stanice entity acquired by SŽDC from ČD as of 1 July 2016 by a transfer of consideration and fully incorporated into SŽDC's structures in the second half of 2016 was fully operational since the beginning of 2017, which had a positive impact on the appearance of many train stations across the Czech Republic.

In 2017, 189 construction projects relating to passenger stations buildings were completed. Further 85 constructions were launched, to be completed in 2018. Moreover, 82 construction projects were completed in 2017 to be launched in 2018.

As regards station buildings' refurbishment, 2017 was also successful. More than 50 tenders for the lease of commercial spaces in the passenger train stations were organised, enabling SŽDC to enlarge the portfolio of services offered to passengers. The cooperation with

other national and municipal institutions as a result of which their offices are moved into passenger station buildings has further enlivened the stations. Thus, offices of 13 public law authorities were moved into the station buildings in 2017. An excellent example of such cooperation is the transfer of the entire district department of the Czech Police into the passenger station building in Prostějov. SŽDC would like to keep this trend up in the upcoming years. Accordingly, the transfer of further 50 offices into the station buildings across the Czech Republic was negotiated at the end of 2017. Another major objective to be fulfilled in the upcoming period is the enhancement of safety standards on the network of the rail network administered by SŽDC.

The most significant IT achievement was the launch of the central server room of SŽDC in the TCC Prague building. It uses the most state-of-art technology including hard drive geocluster and the backup location enabling sophisticated data backup. The recently started project implementing Infrastructure technical description is the most significant IT project in the upcoming period.

In order to enhance passenger comfort and to achieve higher quality of services, SŽDC launched the Register of cleaning suggestions which should allow speeding up the cleaning of station premises above the regular cleaning schedule.

In 2017, SŽDC, as the state asset manager and with the consent of the Czech government, concluded 113 purchase contracts to sell



state-owned assets, 1 contract assigning the right to manage and 3 privatisation projects. As at 31 December 2017, 2,671 contracts for residential leases and 7,005 other lease contracts concerning the facilities managed by SŽDC had been concluded.

#### Expenses incurred on passenger station asset management

The expenses incurred on passenger station asset management comprise own performances provided by individual units of SŽDC and expenses arisen on contractual relations with subcontractors. These include in particular the cost of repairs and maintenance of real estate in train stations and the cost of cleaning services, security and energy consumption in these facilities. The funding of the above described activities is ensured from the SFTI budget, which provides SŽDC with non-investment funds to ensure real estate repairs and maintenance of service facilities (passenger stations) and from revenues from asset management (revenues from lease of land, structure and non-residential premises; revenues from services and performances rendered as subcontractors). Total expenses incurred on asset management excluding amortisation and including the adequate allocated portion of centrally recorded expenses of the DG for asset management's department reached CZK 1,278 million in 2017.

#### Modernisation and development of the rail infrastructure

In terms of modernising and developing the rail 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 rail 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 – Dětmárovice – 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 – Dětmárovice track section as part of the Second Corridor. The following table (Table 3) contains the incomplete track sections of the Third Corridor, which are in ongoing or design preparation stages.

Fourth corridor consists of the Horní Dvořiště – České Budějovice – Prague – Děčín – German state border tracks. The Prague – Děčín – German state border track section was

– Table 3 – Overview of works at the Third Corridor

Project	Length km	Stage of completion	Time frame	
			Launch	End
Modernisation of the Rokycany – Pilsen track section	20.2	ongoing	7/2013	12/2018
Optimisation of the Beroun – Králův Dvůr track section	4.9	ongoing	11/2016	6/2019
Optimisation of the Český Těšín – Dětmárovice track section	20.9	ongoing	8/2017	12/2019
Optimisation of the Prague Smíchov – Černošice track section	8.8	in preparation	2019	2021
Optimisation of the Černošice – Odb. Berounka track section	5.9	in preparation	2020	2026
Optimisation of the Berounka – Karlštejn track section	15.5	in preparation	2022	2027
Optimisation of the Karlštejn – Beroun track section	5.7	in preparation	2021	2024

– Table 4 – Overview of works at the Fourth Corridor

Project	Length km	Stage of completion	Time frame	
			Launch	End
Modernisation of the Sudoměřice – Votice track section	17.0	ongoing	3/2018	11/2021
Modernisation of the Nemanice I – Ševětín track section, 1 <sup>st</sup> construction, ETCS adjustments, part 2	4.3	ongoing	3/2018	1/2020
Modernisation of the Nemanice I – Ševětín track section, 1 <sup>st</sup> construction, ETCS adjustments, part 1	22.2	in preparation	2019	2020
Modernisation of the Veselí n. L. – Tábor track section, part 2, Veselí n. L. – Doubí u Tábora track section, stage 2 Soběslav – Doubí	8.6	in preparation	2019	2022

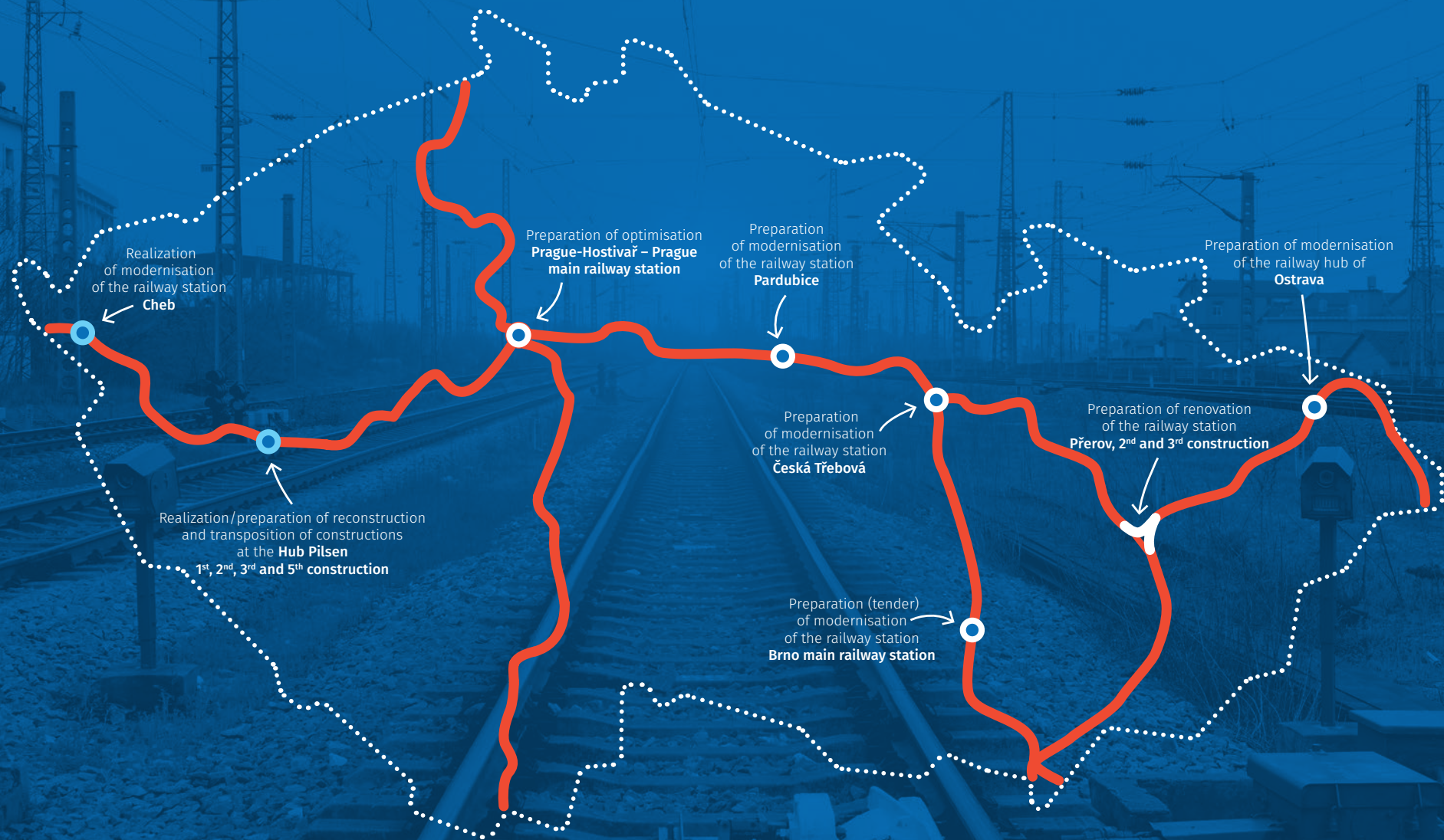
realised within the works on the First corridor. The following projects (Table 4) are ongoing or in design preparation stages in the Fourth Corridor, which concerns the Horní Dvořiště – České Budějovice – Prague track section.

#### 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), Olomouc and Bohumín have been completed. The projects related to the construction of the thoroughfares through the Pilsen junctions is ongoing. The Prague-Běchovice – Prague-Libeň and Prague-Holešovice – Prague-Bubeneč track sections have been completed, thus completing the First Corridor's thoroughfare at the Prague junction. The construction of the Prague-Hostivař station has also been completed, and the construction in the Prague Hostivař – Prague Vršovice track section, ensuring the admission of the

## Important construction projects at railway stations and hubs on the corridors





Fourth Corridor to the Prague junction has been launched. 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, Přerov, Ostrava, Pardubice and Česká Třebová.

#### *Modernisation of other lines integrated into the European railway system*

The reconstruction and modernisation of individual sections of the Kolín – Havlíčkův Brod – Křižanov – Brno track is being carried out gradually. Certain sections have already been completed. The modernisation of the sections Lysá nad Labem – Čelákovice – Prague Vysočany; Kolín – Nymburk – Všetaty – Ústí nad Labem – Děčín, Velký Osek – Hradec Králové – Choceň and Pilsen – Domažlice tracks sections are also being prepared. The constructions on the Ústí nad Labem – Most – Cheb and České Budějovice – Pilsen tracks sections are also being prepared. The project preparations for the construction of new sections on the Ústí nad Orlicí – Choceň and Brno – Přerov tracks are also underway.

#### *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 control-command and signalling units. 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 – Přerov – Petrovice u Karviné section, the GSM-R in the track sections Mosty u Jablunkova – Ostrava, Přerov – Česká

Třebová, Kolín – Všetaty – Děčín, Beroun – Prague – Benešov and Benešov – Votice and Kolín – Havlíčkův Brod – Křižanov – Brno was completed. Installation of the GSM-R is underway in the track sections Beroun – Pilsen – Cheb, České Velenice – České Budějovice – Horní Dvořiště, Pilsen – České Budějovice and Ústí nad Orlicí – Lichkov, and other track sections are under preparation.

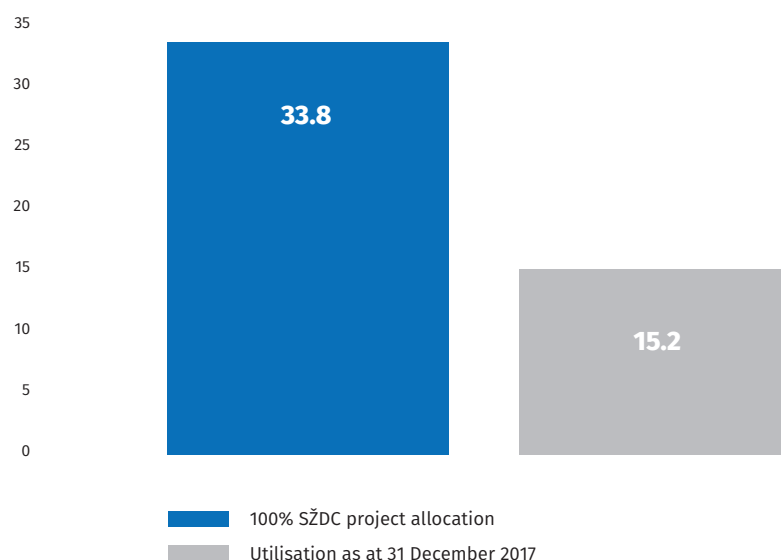
After the completion of the ETCS (European Train Control System) pilot project in the Poříčany – Kolín track section, installation of the ETCS is now underway in the track section Kolín – Břeclav – Austrian/Slovak state border and Petrovice u Karviné – Ostrava – Přerov – Břeclav. The track sections Kralupy nad Vltavou – Prague – Kolín, Prague Uhřetěves – Votice and Přerov – Česká Třebová are next, with other track section to follow.

#### *Investment in rail infrastructure to support the development of suburban transport and integrated transport systems*

In order to enhance the quality of suburban transport in the Prague junction, the modernisation, electrification and installation of second rails on the Prague – Kladno track with a connection to the Václav Havel Airport in Ruzyně. The modernisation is subdivided into several separate construction projects. The first project - the reconstruction of the Negrelli's viaduct – was launched in 2017. The reconstruction of the section Prague Smíchov – Hostivice which should enhance this track's throughput, has also been launched.

The planned optimisation projects of the Prague Vysočany – Lysá nad Labem and Prague main station – Prague Smíchov

**Chart 1 – Total utilisation of subsidies from OPT2 2014–2020 to be drawn until 2023 (in billion CZK)**



– Beroun and the enlargement of the underground corridors at the Prague main station should enhance the quality of the suburban transport. Further projects underway include the preparations for the installation of second rails on the Brno – Zastávka u Brna track section, including its electrification; and the modernisation of the Hradec Králové – Pardubice track section (the second rails in the Stěblová – Opatovice nad Labem track section have already been installed.

#### *Utilisation of Operational Programme Transport ("OPT") (budget period from 2014 to 2020)*

In 2017, SŽDC successfully continued drawing EU subsidies from the current programming period 2014–2020 (OPT2). The Subsidies from OPT2 were, among other things, used

to complete the funding of the 2<sup>nd</sup> stages of the so-called phased projects, i.e. projects launched from OPT1 and completed under the subsequent OPD2. In addition, a number of projects co-financed solely from OPT2 were launched. In 2017, the total amount of MT funds available for SŽDC constructions was reduced by the funds reallocated for modernisation of railway vehicles (incl. the acquisition of new railway vehicles) to enable enhancing the quality of travelling in the Czech Republic. The original allocation from OPT2, amounting to approximately CZK 39.9 billion in the 2014–2020 programming period under the specific objective 1.1, was reduced in 2017 to approximately CZK 33.8 billion (according to the statement of MT provided on 19 September 2017).

### CEF (Connecting Europe Facility)

Within the CEF programme, it will be only possible to finance projects on the main European rail network (the Core network). Apart from modernising lines, funds will also be directed at modernising selected junctions and ETCS implementation constructions. In 2017, the European Commission (EC) decided to include other construction projects submitted by SŽDC into this European subsidy programmed under the third call. The advantage of the newly approved projects is the possibility to draw EU subsidies until the end of 2023. The newly approved projects include for instance selected construction

projects in the optimisation of the Lysá nad Labem – Prague Vysočany track section or the Reconstruction of Přešov rail station, 2<sup>nd</sup> construction. The utilisation of CEF subsidies also increased significantly in 2017, in particular due to the following major constructions started:

- Optimisation of the Beroun (incl.) – Králův Dvůr track section;
- Reconstruction of the Pilsen railway junction (2<sup>nd</sup> and 3<sup>rd</sup> construction);
- ETCS Petrovice u Karviné – Ostrava – Přešov – Břeclav;
- Reconstruction of the Negrelli's viaduct

As at 31 December 2017, CZK 1.2 billion out of the total CEF allocation for SŽDC's constructions (of estimated amount CZK 21 billion) had been drawn.

### Investment grants

Funding for the investment projects came mostly from the public sources (Table 5). In 2017, the most significant investment subsidies were the national funds provided through the SFTI budget. In addition, the subsidies from OPT2 and from the CEF infrastructure fund were used to fund the construction and modernisation of RI. With respect to the railway infrastructure, SŽDC is acting as the final beneficiary and investor, and the main entity responsible for EU fund utilisation in the Czech Republic.

National SFTI funds incl. the sources to cover national contribution towards the European projects (CZK 6,948 million) accounted for the largest share of funding in 2017; and similar amount of funds was utilised from the OPD2 (CZK 6,729 million). The utilisation of CEF funds grew significantly year-on-year (CZK 1,083 million) as a result of the launch of new constructions. Rare small contributions were also received from regions, cities and municipalities.

The volume of investment subsidies received in 2017 for the preparation and implementation of investment projects relating to the railway infrastructure totalled CZK 14,878 million.

### Further development

The utilisation of subsidies from OPT2 and CEF within the current 2014–2020

programming period continued in 2017. The outlook for 2018 and onwards is to continue utilising these subsidies, with new sources, for instance EIB loans, of funding complementing them in the middle and long-term to ensure continuous construction funding after the OPD2 funds have been gradually exploited. Marginal utilisation of EU subsidies from other programmes, not primarily aimed at funding transport infrastructure (IROP, Operational Programme Environment, etc.) is also envisaged.

In 2017, the utilisation of OPD2 subsidies accounted for a significant portion of so called phased constructions' funding. These constructions were launched before 2016 using subsidies from OPT1; and the subsequent works performed in 2016 and 2017 were financed from OPT2. In 2018, the remaining payments for phased constructions are expected, with majority of projects funded entirely from OPT2. Given the sufficient number of major investment projects to be funding under OPT2, co-funding of smaller projects from the EU funds is not envisaged.

### CEF – Blending Call

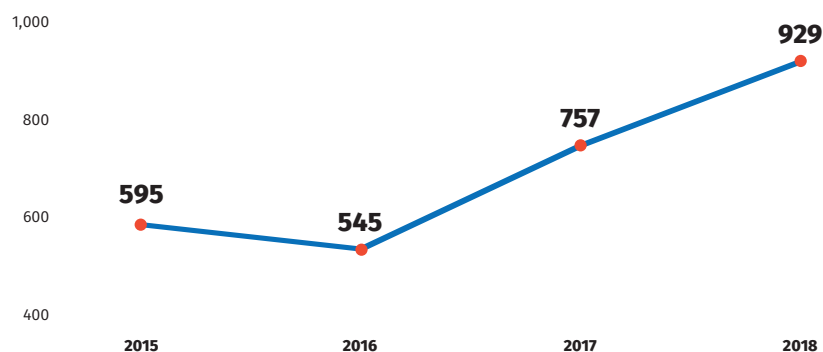
In the upcoming years, SŽDC is to utilise a new subsidy, so called CEF Blending Call, which is a combined funding consisting of CEF subsidies, EIB loans and national sources. The funds shall be utilised for the investment projects on selected sections of the

– Table 5 – Investment grants received for 2017 (in millions of CZK)

Investment grant	Amount
SFTI for construction and modernisation, nat. share, OPT, CEF, subsidy of MT	14,761
EU funds (pre-financing)	92
Contributions from cities, municipalities, regions and other entities	25
<b>Total investment grants</b>	<b>14,878</b>

Subsidies from SFTI for the construction and modernisation include funds from OPT, the CEF fund and subsidies from SFTI.

– Chart 2 – Utilisation of funds for construction preparations in the 2015–2018 period (in millions of CZK)



Note: The expected utilisation for 2018 is taken from the overview of global preparation items approved by MT

trans-European transport network TEN-T in the Czech Republic, including for instance:

- Velim – Poříčany
- Dětmarovice – Petrovice u Karviné – state border
- Choceň – Uhersko
- Ústí nad Orlicí – Brandýs nad Orlicí – original track
- Adamov – Blansko
- Brno-Maloměřice St. 6 – Adamov
- Lipník nad Bečvou – Drahotuše
- Polom – Suchdol nad Odrou

The modernisation of the rail 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 rail 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 unit.

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.

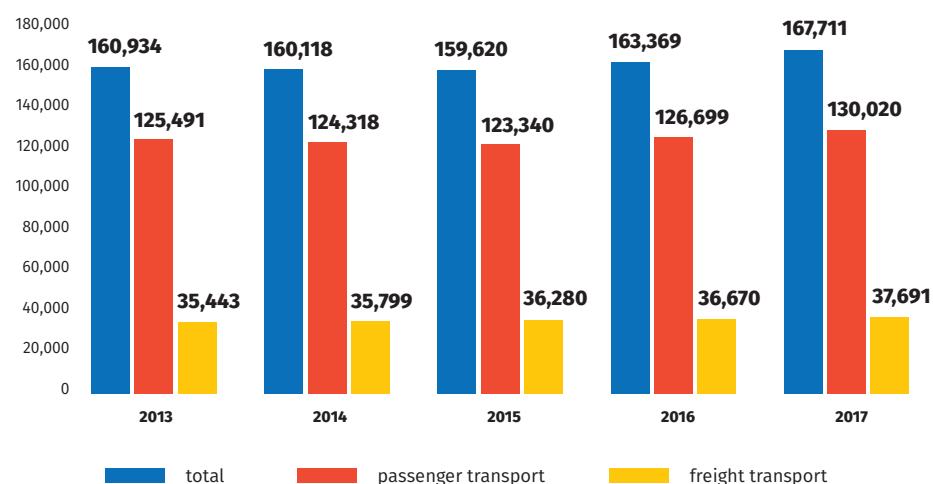
#### Utilisation of the rail infrastructure by carriers

In 2017, the total number of carriers that have concluded a contract with SŽDC for the operation of rail transport using the state-owned national and regional rail infrastructure as one of the pre-requisite to accessing the SŽDC infrastructure increased to 99. However, this does not mean that all the carriers use the rail infrastructure regularly throughout the year. Certain carriers only operate seasonally, occasionally ad hoc or not at all. The average number of carriers using the infrastructure was 63 carriers per month.

**Table 6 – Percentage share of carriers on passenger transport output (comparison of 2016 and 2017)**

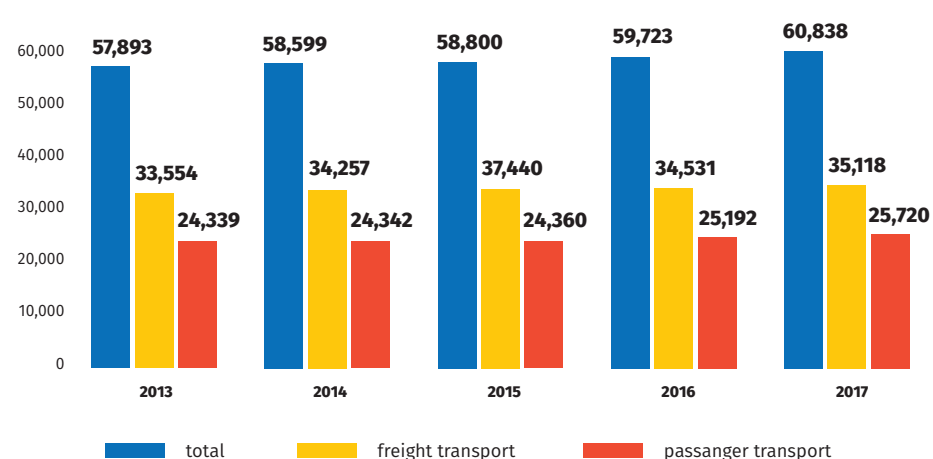
Carrier/indicator, year	trkm 2016	gtkm 2016	trkm 2017	gtkm 2017
České dráhy, a.s.	94.43	91.22	93.73	90.04
RegioJet a.s.	2.49	6.77	3.06	8.07
LEO Express a.s.	1.90	1.61	1.50	1.29
GW Train Regio a.s.	0.36	0.08	0.67	0.22
Die Länderbahn GmbH DLB	0.38	0.15	0.37	0.15
Other carriers	0.44	0.17	0.67	0.23

**Chart 3 – Output of carriers on network operated by SŽDC (thousands of trkm) between 2013 and 2017**



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

**Chart 4 – Output of carriers on network operated by SŽDC (millions of gtkm) between 2013 and 2017**



Note: 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.



**Table 7 – Percentage share of carriers on freight transport output (comparison of 2016 and 2017)**

Carrier/indicator, year	trkm 2016	gtkm 2016	trkm 2017	gtkm 2017
ČD Cargo, a. s.	63.98	64.81	63.01	63.21
Advanced World Transport a.s.	7.65	8.99	6.78	7.93
METRANS Rail s.r.o.	4.69	6.96	4.75	7.15
UNIPETROL DOPRAVA, s.r.o.	3.41	3.73	3.42	4.05
IDS CARGO a.s.	3.38	3.38	3.14	3.37
Rail Cargo Carrier - Czech Republic s.r.o.	1.59	2.22	2.04	2.98
PKP CARGO SPÓŁKA AKCYJNA	0.90	1.11	1.69	2.01
SD – Kolejová doprava a.s.	1.51	2.06	1.28	1.84
LTE Logistik a Transport Czechia s.r.o.	0.90	1.25	1.04	1.35
BF Logistics s.r.o.	0.86	1.14	0.89	1.24
Other carriers	11.13	4.35	11.96	4.87

**Table 8 – Number of carriers (as at 31 December of each respective year)**

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of carriers	56	53	62	68	75	79	84	89	94	96	99

**Table 9 – Number of track sections in timetables according to category (irrespective of carrier)**

Indicator	2016	2017
Passenger trains	8,308	8,282
Limited-stop trains	379	471
Express trains	426	451
Higher-quality trains (EC, EN, Ex, IC, LE, SC, railjet, Regiojet, Arriva express)	199	222
Express freight trains	314	319
Through freight trains	623	627
Slow goods and work-siding trains	765	809
Trainsets	575	573
Locomotive trains	428	404
SŽDC's catalogue (offer) routes	1,923	1,963
<b>TOTAL</b>	<b>13,940</b>	<b>14,121</b>

As in prior years, the total volume of outputs in **passenger transport** continued to increase steadily. Compared to 2016, train kilometres (trkm) increased by 2.6%, and gross tonne-kilometres (gtkm) by 2.1%, with ČD, whose volume of outputs grew in proportion, accounting for the majority of the total outputs. However, other passenger carriers recorded an increase in outputs, in particular RegioJet a.s. and GW Train Regio a.s. RegioJet a.s. ranked 4th out of all freight and passenger carriers, not only in terms of outputs but also in terms of revenues.

**In freight transport**, total outputs reported a year-on-year increase, with trkm increased by 2.8% and gtkm by 1.7%. ČD Cargo, a.s. has retained the majority share on the outputs, though the share has decreased slightly. This reflects the fact that the total outputs of ČD Cargo, a.s. remained the same as in 2016, while the total volume increased. Consequently, the increase in the output of freight transport is due to the increase of other freight carried, in particular METRANS Rail s.r.o., Rail Cargo Carrier - Czech Republic s.r.o., PKP Cargo Spolka Akcyjna, as well as some smaller carriers. SŽDC continues to offer non-discriminatory special price tariffs (discounts) to all carriers which act as a major incentive towards the use of the railway freight transport. This includes in particular special price tariff K for combined transport freight trains and special price tariff J for freight trains carrying individual train consignments.

By allocating rail 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 the customers and helps to cultivate the business environment.

A total of 14,121 trains in 2017 is an increase by 181 trains compared to 2016.

## Human resources

### Employees

As at 1 January 2017, SŽDC had 17,447 employees working in 186 professions across its 24 organisational units which operate in individual regions of the Czech Republic.

Since its inception 14 years ago, when SŽDC launched its operation on 1 January 2003 with only 61 employees, SŽDC has become a major employer in the Czech Republic and the largest employer in the rail transport sector.

In 2017, the organisation structure of individual organisational units consolidated. In order to achieve the set objectives in the field of railway operability, rail modernisation and asset management, the number of employees ensuring these activities increased in 2017. The headcount in railway operability increased by 107 (i.e. by 1.3%), in railway modernisation by 21 (i.e. by 4.3%) and in asset management by 33 (i.e. by 9.3%). 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 177 (i.e. by 2.2%). 188 employees were paid severance payments during 2017.

In 2017, the average recalculated number of full-time employees amounted to 17,422.30 (year-on-year increase by 97.20 employees,

Chart 5 – Number of SŽDC's employees from 2003 to 2017

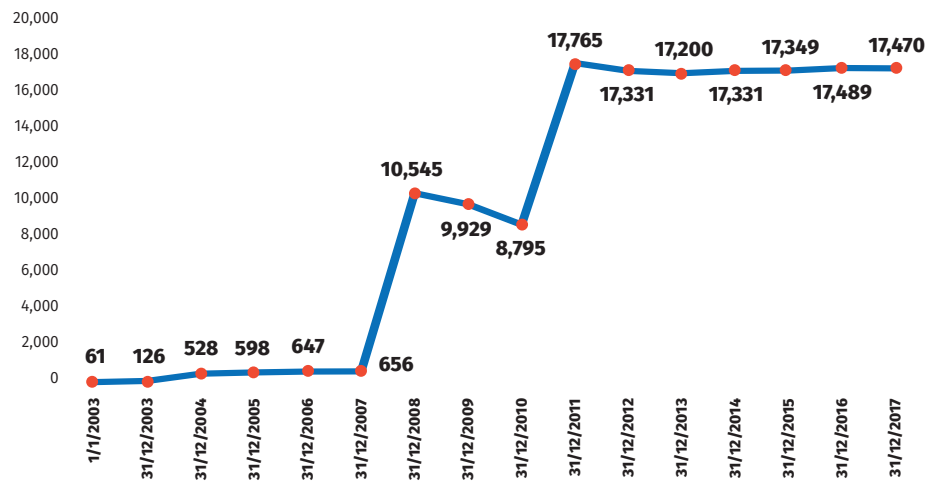
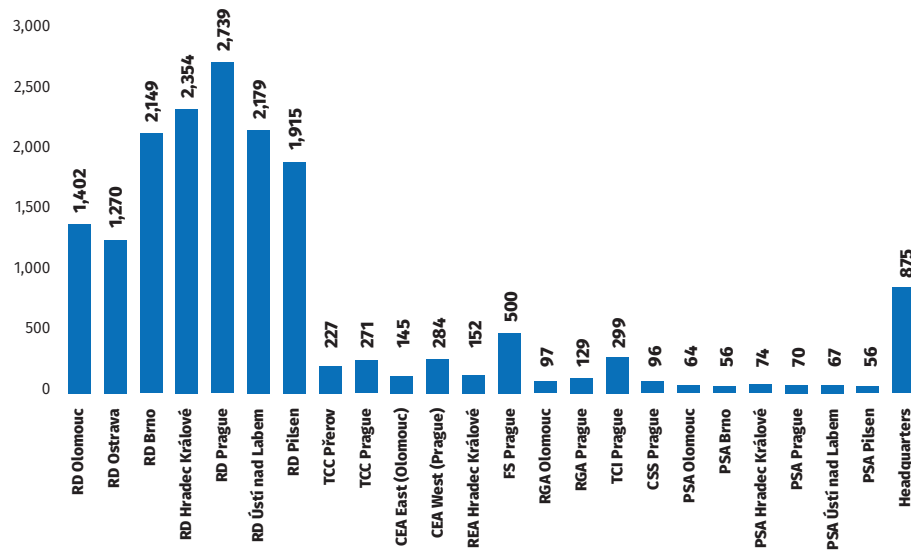


Chart 6 – Number of employees by organisational unit at 31 December 2017



(RD – Regional Directorate, TCC – Central Traffic Control, CEA – Civil Engineering Administration, REA – Railway Energy Administration, FS – Fire Service, RGA – Railway Geodesy Administration, TCI – Technical Centre of Infrastructure, CSS – Centre of Shared Services, PSA – Passenger Station Administration)

Chart 7 – Age structure of employees as at 31 December 2017

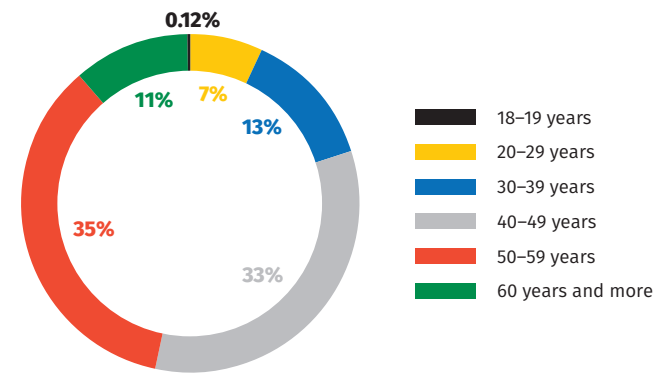


Chart 8 – Gender structure of employees as at 31 December 2017

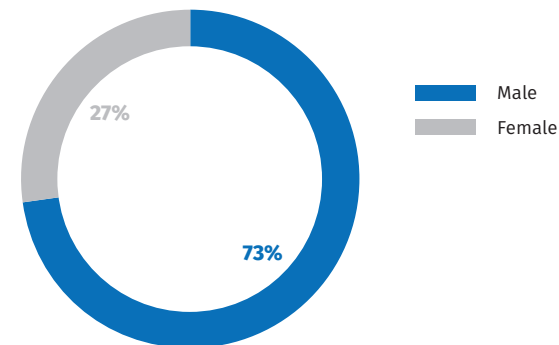
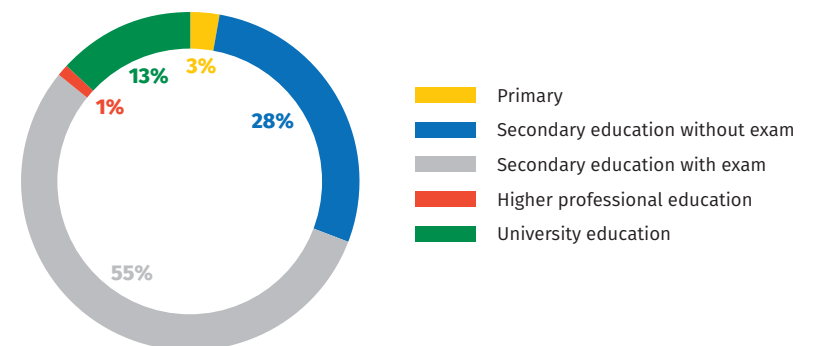


Chart 9 – Employee structure by educational attainment as at 31 December 2017



i.e. by 0.56% as a result of the transfer of a part of Železniční stanice from ČD to SŽDC as at 1 July 2016).

The age structure of employees did not change significantly year-on-year (Chart 7). As at 31 December 2017, the average age of SŽDC's employees was 47.73 years (year-on-year increase by 0.3%).

Rail transport is a male-dominated industry. This is confirmed by the prevailing share of male employees, which was 73% as at 31 December 2017 (Chart 8).

In comparison with 2016, the structure of SŽDC employees by educational attainment did not change significantly in 2017 (Chart 9). The share of employees with incomplete, primary or secondary education without exam amounted to 31% (i.e. decrease by 2% compared to 2016) while the share of employees with secondary education with exam remained at 55%. The share of employees with higher professional education and a university degree increased by 2%, accounting for 14%.

#### *Remuneration and employee benefits*

The remuneration policy and the extent of employee benefits provided were negotiated in SŽDC's Collective Agreement for the 2016-2017 period. 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 2017, 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 2017. 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 2,484 employees performing selected professions determined to be exhausting attended a re-conditioning treatment programme at one of the four designated spa facilities (Jeseník Priessnitz Spa, Niva Luhačovice Spa, Lúčky Spa and Rajecké Teplíce 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. The employees were given monetary gifts on the occasion of a life or working anniversary and upon the first termination of employment in case the entitlement to pension or disability pension arises. In serious cases, the employer provided employees with social aid or interest-free social loan. 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 2017, nine trade union organisations – both multi-profession organisations as well as organisations representing a single profession – continued to operate at SŽDC. During 2017, 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 26 September 2017, collective agreement bargaining in respect of the new SŽDC's Collective Agreement for the period ending 31 December 2017 was held. Since no compromise had been reached in respect of the wage increase, the new Collective Agreement failed to be signed as at 1 January 2018. On 27 December 2017, 2<sup>nd</sup> amendment to the existing SŽDC's Collective Agreement was concluded. The collective agreement bargaining was then completed on 11 January 2018 by signing the SŽDC's Collective Agreement valid for the period from 1 February 2018 to 31 December 2019.

#### *Training*

On 3 October 2016, Act no. 319 from 6 September 2016, amending Act no. 266/1994 Coll., on Rail systems, was published; taking effect as of 1 April 2017. Consequently, certain conceptual changes had to be adopted in respect of exam preparations and subsequent regular trainings (s.46s (4) of the Railway Act). In compliance with the requirements of the Railway Act, SŽDC obtained the ISO 9001:2015 certificate for the trainings provided for by the SŽDC's Zam1 guideline. Subsequently, SŽDC obtained the Legal entity accreditation certificate from the Czech Railway Authority on 9 June 2017. Thus, all statutory prescribed prerequisites for knowledge and skills testing and employee training have been fulfilled. The area of education is in compliance with the approved objectives of the updated SŽDC's Human resources management policy.

#### *Medical care at work*

Occupational medical care was provided to SŽDC employees through a contractual health-care 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, with approximately 100 physicians providing labour-related professional services to SŽDC through contractual provider.

#### *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 2017, we recorded a total of 397 work injuries, none of them being fatal. A total of 3 work injuries required hospitalisation for more than five days; 144 work injuries were classified as other work injuries with a subsequent sick leave longer than three calendar days, 1 work injury was classified as other with a subsequent sick leave of up to three working days and the remaining 249 work injuries without any subsequent sick leave.

#### **International cooperation**

In terms of international cooperation, SŽDC continued actively to support and promote the interests of the Czech rail infrastructure, in particular by influencing crucial technical and technological parameters and legislation to the benefit of further efficient



development of rail business in the Czech Republic. The Czech railway network should be being efficiently incorporated into the key European backbone networks, jointly offering a reliable alternative to overloaded roads passenger and, most importantly, freight transport. The incorporation of the 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. Meeting this objective is conditional on intensive Europe-wide cooperation across all levels of management.

In 2017, SŽDC continued to negotiate effectively with its international partners, both bilaterally and within international railway organisations and through direct involvement in European Commission's Committees for railway interoperability and safety. In the framework of the activities of CEN/CENELEC, the SŽDC experts participated in the preparation and amendment of European standards. Certain framework contracts on infrastructure interconnection and cross-border agreements with Polish and Slovak railways have been revised. New contracts were concluded between SŽDC and ÖBB-INFRA AG incorporating the amendments governing the enhanced rail transport organisation on border lines. In 2017, the negotiations of the representatives of the Czech Republic and Germany about the investments into the Prague – Munich, Prague – Nurnberg and the planned high-speed connection Prague – Dresden lines continued. Moreover, negotiations between the Czech Republic, Germany and Poland in respect of the privileged track section between the border stations Hrádek nad Nisou – Zittau leading through the Polish territory were held.

**RFC – Rail freight corridors.** In accordance with the Regulation no. 913/2010 of the European Parliament and of the Council concerning a European rail network for competitive freight and related legislation, SŽDC continuously to actively participate in the bodies of the four national rail freight corridors.

The corridors concerned are: Baltic-Adriatic, Orient and east Mediterranean (RFC 7), North Sea – Baltic and Czech-Slovak corridors which by 2020 should be integrated into the Rhine-Danube corridor.

#### *International railway organisations*

**UIC – International Union of Railways.** SŽDC continues to strive for harmonising the technical standards for railways, which has been the main role of UIC since its inception. SŽDC's experts actively participated in various working groups and particular projects, primarily within the Rail System Forum. In 2017, we succeeded in incorporating SŽDC's comments and influencing both new and revised guidelines. Sharing of experience related to railway superstructure and substructure, artificial structures, communication and control-command and signalling units, energy systems, electric traction, implementation of ERTMS and ETCS. SŽDC has actively participated on the activities of the FRMCS working group, addressing the definition of technical parameters and operation and users system conditions. SŽDC also participated in projects under the UIC Environment Platform, in particular in reducing noise burden and weed killing. Ensuring safety operation and the issue of migration waves were discussed at a number of meetings of the UIC Security Platform, of which SŽDC is a member. Cyber security issues were at the forefront

of the debates. In 2017, SŽDC continued to preside the UIC New Technologies' working group. In December 2017, a conference was held in Prague, where further use of drones, CCTV systems and other technologies was addressed.

**CER – Community of European Railway and Infrastructure Companies.** Within this organisation, SŽDC cooperates on the preparation of position papers on EU draft legislation affecting rail transport. SŽDC experts cooperated with CER in the working groups focused on infrastructure, European corridors, safety, human resources, ERTMS and other issues.

**RNE – Rail Net Europe.** SŽDC actively participated in the activities of the international organisation RNE, which is a major non-profit association of European infrastructure managers (IMs) and allocation bodies. All RFC became associated members in 2016. In 2017, the organisation continued to provide support to carriers with respect to their cross-border activities and on improving the efficiency of processes of IMs and RFC, primarily by further harmonising the conditions for cross-border rail transport, coordinating the preparation of timetables across Europe and ensured the unification of the marketing and sale of international paths (including the Statement on railway and Corridor information documents). Of particular note was the cooperation of infrastructure managers with regard to railway operation and RFC development.

**OCR – Organisation for Cooperation between Railways.** In 2017, the senior management of SŽDC attended the conference of directors

general, one of highest statutory sessions of the intergovernmental institution. The experts of SŽDC continued to participate in projects of OSJD's Commission V – Infrastructure and Rolling Stock, in particular in working groups dealing with railway superstructure (catalogue of rail defects), substructure and track diagnostics.

**ETSI – European Telecommunications Standards Institute.** SŽDC is a member of ETSI which focuses on European telecommunications standards with worldwide impact. As a member, SŽDC has unrestricted access to all published standards and specifications in this field.

# Financial performance

## Financial performance of SŽDC

An accounting loss of CZK 1,093 million was recorded for the 2017 accounting period. The negative result reflects the difference between 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 in 2017 and it will exceed this amount also in the following years.

**The financial indicator EBITDA (without debt remission) reached a positive amount of CZK 853 million. EBITDA indicates the difference between the SŽDC's revenues and expenses, excluding taxation, interest, depreciation and debt remission. At the same time, EBITDA is net of non-financial operations - operating provisions recognition.**

**Revenue from use of RI** represents payments for track access by carriers. In 2016, this was a significant source of income for SŽDC, used to cover expenses incurred on ensuring RI operability.

**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 from SFTI for repairs and maintenance of national and regional tracks** constitute revenue and are used to cover expenses relating to the operability of RI. Based on a contract, SFTI non-investment funds to finance repairs and maintenance of national and regional tracks owned by the state and administered by SŽDC.

**Subsidies from SFTI for repairs and maintenance of passenger stations** are provided based on a contract concluded to finance non-investment repairs and maintenance of service facilities (passenger stations).

**Subsidies from SFTI for the operability of the RI** are provided by SFTI based on a contract concluded to finance non-investment expenses incurred to ensure the operability of RI.

**Subsidies from SFTI co-financed from OPT** were used in 2017 to complete the projects which until the end of 2015 had been co-financed from the OPT1 funds.

**Other subsidies** primarily comprise purpose-built subsidies received between January and March 2017 from the Czech Ministry of Transport to cover the trains substituted by the carrier with bus transport for the interrupted

**Table 10 – The items that had the biggest impact on the economic results of SŽDC for 2017 (in millions of CZK)**

Indicator	2017
Revenues from RI utilisation	4,117
Revenues from allocated RI capacity	107
Subsidies from SFTI for repairs and maintenance of national and regional tracks	11,932
Subsidies from SFTI for repairs and maintenance of the passenger station premises	1,000
Subsidies from SFTI for the operation of RI	5,750
Subsidies from SFTI co-financed from OPT	136
Other subsidies	62
SŽDC debt remission as per Czech Government Resolution No. 1553 from 2005	706
Purchase and sale of energy and distribution services	377
Materials, energy consumption and services	-10,914
Personnel expenses	-9,795
Accounting depreciation	-4,214
Other operating revenues and expenses	-559
<b>Operating profit/loss</b>	<b>-1,295</b>
Interest income and expense	-65
Exchange rate difference	76
Other financial revenues and expenses	-1
<b>Profit/loss from financial operations</b>	<b>10</b>
<b>Profit/loss before tax</b>	<b>-1,285</b>
Deferred tax	-193
<b>Profit/loss after tax for the year</b>	<b>-1,093</b>
<b>EBITDA</b>	<b>853</b>

public railway transport as a result of planned railway operation interruptions. In addition, other subsidies include an operation related subsidy from SFTI for the studies and a subsidy from SFTI for civil engineering administration for small non-investment expenses.

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 rail infrastructure, passenger station asset management, and expenses incurred in connection with repairs and maintenance provided by external suppliers.

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

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

SŽDC's **other operating revenues and expenses** include other revenue and expense items, e.g. 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 other fees.

**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 rail infrastructure improvement projects does SŽDC use its own resources to pay all expenses related to the loan agreement, (including interest).

**Exchange rate differences** arise in particular from the translation of foreign currency liabilities, loans and interest at the exchange rate valid as at 31 December 2017. The loans taken over from the former state organisation ČD, s. o. are now denominated only in euro.

The 2017 result also comprises the change in deferred tax liability of CZK 193 million. The individual items of the deferred tax are described in the notes to the financial statements.

### Financial outlook for 2018

SŽDC's goal is to work closely with relevant state administration bodies in order to keep cash inflows and outflows in individual segments of activity in balance while not increasing SŽDC's requirements for state budget funds. SŽDC's sources of income in individual segments must fully cover corresponding operating cash outflows in any given year. The main limiting factor is the amount of non-investment subsidy allocated from SFTI for ensuring the operability of the rail infrastructure, repairs and maintenance of passenger stations and the pricing policy applied to the

use of the rail infrastructure. The aim of SŽDC is to stabilised cash inflows and outflows as to achieve a balanced cash flow sum.

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 rail infrastructure enabling reliable and safe passenger and freight rail transport, and to ensure that the stations are in good technical, operation and aesthetic condition, thus meeting the standards of modern transport.

### Risk management

At SŽDC, risk management is a continuous, systematic and methodical activity organised by the organisation's management in conjunction with the Internal Audit Department as part of the internal control system.

The process includes mapping all potential risks, assessing the materiality of risks based on the probability of their occurrence and potential impact, adopting a set of measures to eliminate or minimise risks or to mitigate their adverse effects, and monitoring the implementation and effectiveness of such measures. To help minimise risks, internal policies have been set up.

### Operational risks

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 including tests of physical and mental fitness are performed. Risk management also involves developing and constantly maintaining a system of internal policies that define the requirements for the individual components of the rail infrastructure as well as the correct procedures for performing activities related to RI. In addition, regular inspections and measurements are carried out to assess the technical condition of the rail 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 risks*

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, ensuring the operability of RI and RI operation are financed in particular 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 in 2017 comprised the continuous monitoring and management of cash flows.

The interest rate and currency risks are connected primarily with long-term loans for the construction and reconstruction of rail corridors denominated both in euro 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 and cyber security 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 and up-to-date anti-virus protection, regular OS upgrades, gradual

limitation of individual users' access rights and backup of centrally stored data are used.

In compliance with Act no. 181/2014 Coll., on Cyber Security and in order to fulfil the requirements in respect of the protection of information and communication systems of critical information infrastructure, primary and secondary assets were identified in 2017. Subsequently, a risk analysis was performed, which identified and assessed information security risks. Risk management measures, which include the prioritisation of individual remedial measures and methods of risk mitigation, were drafted. Besides technical measures, organisational measures have also been drafted. These are not expensive, yet at the same time they mitigate the risks identified, for instance in the area of human resources, efficiently. Technical measures proposed taking into account the operational needs and in cooperation with all relevant professional departments of SŽDC.

The emphasis is put on the definition of security requirements for subcontractors, segmentation and ensuring security of industrial and control systems. The measures were proposed so as to cover any possible GDPR related risks.

#### *HR risks*

SŽDC's interests regarding the requirements on future employees have been secured through cooperation with secondary (high) schools and universities, which includes the 'Nádražák' student programme, 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 order to minimise corruption risks and ensure prevention of and response to detected corruption allegations, SŽDC issued the Employee Code of Conduct and the Internal Anti-Corruption Programme including the Corruption Risk Catalogue. At the same time, a system of regular annual assessment of the efficiency of the Internal Anti-Corruption Programme and its updating was implemented. In 2017, the Code of Ethics for employees, the Internal Anti-Corruption Programme and the Corruption Risk Catalogue were updated. The employee education system was expanded to include a regular e-learning course addressing internal anti-corruption measures. In compliance with Government Decree no. 145/2015 Coll., the electronic system supporting the acceptance of alerts of illegal act allegation was implemented and reviewers for these alerts were assigned.

# 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 2017, SŽDC continued its cooperation with selected technical secondary schools and universities, whose graduates may find employment with SŽDC in the future. Students have 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, provide insight in creating their syllabus, define topics for students' theses, and attend professional conferences organised by partner schools. A number of excursions for the students, not only from the partner schools, are held. The students were offered the possibility to take selected SŽDC professional exams. The manager of rail infrastructure was actively involved in recruiting students for the schools by means of School Atlas, the

in-house bulletin 'My Railways' or by means of the [www.szdc.cz/studenti](http://www.szdc.cz/studenti) website.

## *Student programme 'Nádražák'*

In 2017, the support the professional education and the recruiting at SŽDC's contractual schools by means of the 'Nádražák' student programme intensified. The programme provides the students with a monthly study allowance and ensures them a secure job after the graduation. The programme title 'Nádražák' (RailPupil) reflects not only the railway tradition but also the life-long education which can involve anyone – pupils, students and employees alike.

## *Train of prevention on a safe railway*

The long-term joint project of ČD and SŽDC aims at primary and secondary school students, raising their awareness of the main risks of inappropriate railway and train behaviour. The programme includes for instance debates with police forces and professionals dealing with railway-related extraordinary events on railways, the projection of prevention safety spot 'To nedáš!' and discussions with professionals dealing with the railway accidents. Railway fire fighters present their work and teach the pupils the first aid. The special 'Train of Prevention' visited the following stations: České Budějovice, Strakonice, Jindřichův Hradec and Benešov u Prahy in the spring, and Kralupy nad Vltavou, Prague

Dejvice, Letohrad, Česká Třebová and Choceň in the autumn.

## *Student Cup*

In 2017, the fifth year of the project, which focuses mainly on 8th and 9th grade primary school pupils, was held in three cities - traditionally in Prague, and this year for the first time in Ostrava and Pilsen. At these events, SŽDC presented selected railway professions and presented job opportunities in SŽDC. In addition, partner schools from the particular region and their programmes related to SŽDC's activities were presented to the pupils. The objective of the project is not only to present the Company as a modern employer while at the same time helping the schools to recruit students for the technical subjects.

## *Student conference*

Prague hosted another 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 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 interfaces. Other applicants could watch the live broadcasting of the entire programme. The significance of

the conference was supported by the participation of both Czech and foreign railway traffic experts.

## *The SŽDC team*

In 2017, 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. By posting

messages, comments, pictures or videos, they 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. A new feature in 2017 were two Road shows of the SŽDC's team which took place in Prague and Olomouc; and the introduction of the Employee of the Year award.

### Environment

The environment and its protection are rather strictly regulated by both European and national legislation. It is obvious that adverse impacts on the environment are mitigated in complying with legal requirements. The plant and medical care is included (with regards to the application of biocide), so is the public health protection (with regards to noise and vibrations). From the point of view of environmental protection, railway transportation, or the railways as such, is considered as highly competitive means of transport. Nonetheless, it is necessary to continue to further mitigate the impacts on environment, including noise, vibrations, dustiness and air pollution, and to scale down the amount of waste created.

In 2017, the activities regarding the vegetation management continued. These include a regular removal of non-indigenous species of low environmental and aesthetical value, which could, in case they fall, threaten the safety of rail transport and impede traffic. The objective of SŽDC is to prevent any emergencies arisen thereof. Thanks to the amended version of s. 8 of Act no. 114/1992 Coll., on Nature and landscape protection, in effect as of April 2017, it is now possible to notify the nature preservation authorities no less than

15 days prior to the removal of woody species in the surroundings of and in the railway buffer zone in order to ensure rail operability and safety.

It is now clear that the issue of the removal of overgrowth on the land of other legal entities in the railway buffer zone will be a priority in the future, and that efficient mechanisms need to be established to reduce the risks threatening the railway operation. In 2017, the exemptions in respect of the biocide application in the first and second zones of national parks, protected landscape areas and other selected specially protected areas.







# Financial section





## Independent auditor's report



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

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

#### Opinion

We have audited the accompanying financial statements of Správa železniční dopravní cesty, státní organizace ("the Organization"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2017, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Organization is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Organization as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

#### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organization in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of 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 4.13.2 to the financial statements, the long-term payables to banks 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 the Organization 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, in which the government determined the manner of waiver of the payables of the Organization until the moment of their redemption. In 2017, payables totalling CZK 706 million were waived and this amount was recorded as part of other operating revenues. Our opinion is not modified in respect of this matter.



### *Other Information*

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the financial statements does not cover the other information. 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 is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- the other information describing matters that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and

- the other information has been prepared in accordance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Organization obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

### *Responsibilities of the Statutory Body and Audit Committee for the Financial Statements*

The statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the statutory body is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for the oversight of the Organization's financial reporting process.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events

or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### *Statutory Auditor Responsible for the Engagement*

Karel Charvát is the statutory auditor responsible for the audit of the financial statements of Správa železniční dopravní cesty, státní organizace as at 31 December 2017, based on which this independent auditor's report has been prepared.

Prague, 8 June 2018

KPMG Česká republika Audit 

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

Ing. Karel Charvát  
Partner  
Registration number 2032





Most things in our lives can't be done without scheduling. As a reliable partner in the area of travel, we ensure smooth running of the rail transport. Satisfaction of passengers with quality of the provided services, including schedule adherence, is decisive to us. In 2017, we achieved train schedule adherence of more than 90 percent.

# BALANCE SHEET

## in full format as at 31 December 2017

(in thousands of Czech crowns)

Identification number:  
70994234

Name and regist. office of the Company:  
Správa železniční dopravní cesty,  
státní organizace  
Dlážděná 1003/7  
110 00, Prague 1 - Nové Město  
Czech Republic

Ident.	ASSETS	Line	Current period			Prior period
			Gross	Adjust.	Net	Net
	<b>TOTAL ASSETS</b>	<b>1</b>	<b>180,674,098</b>	<b>-113,181,644</b>	<b>67,492,454</b>	<b>72,746,546</b>
<b>B.</b>	<b>Fixed assets</b>	<b>2</b>	<b>175,243,273</b>	<b>-112,570,120</b>	<b>62,673,153</b>	<b>66,982,500</b>
B.I.	Intangible fixed assets	3	871,175	-733,787	137,388	180,648
B.I.2.	Intellectual property rights	4	849,481	-728,878	120,603	178,353
B.I.2.1.	Software	5	849,481	-728,878	120,603	178,353
B.I.4.	Other intangible fixed assets	6	5,032	-4,909	123	376
B.I.5.	Advance payments for intangible fixed assets and intangible fixed assets under construction	7	16,662		16,662	1,919
B.I.5.1.	Advance payments for intangible fixed assets	8	445		445	446
B.I.5.2.	Intangible fixed assets under construction	9	16,217		16,217	1,473
B.II.	Tangible fixed assets	10	174,372,098	-111,836,333	62,535,765	66,801,852
B.II.1.	Land and buildings	11	143,720,696	-90,592,563	53,128,133	55,736,093
B.II.1.1.	Land	12	6,809,207	-24,297	6,784,910	6,788,648
B.II.1.2.	Buildings	13	136,911,489	-90,568,266	46,343,223	48,947,445
B.II.2.	Plant and equipment	14	19,977,923	-15,961,546	4,016,377	4,527,735
B.II.3.	Adjustments to acquired fixed assets	15	8,435,517	-5,219,131	3,216,386	3,778,754
B.II.4.	Other tangible fixed assets	16	3,400	-585	2,815	1,704
B.II.4.3.	Other tangible fixed assets	17	3,400	-585	2,815	1,704
B.II.5.	Advance payments for tangible fixed assets and tangible fixed assets under construction	18	2,234,562	-62,508	2,172,054	2,757,566
B.II.5.1.	Advance payments for tangible fixed assets	19	331,752		331,752	341,552
B.II.5.2.	Tangible fixed assets under construction	20	1,902,810	-62,508	1,840,302	2,416,014

## BALANCE SHEET

### in full format as at 31 December 2017

(in thousands of Czech crowns)

Ident.	ASSETS	Line	Current period			Prior period
			Gross	Adjust.	Net	Net
<b>C.</b>	<b>Current assets</b>	<b>21</b>	<b>5,371,446</b>	<b>-611,524</b>	<b>4,759,922</b>	<b>5,674,265</b>
C.I.	Inventories	22	551,673	-14,445	537,228	411,363
C.I.1.	Raw materials	23	551,669	-14,445	537,224	411,064
C.I.2.	Work-in-progress and semi-finished products	24				222
C.I.3.	Finished goods and goods for resale	25	3		3	4
C.I.3.2.	Goods for resale	26	3		3	4
C.I.5.	Advance payments for inventories	27	1		1	73
C.II.	Receivables	28	2,359,072	-597,079	1,761,993	2,062,589
C.II.1.	Long-term receivables	29	107,419		107,419	183,527
C.II.1.1.	Trade receivables	30	106,480		106,480	181,642
C.II.1.5.	Receivables - other	31	939		939	1,885
C.II.1.5.2	Long-term advances paid	32	939		939	1,885
C.II.2.	Short-term receivables	33	2,251,653	-597,079	1,654,574	1,879,062
C.II.2.1.	Trade receivables	34	1,711,136	-550,826	1,160,310	1,299,584
C.II.2.4.	Receivables - other	35	540,517	-46,253	494,264	579,478
C.II.2.4.3	Tax receivables	36	218,344		218,344	153,694
C.II.2.4.4	Short-term advances paid	37	110,097		110,097	109,823
C.II.2.4.5	Estimated receivables	38	139,076		139,076	291,762
C.II.2.4.6	Other receivables	39	73,000	-46,253	26,747	24,199
C.IV.	Cash	40	2,460,701		2,460,701	3,200,313
C.IV.1.	Cash in hand	41	2,629		2,629	2,838
C.IV.2.	Bank accounts	42	2,458,072		2,458,072	3,197,475
<b>D.</b>	<b>Deferrals</b>	<b>43</b>	<b>59,379</b>		<b>59,379</b>	<b>89,781</b>
D.1.	Prepaid expenses	44	22,195		22,195	23,095
D.3.	Accrued revenues	45	37,184		37,184	66,686



## BALANCE SHEET

### in full format as at 31 December 2017

(in thousands of Czech crowns)

Ident.	LIABILITIES	Line	Current period	Prior period
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>46</b>	<b>67,492,454</b>	<b>72,746,546</b>
<b>A.</b>	<b>Equity</b>	<b>47</b>	<b>54,358,571</b>	<b>55,525,850</b>
A.I.	Registered capital	48	57,355,961	57,347,839
A.I.1.	Registered capital	49	57,355,961	57,347,839
A.II.	Premium and capital contributions	50	1,226,852	1,179,241
A.II.2.	Capital contributions	51	1,226,852	1,179,241
A.II.2.1.	Other capital contributions	52	1,226,852	1,179,241
A.III.	Funds from profit	53	36,899	165,797
A.III.1.	Other reserve funds	54	36,899	165,797
A.IV.	Retained earnings (+/-)	55	-3,168,344	-1,067,465
A.IV.2.	Accumulated losses (-)	56	-3,155,345	-1,055,783
A.IV.3.	Other retained earnings (+/-)	57	-12,999	-11,682
A.V.	Profit (loss) for the current period (+/-)	58	-1,092,797	-2,099,562
<b>B. + C.</b>	<b>Liabilities</b>	<b>59</b>	<b>12,980,849</b>	<b>17,041,468</b>
<b>B.</b>	<b>Provisions</b>	<b>60</b>	<b>3,456,331</b>	<b>4,891,553</b>
B.4.	Other provisions	61	3,456,331	4,891,553
<b>C.</b>	<b>Liabilities</b>	<b>62</b>	<b>9,524,518</b>	<b>12,149,915</b>
C.I.	Long-term liabilities	63	4,998,852	5,546,060
C.I.2.	Liabilities to credit institutions	64	953,980	1,757,237
C.I.4.	Trade payables	65	365,028	132,822
C.I.8.	Deferred tax liability	66	2,827,075	3,019,775
C.I.9.	Liabilities - other	67	852,769	636,226
C.I.9.3.	Other payables	68	852,769	636,226

## BALANCE SHEET

### in full format as at 31 December 2017

(in thousands of Czech crowns)

Ident.	LIABILITIES	Line	Current period	Prior period
C.II.	Short-term liabilities	69	4,525,666	6,603,855
C.II.2.	Liabilities to credit institutions	70	224,995	1,493,418
C.II.3.	Short-term advances received	71	189,800	194,162
C.II.4.	Trade payables	72	1,661,197	2,410,898
C.II.8.	Liabilities - other	73	2,449,674	2,505,377
C.II.8.3.	Payables to employees	74	562,352	505,311
C.II.8.4.	Social security and health insurance liabilities	75	311,732	272,914
C.II.8.5.	Tax liabilities and subsidies	76	1,214,781	1,373,064
C.II.8.6.	Estimated payables	77	360,317	353,444
C.II.8.7.	Other payables	78	492	644
<b>D.</b>	<b>Accruals</b>	<b>79</b>	<b>153,034</b>	<b>179,228</b>
D.1.	Accrued expenses	80	93,683	90,850
D.2.	Deferred revenues	81	59,351	88,378

# INCOME STATEMENT

## classification by nature for the year ended 31 December 2017

(in thousands of Czech crowns)

Identification number:  
70994234

Name and regist. office of the Company:  
Správa železniční dopravní cesty,  
státní organizace  
Dlážděná 1003/7  
110 00, Prague 1 - Nové Město  
Czech Republic

Ident.	INCOME STATEMENT	Line	Current period	Prior period
I.	Revenue from products and services	1	6,899,311	6,653,888
II.	Revenue from goods	2	2	1
A.	Cost of sales	3	12,132,782	14,210,139
A.1.	Cost of goods sold	4	1	1
A.2.	Materials and consumables	5	2,992,879	3,132,671
A.3.	Services	6	9,139,902	11,077,467
B.	Change in inventory of own production (+/-)	7	67	-5
C.	Own work capitalised (-)	8	-492,384	-388,911
D.	Personnel expenses	9	9,794,506	9,234,313
D.1.	Wages and salaries	10	6,986,925	6,571,368
D.2.	Social security, health insurance and other expenses	11	2,807,581	2,662,945
D.2.1.	Social security and health insurance expenses	12	2,348,208	2,203,507
D.2.2.	Other expenses	13	459,373	459,438
E.	Adjustments relating to operating activities	14	4,234,592	4,279,356
E.1.	Adjustments to intangible and tangible fixed assets	15	4,213,634	4,195,422
E.1.1.	Depreciation and amortisation of intangible and tangible fixed assets	16	4,214,354	4,144,324
E.1.2.	Impairment of intangible and tangible fixed assets	17	-720	51,098
E.2.	Adjustments to inventories	18	-1,372	-2,106
E.3.	Adjustments to receivables	19	22,330	86,040
III.	Other operating revenues	20	20,440,578	22,356,856
III.1.	Proceeds from disposals of fixed assets	21	54,210	143,189
III.2.	Proceeds from disposals of raw materials	22	261,714	258,758
III.3.	Miscellaneous operating revenues	23	20,124,654	21,954,909
F.	Other operating expenses	24	2,965,571	4,141,700
F.1.	Net book value of fixed assets sold	25	19,308	72,674
F.2.	Net book value of raw materials sold	26	261,825	258,360
F.3.	Taxes and charges	27	2,023,811	263,048
F.4.	Provisions relating to operating activity and complex prepaid expenses	28	-1,435,222	2,877,578
F.5.	Miscellaneous operating expenses	29	2,095,849	670,040
*	<b>Operating profit (loss) (+/-)</b>	<b>30</b>	<b>-1,295,243</b>	<b>-2,465,847</b>

## INCOME STATEMENT

### classification by nature for the year ended 31 December 2017

(in thousands of Czech crowns)

Ident.	INCOME STATEMENT	Line	Current period	Prior period
VI.	Interest revenue and similar revenue	31	30	117
VI.2.	Other interest revenue and similar revenue	32	30	117
J.	Interest expense and similar expense	33	65,022	126,996
J.2.	Other interest expense and similar expense	34	65,022	126,996
VII.	Other financial revenues	35	77,072	9,535
K.	Other financial expenses	36	2,334	15,777
*	<b>Profit (loss) from financial operations</b>	<b>37</b>	<b>9,746</b>	<b>-133,121</b>
**	<b>Profit (loss) before tax (+/-)</b>	<b>38</b>	<b>-1,285,497</b>	<b>-2,598,968</b>
L.	Income tax	39	-192,700	-499,406
L.2.	Deferred tax (+/-)	40	-192,700	-499,406
**	<b>Profit (loss) after tax (+/-)</b>	<b>41</b>	<b>-1,092,797</b>	<b>-2,099,562</b>
***	<b>Profit (loss) for the accounting period (+/-)</b>	<b>42</b>	<b>-1,092,797</b>	<b>-2,099,562</b>
*	<b>Net turnover for the accounting period = I. + II. + III. + IV. + V. + VI. + VII.</b>	<b>43</b>	<b>27,416,993</b>	<b>29,020,397</b>



## STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2017 (in thousands of Czech crowns)

Identification number:  
70994234

Name and regist. office of the Company:  
Správa železniční dopravní cesty,  
státní organizace  
Dlážďená 1003/7  
110 00, Prague 1 - Nové Město  
Czech Republic

	Registered capital	Other capital contributions	Other reserve funds	Statutory and other funds	Accumulated losses	Other retained earnings	Profit (loss) for the current period	Total
<b>Balance as at 1/1/2017</b>	57,347,839	1,179,241	165,797	-	-1,055,783	-11,682	-2,099,562	55,525,850
Assets identified during stock counts and other transfers	-	167	-	-	-	-	-	167
Free-of-charge transfers of assets and other transfers	8,163	47,444	-	-1,707	-	-	-	53,900
Privatised assets	-41	-	-	-	-	-	-	-41
Use of the culture and social needs fund	-	-	-	-127,191	-	-	-	-127,191
Creation of the culture and social needs funds	-	-	-128,898	128,898	-	-	-	-
Transfer of the profit (loss) of prior year period	-	-	-	-	-2,099,562	-	2,099,562	-
Other profit or loss	-	-	-	-	-	-1,317	-	-1,317
Profit (loss) for the current period	-	-	-	-	-	-	-1,092,797	-1,092,797
<b>Balance as at 31/12/2017</b>	57,355,961	1,226,852	36,899	-	-3,155,345	-12,999	-1,092,797	54,358,571

## STATEMENT OF CHANGES IN EQUITY

### for the year ended 31 December 2017

(in thousands of Czech crowns)

	Registered capital	Other capital contributions	Other reserve funds	Statutory and other funds	Accumulated losses	Other retained earnings	Profit (loss) for the current period	Total
Balance as at 1/1/2016	54,041,664	1,166,447	291,270	-	-	-6,967	-1,055,783	54,436,631
Received grants	3,310,000	-	-	-	-	-	-	3,310,000
Assets identified during stock counts and other transfers	-	2,715	-	2,764	-	-	-	5,479
Free-of-charge transfers of assets and other transfers	-3,155	10,079	-	-	-	-	-	6,924
Privatised assets	-670	-	-	-	-	-	-	-670
Use of the culture and social needs fund	-	-	-	-128,237	-	-	-	-128,237
Creation of the culture and social needs funds	-	-	-125,473	125,473	-	-	-	-
Other profit or loss	-	-	-	-	-	-4,715	-	-4,715
Transfer of the profit (loss) of prior year period	-	-	-	-	-1,055,783	-	1,055,783	-
Profit (loss) for the current period	-	-	-	-	-	-	-2,099,562	-2,099,562
Balance as at 31/12/2016	57,347,839	1,179,241	165,797	-	-1,055,783	-11,682	-2,099,562	55,525,850

# CASH FLOW STATEMENT

## for the year ended 31 December 2017

(in thousands of Czech crowns)

Identification number:  
70994234

Name and regist. office of the Company:  
Správa železniční dopravní cesty,  
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Dlážďená 1003/7  
110 00, Prague 1 - Nové Město  
Czech Republic

Ident.	CASH FLOW STATEMENT	Current period	Prior period
P.	Cash and cash equivalents, beginning of period	3,200,313	795,268
	<b>Net operating cash flow</b>		
	<b>Accounting profit (loss) from ordinary activities</b>	<b>-1,285,497</b>	<b>-2,598,968</b>
A.1.	Non-cash transactions	-16,812,607	-14,448,358
A.1.1.	Depreciation and amortisation of fixed assets excluding the net book value of fixed assets sold and amortisation of adjustments to acquired assets and goodwill	4,214,354	4,144,324
A.1.2.	Change in:		
A.1.2.	Change in other adjustments and provisions	-1,414,984	3,012,610
A.1.3.	Profit(-) Loss(+) on sale of fixed assets	-34,902	-70,515
A.1.5.	Revenue from dividends and profit distribution		0
A.1.6.	Expense and revenue interests accounted for	64,992	126,879
A.1.7.	Use of operating grants	-18,879,907	-20,046,980
A.1.8.	Debt remission	-705,503	-1,337,178
A.1.9.	Other non-cash transactions	-56,657	-277,498
A.*	<b>Net operating cash flow before financial items, changes in working capital and extraordinary items</b>	<b>-18,098,104</b>	<b>-17,047,326</b>
A.2.	Changes in working capital	226,166	1,062,553
A.2.1.	Change in receivables from operating activities, estimated receivables and deferrals	848,226	1,694,729
A.2.2.	Change in short-term liabilities from operating activities, estimated payables and accruals	-498,268	-937,964
A.2.3.	Change in inventories	-123,792	305,788
A.**	<b>Net operating cash flow before financial balances, tax and extraordinary items</b>	<b>-17,871,938</b>	<b>-15,984,773</b>
A.3.	Interest paid excluding amounts capitalised	-1,778	-7,838
A.4.	Interest received	30	117
A.7.	Operating grants received	18,695,514	20,148,623
A.***	<b>Net operating cash flow</b>	<b>821,828</b>	<b>4,156,129</b>



## CASH FLOW STATEMENT

### for the year ended 31 December 2017

(in thousands of Czech crowns)

Ident.	CASH FLOW STATEMENT	Current period	Prior period
	<b>Investment activity</b>		
B.1.	Acquisition of fixed assets	-14,947,897	-23,593,951
B.1.1.	Acquisition of tangible fixed assets	-5,795	-1,440,949
B.1.2.	Acquisition of intangible fixed assets	-73,670	-101,810
B.1.3.	Acquisition of tangible fixed assets from investment grants	-14,868,432	-18,741,192
B.1.4.	Acquisition of intangible fixed assets from investment grants	0	0
B.1.6.	Acquisition of fixed assets – purchase of a part of a facility	0	-3,310,000
B.2.	Proceeds from sales of fixed assets	54,210	143,189
B.2.1.	Proceeds from sales of tangible and intangible fixed assets	54,210	143,189
B.3.	Investment grants received	14,877,856	18,592,915
<b>B.***</b>	<b>Net cash flow from investment activity</b>	<b>-15,831</b>	<b>-4,857,847</b>
	<b>Financial activity</b>		
C.1.	Change in long-term liabilities and bank loans	-1,418,418	-75,000
C.2.	Increase and decrease in equity from cash transactions	-127,191	3,181,763
C.2.1.	Subscription of shares and investments		3,310,000
C.2.5.	Payments from funds created from net profit	-127,191	-128,237
<b>C.***</b>	<b>Net cash flow from financial activity</b>	<b>-1,545,609</b>	<b>3,106,763</b>
<b>F.</b>	<b>Net increase or decrease in cash balance</b>	<b>-739,612</b>	<b>2,405,045</b>
<b>R.</b>	<b>Cash and cash equivalents, end of period</b>	<b>2,460,701</b>	<b>3,200,313</b>

# Notes to the financial statements

## for the year ended 31 December 2017

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Safety is our priority. In general, the greatest challenge in this area are level crossings at which accidents still occur. Our aim is to eliminate such situations to the extent feasible, so we have been continuously working on the improvement of safety. We invest up to one billion of crowns into the measures for improvement of safety at dozens of level crossings every year.



## 1. 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 number 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 is presented in thousands of Czech crowns (TCZK), unless stated otherwise.

The financial statements of SŽDC for 2017 have been prepared as at 31 December 2017.

These notes have been prepared for the period starting 1 January 2017 and ending 31 December 2017 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, as well as maintenance and modernisation of railway stations.

Throughout 2017 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 liabilities, 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 liabilities 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 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.

Based on a resolution of the Government of the Czech Republic and a contract on the purchase of a part of a facility, a part of a facility, designated as “Railway Stations”, was transferred from ČD to SŽDC on 1 July 2016.

### 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 Statutory 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, was SŽDC's statutory representative until 28 February 2018, managing its activities and acting on its behalf. The Statutory Deputy Director General, Mr Jiří Svoboda, authorised to act in the absence of the Director General, was recorded in the Commercial Register.

*The members of the SŽDC's management as at 31 December 2017 were:*

Name	Position	Date
Pavel Surý	Director General	since 1 June 2014
Aleš Krejčí	Deputy Director General for Economics	since 1 June 2012
Mojmír Nejezchleb	Deputy Director General for Infrastructure Modernisation	since 1 July 2013
Jiří Svoboda	Deputy Director General for Rail Operability	since 1 July 2016
Josef Hendrych	Deputy Director General for Traffic Control	since 1 Aug 2014
Tomáš Drmola	Deputy Director General for Asset Management	since 1 Nov 2014

*The members of the Management Board as at 31 December 2017 were:*

Name	Position	Date
Vladimír Novotný	Chairman	since 25 March 2014
Milan Feranec	Vice-chairman	since 30 April 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 2017 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
Eva Janoušková	Member	since 1 Jan 2016

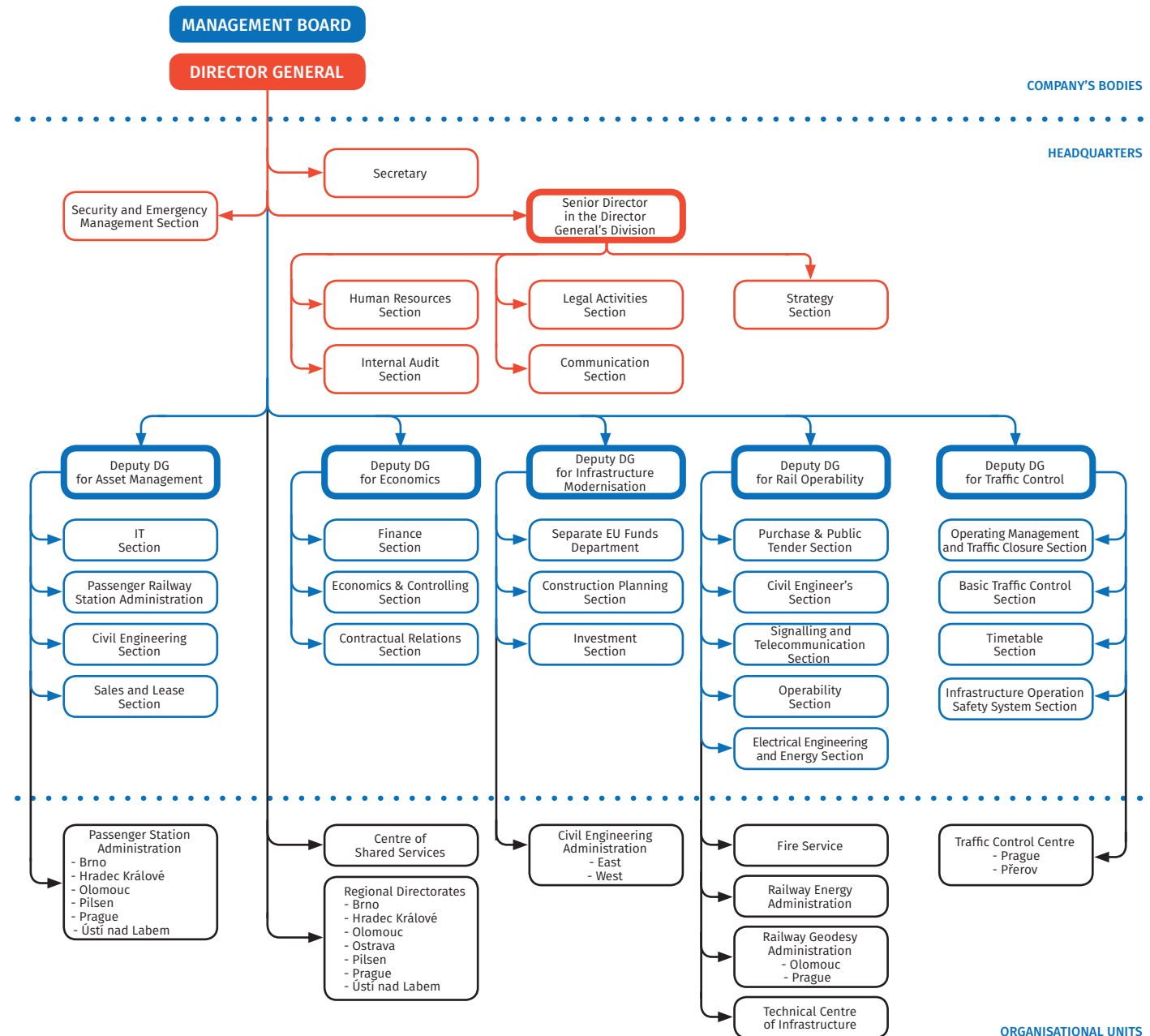
*The members of the Strategy and Development Committee as at 31 December 2017 were:*

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

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

1.4. SŽDC's organisational structure as at 31 December 2017

The following chart shows the organisational structure of SŽDC as at 31 December 2017:





## 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., implementing 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.

Comparative information for 2016 is provided in accordance with the structure and designation of balance sheet and income statement items specified by the Decree as amended for 2017.

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.

Pursuant to Decree No. 312/2014 Coll., on requirements for preparing the financial statements on behalf of the Czech Republic (the state consolidation decree), SZDC has been obligated since 2016 to submit a complementary consolidated statements overview as at 31 December 2017 by 31 July 2018 at the latest. In terms of consolidation, it is necessary to identify and eliminate mutual relations with entities specified in the list of entities consolidated by the state and other entities.



### 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 acquisition cost greater than TCZK 40 for plant and equipment and for intangible fixed assets.

Purchased 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.

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.

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 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 are recorded 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.

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

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
Constructions	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.

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.

Assets acquired through the purchase of a part of a business as at 1 July 2008 and 1 September 2011 and a part of a facility as at 1 July 2016, 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 (establishment).

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.

### 3.2. Inventory

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. In the income statement, the establishment and release of adjustments is presented in "Adjustments to inventories".

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. In the income statement, the establishment and release of adjustments is presented in "Adjustments to receivables".

### 3.4. Liabilities

Upon origination, liabilities are stated at their nominal value.

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

### 3.5. Loans and long-term liabilities

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

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

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

### 3.6. Equity

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

On 1 July 2004, the assets specified in the Appendix to the Transformation Act, which were transferred from the Ministry of Transport of the Czech Republic to SŽDC, were recorded in the registered capital account. In addition, subsidies granted by the Czech Ministry of Transport for the purchased part of a business and the part of a commercial facility from ČD 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 reporting date. A similar method is applied in establishing a provision for severance pay associated with a loss of employees' work capability, including statutory deductions.

A provision for payroll expenses and other personnel expenses comprises unpaid salaries estimated to be paid to the management primarily based on an assessment using key performance indicators, including statutory deductions. A provision for statutory severance pay comprises the volume of expected other personnel expenses paid in connection with the implementation of expected organisational changes that are associated with the taking of investment constructions into operation.

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, receivables 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 and the maintenance of passenger railway stations. 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.

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.

### 3.11. Revenues

Revenues are recognised on an accrual 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. Other significant revenue items relate 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 and to rental from leased non-residential premises in railway stations.

### 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 2017.

### 3.14. Debt remission

As at the date of its incorporation, SŽDC assumed long-term liabilities 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 liabilities – liabilities to credit institutions. The debt service in respect of all loan agreements is provided by the Ministry of Finance of the Czech Republic.

All payments of principal and interest made by the Ministry of Finance of the Czech Republic are recognised as long-term liabilities to the state budget in SŽDC's accounts and are presented in long-term liabilities – 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 above-mentioned 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 are transferred 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 2017, the Ministry of Finance of the Czech Republic 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. Leased assets

SŽDC leases assets constituting the railway infrastructure, assets intended for the settlement of liabilities assumed from ČD, s.o. as well as commercial and residential premises in the railway stations.



#### 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
<b>Acquisition cost</b>					
Balance at 1/1/2017	5,032	1,473	446	790,637	797,588
Additions	0	14,743	0	58,927	73,670
Disposals	0	0	0	-83	-83
Transfers to off balance sheet	0	0	0	0	0
Transfers	0	0	0	0	0
<b>Balance at 31/12/2017</b>	<b>5,032</b>	<b>16,216</b>	<b>446</b>	<b>849,481</b>	<b>871,175</b>
<b>Accumulated amortisation</b>					
Balance at 1/1/2017	4,656	0	0	612,284	616,940
Amortisation expense	253	0	0	116,677	116,930
Disposals	0	0	0	83	83
Transfers	0	0	0	0	0
<b>Balance at 31/12/2017</b>	<b>4,909</b>	<b>0</b>	<b>0</b>	<b>728,878</b>	<b>733,787</b>
<b>Net book value 1/1/2017</b>	<b>376</b>	<b>1,473</b>	<b>446</b>	<b>178,353</b>	<b>180,648</b>
<b>Net book value 31/12/2017</b>	<b>123</b>	<b>16,216</b>	<b>446</b>	<b>120,603</b>	<b>137,388</b>

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

## 4.2. Tangible fixed assets

## 4.2.1. Continuity schedule in tangible fixed assets

	Land	Buildings	Machin. and equip.	Motor vehicles	Adjustments to acquired fixed assets	Tangible fixed assets under constr.	Other tangible fixed assets	Advances paid	Total
<b>Acquisition cost</b>									
Balance at 1/1/2017	6,813,045	137,070,360	18,926,980	1,189,631	8,435,517	2,478,764	2,033	341,552	175,257,882
Additions	6,102	129,681	144,389	19,604	0	13,642,692	1,354	930,405	14,874,227
Disposals	-9,940	-453,842	-369,114	-21,561	0	-418	-2	-940,205	-1,795,082
Transfers to off balance sheet	0	0	0	0	0	-13,964,925	0	0	-13,964,925
Transfers	0	165,289	88,102	-105	0	-253,301	15	0	0
<b>Balance at 31/12/2017</b>	<b>6,809,207</b>	<b>136,911,488</b>	<b>18,790,357</b>	<b>1,187,569</b>	<b>8,435,517</b>	<b>1,902,810</b>	<b>3,400</b>	<b>331,752</b>	<b>174,372,100</b>
<b>Accumulated depreciation</b>									
Balance at 1/1/2017	0	87,995,619	14,975,502	613,237	4,656,763	0	329	0	108,241,450
Depreciation expense [1]	0	2,820,547	621,690	88,083	562,368	0	270	0	4,092,958
Other additions	0	826	0	1,955	0	0	0	0	2,781
Disposals	0	-341,120	-355,107	-18,456	0	0	0	0	-714,683
Transfers	0	-34,588	34,860	-287	0	0	-14	0	-29
<b>Balance at 31/12/2017</b>	<b>0</b>	<b>90,441,284</b>	<b>15,276,945</b>	<b>684,532</b>	<b>5,219,131</b>	<b>0</b>	<b>585</b>	<b>0</b>	<b>111,622,477</b>
<b>Adjustments</b>									
Balance at 1/1/2017	24,397	127,296	59	79	0	62,750	0	0	214,581
Change in adjustments	-101	-315	14	-79	0	-242	0	0	-723
<b>Balance at 31/12/2017</b>	<b>24,296</b>	<b>126,981</b>	<b>73</b>	<b>0</b>	<b>0</b>	<b>62,508</b>	<b>0</b>	<b>0</b>	<b>213,858</b>
<b>Net book value 1/1/2017</b>	<b>6,788,648</b>	<b>48,947,445</b>	<b>3,951,419</b>	<b>576,315</b>	<b>3,778,754</b>	<b>2,416,014</b>	<b>1,704</b>	<b>341,552</b>	<b>66,801,851</b>
<b>Net book value 31/12/2017</b>	<b>6,784,911</b>	<b>46,343,223</b>	<b>3,513,339</b>	<b>503,037</b>	<b>3,216,386</b>	<b>1,840,302</b>	<b>2,815</b>	<b>331,752</b>	<b>62,535,765</b>

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

Major additions to tangible fixed assets put into use in 2017 include purchase of three motor vehicles with a working platform for inspection and maintenance of the traction line with a free-to-rotate high-lift working platform and a heavy railway crane MTW 100.013 of TCZK 58 751 per vehicle from Plasser & Theurer and a free-of-charge transfer of the superstructure and substructure in Prague Ruzyně from GrontFive s.r.o. of TCZK 28 014.

The most important tangible asset disposals in 2017 include the liquidation of assets as a result of new constructions related to the modernisation of railway corridors with an acquisition cost of TCZK 572,510 and net book value of TCZK 114,643 and the sale of assets with an acquisition cost of TCZK 36,769 and net book value of TCZK 19,308.

As at 31 December 2017 the Organisation records tangible fixed assets under construction with an acquisition cost of TCZK 1,902,810. This item also comprises tangible fixed assets under construction acquired as part of grants, with an acquisition cost of CZK 1.4 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 2017. For example, this concerns the modernisation of the Rokycany – Pilsen line, Pilsen junction, 1st construction – reconstruction of the Prague station head, and modernisation of the Česká Lípa railway station.

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 2017 where the grant used to finance the constructions has not been accounted for before 31 December 2017. Transfers to off-balance sheet are made once the investment grant that decreases the asset's acquisition cost is recorded. In 2017, subsidised tangible and intangible assets totalling TCZK 13,964,925 (2016 – TCZK 17,385,376) were included in the off balance sheet records.

Based on the Methodological Instruction for Recipients of the Subsidy from the Operational Programme Transport II (2014 – 2020), 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 2018. Advances created this way which were utilised in 2017 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 331,752 as at 31 December 2017 (2016 – TCZK 341,552). The advances will be utilised during 2018.

#### 4.2.2. Investment grants

Investment grants received in 2016 and 2017 were as follows:

	1/1 – 31/12/2016	1/1 – 31/12/2017
SFTI for construction and modernisation, state share, OPT, EIB, CEF	18,404,478	14,760,544
<b>Total investment grants from SFTI</b>	<b>18,404,478</b>	<b>14,760,544</b>
Investment grants for the purchase of fixed assets	30,573	–
EU funds	156,534	92,495
Contributions from cities, municipalities, regions and other entities	1,240	24,817
State Environmental Fund	90	–
<b>Total investment grants</b>	<b>18,592,915</b>	<b>14,877,856</b>

Investment grants for construction and modernisation primarily include funds from the Operational Programme Transport (“OPTII”), the CEF infrastructure fund and grants from SFTI. SFTI ensures the payment of European subsidies and at the same time, it partly participates in co-financing. In 2017, funds of TCZK 6,948,418 were drawn from SFTI from national sources, including sources to cover national shares of European investment projects. In 2017, funds amounting to TCZK 6,728,684 were provided from OPT II and TCZK 1,083,442 from CEF.

In 2017, EU funds only comprise the additional payment of TEN-T refund of TCZK 92,495.

#### 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 226,486,010 and TCZK 212,743,980 as at 31 December 2017 and 31 December 2016, respectively.

The aggregate amount of low-value tangible assets not reported in the balance sheet is TCZK 1,022,030 and TCZK 975,085 as at 31 December 2017 and 31 December 2016, 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	Buildings	Machinery, equipment and other tangible assets	Motor vehicles	Tangible assets under construction	Total
<b>Acquisition cost</b>									
Balance at 1/1/2017	67,915	25,791	2,941	827,765	115,433,661	33,852,544	485,710	62,047,653	212,743,980
Additions (Transfers from the balance sheet)	0	0	0	252,479	351,613	34,922	253,770	13,072,140	13,964,924
Disposals	0	0	0	-472	-135,754	-37,256	0	-49,412	-222,894
Transfers (including putting in use)	20,873	0	-746	4,170	13,311,402	5,050,961	177,756	-18,564,416	0
<b>Balance at 31/12/2017</b>	<b>88,788</b>	<b>25,791</b>	<b>2,195</b>	<b>1,083,942</b>	<b>128,960,922</b>	<b>38,901,171</b>	<b>917,236</b>	<b>56,505,965</b>	<b>226,486,010</b>

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

In 2017, major additions to tangible assets under construction represent constructions such as modernisation of the Rokycany-Pilsen line, optimisation of the Beroun (inclusive) - Králův Dvůr line, line 149 Karlovy Vary dolní nádraží # Mariánské Lázně, revitalisation of the Okříšky-Zastávka u Brna line, revitalisation of the Břeclav-Znojmo line, and increase in the railway speed in the Kuřim-Tišnov section.

In 2017, 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 2017 and 31 December 2016.

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

As at 31 December 2017, SŽDC reports fixed assets acquired on a leaseback basis in the aggregate acquisition cost of TCZK 376,530 (2016 – TCZK 385,612). Leaseback arrangements are used for leasing low-value rolling stock (a motor all-purpose trolley, a car for catenary maintenance) used to repair and maintain the railway infrastructure.

#### 4.2.7. Assets acquired free of charge

In 2017, SŽDC acquired free of charge tangible fixed assets at the replacement cost of TCZK 47,444 (2016 – TCZK 10,079), in form of delimitations of TCZK 9,081 (2016 – TCZK 18,485) and it acquired fixed assets by donation at the replacement acquisition cost of TCZK 1,011 (2016 – TCZK 15,147). In total, SŽDC acquired free of charge assets of TCZK 57,536 in 2017 (2016 – TCZK 43,711). 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, the Office for Government Representation in Property Affairs (ÚZSVM), 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 31/12/2016	Balance at 31/12/2017
Material in stock	426,777	551,392
Material in transit	104	277
Work in progress	222	0
Goods in stock	4	3
Advances paid for inventory	73	1
Adjustment to inventory	-15,817	-14,445
<b>Total inventory</b>	<b>411,363</b>	<b>537,228</b>

The total inventory balance was influenced by an increase in the balance of materials on stock by TCZK 124,615. This increase relates to forward buying of materials for the planned repair and maintenance works and to creating a permanent warehouse of reserve inventories of spare switch parts for the corridor constructions. The Organisation established adjustments totalling TCZK 14,445. The adjustments were established for selected 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. The other regional directorates established adjustments for the parts determined for the superstructure and also for selected types of personal protective equipment to be used at work.



#### 4.4. Long-term receivables – trade receivables

	Balance at 31/12/2016	Balance at 31/12/2017
Long-term receivables before due date	181,642	106,480
<b>Total</b>	<b>181,642</b>	<b>106,480</b>

The permanent decrease in long-term receivables is caused primarily by regular repayment of a receivable from ČD Cargo relating to the contracted, but unpaid electricity and traffic closures, in compliance with the implemented amicable agreement and settlement agreement that were concluded in 2015.

#### 4.5. Short-term receivables

##### 4.5.1. Trade receivables

	Balance at 31/12/2016	Balance at 31/12/2017
Short-term receivables before due date	751,470	987,195
Short-term receivables past due date	1,071,557	723,941
<b>Total</b>	<b>1,823,027</b>	<b>1,711,136</b>

As at 31 December 2017, an adjustment for doubtful receivables amounted to TCZK 550,826 (2016 – TCZK 523,443).

A significant amount of receivables before and past their due date includes, similarly as in the past years, receivables from ČD, ČD Cargo and ČD - Telematika a.s. for using the infrastructure and communication technologies. In addition, pending court proceedings have a large share in the receivables.

The total amount of receivables more than five years overdue as at the balance sheet date is TCZK 276,240; 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.

##### 4.5.2. Short-term advances paid

Short-term advances paid total TCZK 110,097 (2016 – TCZK 109,823). They primarily included advances paid to contractors of projects within activities connected with repairs and maintenance of RI and advances paid for energies and services related to both premises used by SŽDC and leased premises.

#### 4.6. Cash

As at 31 December 2017, the total amount of cash was TCZK 2,460,701 (2016 – TCZK 3,200,313). The most significant item is the balance of bank accounts of TCZK 2,458,072 (2016 – TCZK 3,197,475).

#### 4.7. Prepaid expenses

Prepaid expenses largely include deferred operating expenses of SŽDC related to the principal activities of the following year (licences, lease payments, insurance, prepayments, highway stamps, etc.).

#### 4.8. Estimated receivables

In 2017, estimated receivables totalled TCZK 139,076 (2016 – TCZK 291,763). Estimated receivables primarily include estimates for the expected consumption of heat to be invoiced to the lessees after having identified the actual consumption in 2018. The other portion relates to legal claim to the expected insurance settlements from insurance companies of TCZK 16,935 (2016 – TCZK 24,130) and damages claimed from the guilty persons of TCZK 13,831 (2016 – TCZK 44,276).

#### 4.9. Equity

Movements in the individual components of equity from 1 January 2017 to 31 December 2017:

	Registered capital	Other capital contrib.	Other reserve fund	Statutory and other funds	Other retained earnings	Retained earnings and profit (loss) for the current period	Total
<b>Balance at 1/1/2017</b>	<b>57,347,839</b>	<b>1,179,241</b>	<b>165,797</b>	<b>–</b>	<b>-11,682</b>	<b>-3,155,345</b>	<b>55,525,850</b>
Assets identified during stock counts and other transfers	–	167	–	–	–	–	167
Free-of-charge transfers of assets and other transfers	8,163	47,444	–	-1,707	–	–	53,900
Privatised assets and restitution	-41	–	–	–	–	–	-41
Use of the culture and social needs fund	–	–	–	-127,191	–	–	-127,191
Creation of the culture and social needs fund	–	–	-128,898	128,898	–	–	–
Other profit or loss	–	–	–	–	-1,317	–	-1,317
Current year profit or loss	–	–	–	–	–	-1,092,797	-1,092,797
<b>Balance at 31/12/2017</b>	<b>57,355,961</b>	<b>1,226,852</b>	<b>36,899</b>	<b>--</b>	<b>-12,999</b>	<b>-4,248,142</b>	<b>54,358,571</b>

In accordance with Czech Accounting Standard No. 22, the amount of registered capital was reduced by the net book value of privatised assets of TCZK 41 (2016 – TCZK 670) in 2017.

In 2017, registered capital was influenced by delimitation where the assets handed over free-of-charge totalled TCZK 666 (2016 – TCZK 19,039) and assets assumed free-of-charge totalled TCZK 9,081 (2016 – TCZK 18,485).

Based on the physical counts, land with a replacement cost of TCZK 167 (2016 – TCZK 2,715) was included in other capital contributions.

Planned distribution of the current year's loss The Company plans to transfer the loss incurred in the current period to retained earnings. No decision was made on the distribution of the current period loss as at the date of preparation of the financial statements.

#### 4.10. Provisions

	Balance at 31/12/2016	Additions	Utilisation/release	Balance at 31/12/2017
Provision for legal disputes with ČEZ Prodej	1,235,025	66,490	585,682	715,833
Provision for other legal disputes	64,747	3,610	25,964	42,393
Provision for compensation for job-related accidents and occupational illness	37,764	32,752	37,764	32,752
Provision for extra pension payments	18,192	14,650	18,192	14,650
Provision for unpaid payroll and other expenses	120,000	120,000	120,000	120,000
Provision for payments to a specialised tax office	3,415,825	1,592,268	2,477,390	2,530,703
<b>Total provisions</b>	<b>4,891,553</b>	<b>1,829,770</b>	<b>3,264,992</b>	<b>3,456,331</b>

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

The major part of provisions represents a provision for payments to a specialised tax office. As at 31 December 2017, the Company established a provision totalling TCZK 2,530,703 primarily in respect of payment orders from a specialised tax office relating to payments connected with investment projects such as "Optimisation of the Beroun-Zbiroh line", and "Modernisation of the western part of the Prague Main Station"; and the expected payment orders relating to penalties amounting to 75%.

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.). As at 31 December 2017, the provision was increased by the amount of default interest for 2017 and decreased due to lower probability of paying the claimed amounts.

#### 4.11. Long-term liabilities

##### 4.11.1. Trade payables

Type of payables	31/12/2016	31/12/2017
Retention	101,495	319,657
Bid-bonds, security deposits, sureties	3,000	3,000
Cash deposits received from customers	28,327	42,371
<b>Total</b>	<b>132,822</b>	<b>365,028</b>

The increase in retention was caused by termination of the constructions commenced already in 2015 as a result of having drawn all the funds from the currently ending programme Operational Programme Transport 1 (OPT1).

##### 4.11.2. Other payables

Creditor	31/12/2016	31/12/2017
Czech Ministry of Finance – payment under the state guarantee for loan interest, after the remission	53,767	62,152
Czech Ministry of Finance – payment under the state guarantee for loan principal, after the remission	582,450	790,608
Other	9	9
<b>Total</b>	<b>636,226</b>	<b>852,769</b>

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 2017 and 2016, payables of MCZK 706 and MCZK 1,337, respectively, were remitted.

#### 4.12. Short-term liabilities

##### 4.12.1. Trade payables

	Balance at 31/12/2016	Balance at 31/12/2017
Payables before due date	2,248,278	1,638,245
Payables past due date	162,620	22,952
<b>Total trade payables</b>	<b>2,410,898</b>	<b>1,661,197</b>

Payables before their due dates predominantly relate to Elektrizace železnic Praha, a.s., STRABAG Rail a.s., Eurovia CS, a.s., ČD-Telematika a.s., and Chládek & Tintěra, a.s. regarding their construction works.

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

##### 4.12.2. Tax liabilities and subsidies

Type of payables	Balance at 31/12/2016	Balance at 31/12/2017
Undrawn investment subsidies from SFTI	1,004,615	1,113,300
SFTI – TEN-T recoverable subsidy	89,596	–
SFE – OPE recoverable subsidy	9,415	–
Undrawn non-investment subsidy TEN-T/CEF	11,200	5,845
Non-investment subsidy for repair and maintenance	174,968	–
Non-investment subsidy for incidental expenses of the Civil Engineering Administrations	177	–
Non-investment subsidy for certain OPT projects	4,214	–
Other non-investment subsidies	–	321
Investment contributions of cities, municipalities, regions and other entities	250	–
Income tax withheld on behalf of employees	78,193	94,836
Other taxes	436	479
<b>Total tax liabilities and subsidies</b>	<b>1,373,064</b>	<b>1,214,781</b>

The bulk of the balance of investment subsidies as at 31 December 2017 includes the payable from undrawn subsidies from SFTI amounting to TCZK 1,113,300 (2016 – TCZK 1,004,615).

In terms of investments, the main reasons for not drawing the limit for 2017 to the full limit amount are primarily ex-ante payments; the extension of terms in tenders due to the tenderer's enquiries and objections, in respect of both project implementations and their preparations; so called "double resource planning" that was necessary to ensure the processing of payment requests. In addition, several planned purchases of real estate could not be carried out at the end of the year due to the delay on the part of the seller.

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

##### 4.12.3. Short-term advances received

As at 31 December 2017, short-term advances received amount to TCZK 189,800 (2016 – TCZK 194,162). Advances are received predominantly for ancillary services relating to the lease of residential and non-residential premises, the provision of easements when SŽDC is the obligated party, and prepayments for the purchase of electricity.

#### 4.12.4. Estimated payables

As at 31 December 2017, estimated payables total TCZK 360,317 (2016 – TCZK 353,444) and primarily include the estimate of returned fees for using RI of TCZK 116,000 (2016 – TCZK 116,000) and uninvoiced supplies of electricity, heat, water, and gas of TCZK 175,363 (2016 – TCZK 165,525).

#### 4.13. Bank loans and overdrafts

##### 4.13.1. Long-term liabilities to credit institutions

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 31/12/2016	Drawing in 1-12/2017	Repayments 1-12/2017	FX differences	Balance at 31/12/2017
<b>The 1st corridor:</b>							
EIB Lucemburk	15/4/2017	EUR	68,168	–	67,512	–656	0
KfW Frankfurt	30/12/2018	EUR	165,723	–	79,417	–7,983	78,323
<b>The 2nd corridor:</b>							
EIB Lucemburk	15/12/2020	EUR	1,235,200	–	296,823	–62,720	875,657
KfW Frankfurt	30/6/2017	EUR	138,151	–	134,368	–3,783	0
<b>Subtotal</b>			<b>1,607,242</b>		<b>578,120</b>	<b>–75,143</b>	<b>953,980</b>
<b>Performance improvements</b>							
Česká spořitelna, a.s. [1]	31/12/2018	CZK	374,995	–	150,000	0	224,995
<b>Subtotal</b>			<b>374,995</b>	<b>–</b>	<b>150,000</b>	<b>0</b>	<b>224,995</b>
<b>Total</b>			<b>1,982,237</b>	<b>–</b>	<b>728,120</b>	<b>–75,142</b>	<b>1,178,975</b>

[1] The balance as at 31 December 2016, or as at 31 December 2017, also includes the short-term portion of a loan of TCZK 225,000, or TCZK 224,995, respectively, that is due in the following year and therefore is reported in the financial statements in short-term liabilities to credit institutions.

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

#### 4.13.2. Summary of maturities of loans guaranteed by the state

	Payable in 2018	Due in subsequent years	Total
Long-term loans	375,146	578,834	953,980
<b>Total</b>	<b>375,146</b>	<b>578,834</b>	<b>953,980</b>

The repayments of long-term loans according to guarantees provided by the state under special legislation or guarantees resulting from the Transformation Act are made by the state, or the Czech Ministry of Finance. When the repayment is made by the state, the relevant balance is re-allocated to “Other long-term payables”. In 2017, the Czech Ministry of Finance repaid principals amounting to TCZK 858,120 (2016 – TCZK 1,165,272).

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

#### 4.13.3. Short-term liabilities to credit institutions

	31/12/2016	31/12/2017
Payable from cash-pool account	1,268,418	0
Česká spořitelna, a.s. – a part of a bank loan due within one year, see note 4.13.1.	225,000	224,995
<b>Short-term bank loans</b>	<b>1,493,418</b>	<b>224,995</b>

In February 2017, the Organisation repaid the allowed overdraft limit (overdraft facility) set on the cash pool account; this account was formerly used to settle payables arising from operability and operation of the railway infrastructure, including the rail servicing. The overdraft facility and the cash pool account were cancelled in mid-2017 in accordance with the duty resulting from Act No. 128/2016 Coll., to amend Act No. 218/2000 Coll., on budgetary rules and on amendment to some related legislation (budgetary rules), as amended.

#### 4.14. Deferred revenues

Deferred revenues total TCZK 59,351 (2016 – TCZK 88,378) and include in particular deferrals that arose from the financial settlement relating to supplies of defective material and prepaid rental.



#### 4.15. Deferred tax

SŽDC has determined deferred tax as follows:

	31/12/2016	31/12/2017
Tangible and intangible fixed assets	-4,157,814	-4,164,876
Adjustments to fixed assets	36,135	36,017
Adjustments to inventory	3,005	2,745
Trade receivables	68,693	74,790
Provisions	280,388	175,869
Tax losses	1,249,696	1,048,380
<b>Total deferred tax (asset +, liability -)</b>	<b>-2,519,897</b>	<b>-2,827,075</b>
Unrecognised deferred tax	-499,878	-
<b>Total recognised deferred tax (asset +, liability -)</b>	<b>-3,019,775</b>	<b>-2,827,075</b>

SŽDC reports tax losses of TCZK 5,517,791 (2016 – TCZK 6,577,346) for 2013 – 2017 (information for 2017 is based on a preliminary calculation of income tax).

In accordance with the accounting policy described note 3.9., a tax rate of 19% was used to calculate deferred tax (2016 – 19%).

#### 4.16. Revenue from own products and services

Item	2016	2017
Income from use of the railway infrastructure by ČD – freight transport	35,088	34,960
Income from use of the railway infrastructure by ČD – passenger transport	1,806,854	1,823,864
Income from use of the railway infrastructure by ČD Cargo, a.s.	1,266,431	1,216,796
Income from use of the railway infrastructure by external carriers – freight	836,587	863,144
Income from use of the railway infrastructure by external carriers – passenger	154,690	177,766
Income from allocated capacity	106,780	107,056
Rental income	358,946	565,262
Income from other external services	475,224	512,293
Income from the sales of electricity	1,610,700	1,595,247
Income from foreign carriers for provided services (extraordinary shipments, etc.)	2,588	2,923
<b>Total income from own products and services</b>	<b>6,653,888</b>	<b>6,899,311</b>

All income was generated in the Czech Republic.

In comparison with 2016, income from passenger transport increased slightly. This increase was primarily in respect of the national carrier ČD, but also other passenger carriers, in particular RegioJet a.s. and GW Train Regio a.s. In terms of output and revenue from use of the railway infrastructure, RegioJet a.s. ranked fourth among all freight and passenger carriers.

As regards freight transport, a slight decrease in revenues was seen in respect of the main carrier ČD Cargo a.s. although the volume of output in trkm and gtkm is comparable with 2016. This is caused by a higher level of utilising the supply prices (discounts) in combined transportation and transportation of individual full loads. As in the previous years, this decrease in revenues in respect of ČD Cargo was offset with a growth in other carriers, in particular METRANS Rail s.r.o., Rail Cargo Carrier – Czech republik s.r.o., PKP Cargo Spolka Akcyjna and other smaller carriers.

#### 4.17. Consumption of materials and energies

Item	2016	2017
Costs of material consumption	1,287,331	1,119,531
<i>Of which – activity that can be done by outsourcing</i>	<i>398,788</i>	<i>384,251</i>
Costs of energy consumption	357,859	400,551
Costs of water consumption	11,908	16,080
Costs of heat consumption	66,859	68,847
Costs of gas consumption	37,071	63,922
Costs of electricity purchase	1,282,699	1,218,496
Costs of fuel consumption	82,796	88,766
Other	6,148	16,686
<b>Total consumption</b>	<b>3,132,671</b>	<b>2,992,879</b>

## 4.18. Purchased services

Item	2016	2017
Costs of construction repairs and maintenance excluding outsourced activity	3,153,497	180,461
<i>Of which OPT projects</i>	3,125,174	130,233
Costs of repairing apartments excluding outsourced activity	23,429	36,979
Costs of services provided by the statutory auditor	1,684	2,313
<i>Of which:</i>		
- statutory audit of the financial statements	850	850
- other non-audit services	834	1,463
Costs of cooperation in allocating the capacity of the railway infrastructure	569	591
Activity that can be done by outsourcing	6,368,094	7,311,643
<i>Of which:</i>		
- repair and construction maintenance	5,097,349	5,883,001
- other	1,270,745	1,428,642
Other	1,530,194	1,607,915
<i>Of which:</i>		
- repair and maintenance	671,738	658,158
- lease, software under TCZK 60, platform cleaning, etc.	858,456	949,757
<b>Total services</b>	<b>11,077,467</b>	<b>9,139,902</b>

Activity that can be done by outsourcing represents projects that are contracted based on the tender laws and that form part of SŽDC's Comprehensive plan for repairs and maintenance. In order to record activities which can be better provided through outsourcing, these services have been recorded separately since 2013. EU funds were used through OPT as an additional source to finance expenses incurred on repair and maintenance of RI.

## 4.19. Adjustments relating to operating activities

Item	31/12/2016	31/12/2017
Depreciation and amortisation of intangible and tangible fixed assets	4,144,324	4,214,354
Impairment of intangible and tangible fixed assets	51,098	-720
Adjustments to receivables	86,040	22,330
Adjustments to inventories	-2,106	-1,372
<b>Total adjustments relating to operating activities</b>	<b>4,279,356</b>	<b>4,234,592</b>

## 4.20. Other operating revenues

Item	2016	2017
Subsidies from SFTI for repairs and maintenance of the railway infrastructure	12,749,932	11,588,738
Non-investment subsidies from the state budget	548,620	-
Non-investment subsidies from SFTI – special purpose	19,594	21,697
Non-investment subsidies – OPT programme	6,280	-
Subsidies from SFTI for the selected non-investment projects	2,317	343,597
Subsidies for the selected projects co-financed from OPT	3,295,697	135,726
Subsidies from SFTI for non-investment projects co-financed from OPE	259	-
Subsidies from SFTI for the operation of RI	2,778,504	5,750,000
Subsidies for repairs and maintenance of passenger stations	346,156	1,000,000
Other subsidies	299,621	40,148
Remission of debt	1,337,178	705,503
Proceeds from recovered material	358,245	303,885
Received contractual penalties and default interest	52,082	103,051
Claims for compensation of shortages and damage	73,893	57,502
Other	86,531	74,806
<b>Total other operating revenues</b>	<b>21,954,909</b>	<b>20,124,654</b>

Other operating revenues primarily represent non-investment subsidies from SFTI received for the repairs and maintenance of the railway infrastructure of TCZK 11,588,738 and for the operation of the railway infrastructure and traffic control of TCZK 5,750,000. In addition, these are subsidies for the repair and maintenance of buildings where the passenger stations are located of TCZK 1,000,000.

In 2017, the subsidies for the selected projects co-financed from OPT represented additional funds necessary to finance the expenses on repairs and maintenance of the railway infrastructure commenced in 2016.

The increase in the subsidy from SFTI for the operation of RI in 2017 resulted from a change in financing the operation (in 2016, it was also financed from the income from use of the railway infrastructure and from the state budget).

#### 4.21. Other operating expenses

Item	2016	2017
Fines and penalties, default interest	216,654	1,565,458
Write-off of receivables	4,490	26,820
Write-off of failed investments	640	38
Retirement pension	8,337	6,374
Costs arising from the failure to employ the disabled	27,219	32,038
Insurance of assets and liability insurance	72,642	80,645
Membership contributions	10,271	12,826
Shortages and damage	342	1,057
Liability for damage to third party assets	16,995	41,952
Expenses arising from the Network Statement	294,661	311,884
Other	17,789	16,757
<b>Total other operating expenses</b>	<b>670,040</b>	<b>2,095,849</b>

In 2017, the balance of operating expenses was mainly influenced by a fine for a breach of the budgetary discipline of MCZK 1,520. The budgetary discipline was primarily breached in respect of carrying out the following projects: the Veselí n. L-Tábor line and optimisation of the Benešov – Stránčice and Ostrava-Přerov-Česká Třebová lines.

Under the National and Regional Network Statement valid for the 2016/2017 timetable, in the 1st quarter of 2017 SŽDC was 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 this period was TCZK 29,011.

On 1 April 2017, an amendment to the Railway Act came into effect, introducing the right of a carrier operating public rail transportation to settlement of the difference between the spent and saved expenses where it ensured replacement transportation service for suspended public passenger transportation due to planned rail operation limitation. Decree of the Ministry of Transport No. 116/2017 on expenses and savings directly related to ensuring replacement transportation service for suspended public passenger transportation was passed to implement these provisions. As a result, the individual carriers invoiced their expenses on replacement bus service to SŽDC. The amount paid to carriers for the 3rd quarter of 2017 was TCZK 282,873.

The total amount paid to carriers for 2017 was TCZK 311,884 (2016 – TCZK 294,661).

#### 4.22. Other financial revenues

Financial revenues principally include foreign exchange gains arising from foreign currency translation.

#### 4.23. Other financial expenses

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 2016 and 2017:

2016	Average headcount	Wages and salaries	Social security and health insurance	Other expenses	Total personnel expenses
Employees	17,319	6,539,979	2,198,112	459,373	9,197,464
Executives *)	6	29,334	4,696	65	34,095
Management Board and its committees	-	2,055	699	-	2,754
<b>Total</b>	<b>17,325</b>	<b>6,571,368</b>	<b>2,203,507</b>	<b>459,438</b>	<b>9,234,313</b>

\*) 2016 personnel expenses (including expenses in respect of former executives) utilised in 2016 from the provision established in 2015 for personnel expenses incurred in this year amounted to TCZK 11,443.

2017	Average headcount	Wages and salaries	Social security and health insurance	Other expenses	Total personnel expenses
Employees	17,416	6,955,527	2,342,600	459,313	9,757,440
Executives *)	6	29,060	4,813	60	33,933
Management Board and its committees	-	2,338	795	-	3,133
<b>Total</b>	<b>17,422</b>	<b>6,986,925</b>	<b>2,348,208</b>	<b>459,373</b>	<b>9,794,506</b>

\*) 2017 personnel expenses (including expenses in respect of former executives) utilised in 2017 from the provision established in 2016 for personnel expenses incurred in this year amounted to TCZK 9,984.

As at 1 January 2017, SŽDC had 17,447 employees, divided into a total of 23 organisational units, according to the scope of their activities and individual regions. SŽDC also has the Headquarters in Prague, responsible for strategic and organisational activities.

In 2017, the organisational structure of the organisational units was stabilised. No significant changes were made.

As for the reason of fulfilling the goals in terms of operability of the rail, rail modernisation and asset management, the number of employees in charge of these activities was increased in 2017 as well. The number of employees working in the rail operability segment increased by 107 (i.e. by 1.3%), the number of employees of the rail modernisation segment by 21 (i.e. by 4.3%), and the number of employees of the asset management segment by 33 (i.e. by 9.3%).

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 177 employees (i.e. by 2.2%).

During 2017, severance pay was provided to 188 employees.

As at 31 December 2017, SŽDC had 17,470 employees; due to the above impacts, the number of employees decreased by 19 as compared with the balance as at 31 December 2016.

### 5.2. Provided loans, borrowings and other remuneration

In 2016 and 2017, 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 approved by the Management Board.

In 2017, bonuses totalling TCZK 2,338 were paid to members of the SŽDC's Management Board and members of its committees (2016 – TCZK 2,055).

## 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. the construction of sound barriers or other compensatory measures) are part of the acquisition cost of a new investment construction.

In 2017, total non-capital expenditures related to environment were approx. MCZK 398 (2016 – MCZK 272). Capital expenditures related to sound protection when modernising tracks were MCZK 21 (2016 – MCZK 34).

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 9 in 2017 (2016 – MCZK 17).

## 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. With its judgement dated 10 August 2017, the Supreme Court of the Czech Republic cancelled the judgements of lower instance courts which resulted in disappearance of the legal title of the performance on part of SŽDC and unjust enrichment arose on part of ČEZ Prodej s.r.o. ČEZ Prodej s.r.o. refused to hand out this unjust enrichment to SŽDC and therefore SŽDC filed an action for provision of the unjust enrichment to the District Court for Prague 4 on 17 October 2017. This issue has not been decided yet.

Concerning damage compensation equalling the difference between contracted and realised complementary sales for 2011, no decision has been issued yet. As at 31 December 2017, SŽDC established a provision for default interest for 2017 of TCZK 66,490. In relation to the above decision

of the Supreme Court, SŽDC recorded a correction of the provision of TCZK 585,682. As at 31 December 2017, the total provision for this legal dispute amounted to TCZK 715,833 (see note 4.9).

### 6.2.2. Grandi Stazioni Česká republika, s.r.o.

In connection with the purchase of a part of a facility, a lease contract concluded with Grandi Stazioni Česká republika, s.r.o. (“Grandi Stazioni”) was transferred to SŽDC, which concerned the lease of the Prague Main Railway Station. This contract expired on 15 October 2016. Under the provisions of this contract, Grandi Stazioni calculated the value of leasehold improvements on assets performed during the lease term in the total amount of TCZK 776,503. Subsequently, SŽDC asked Grandi Stazioni to support this value with relevant documents. Based on the submitted documents SŽDC accepted the amount of TCZK 565,684 and in 2016 it paid this amount to the Grandi Stazioni’s account. SŽDC refused to pay the amount of TCZK 210,819 and on 2 November 2016, Grandi Stazioni filed an action with the District Court for Prague for the payment of the above amount including appurtenances (contractual penalty of 0.5% daily from the outstanding amount and the statutory default interest). To date, a hearing has not been ordered. The Organisation’s management does not consider the potential payment probable, therefore, no provision has been established.

On 31 July 2017, SŽDC received a letter from Grandi Stazioni where Grandi Stazioni applies its alleged claim to the settlement of TCZK 1,255,622 by SŽDC from the alleged title to damages from the pre-contractual responsibility under Section 1729 of Act No. 89/2012 Coll., the Civil Code. SŽDC responded to this letter by its letter dated 3 August 2017 in which it refused the existence of the alleged claim as well as the other allegations mentioned in the letter from Grandi Stazioni that are not true. On 14 August 2017, Grandi Stazioni filed an action in this case to the District Court for Prague 1. On 6 March 2018, the court officially delivered this action to the legal representative of SŽDC together with the related documents that were created in connection with solving the issue of admissibility of a part of the action on part of courts. To date, a hearing has not been ordered. The Organisation’s management does not consider the potential payment probable, therefore, no provision has been established.

## 6.3. Property relations

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

## 6.4. Projected commitments associated with corridor construction

With a view to fully 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 31/12/2017	Construction work undertaken to date	The estimate of the remaining expenses	Total estimated expenses
1st corridor	40,759,568	0	40,759,568
2nd corridor	39,016,291	0	39,016,291
3rd corridor	46,075,177	11,912,097	57,987,274
4th corridor	24,360,134	12,103,009	36,463,143
<b>Total</b>	<b>150,211,170</b>	<b>24,015,106</b>	<b>174,226,276</b>

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.

## 7. 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.

Based on resolution No. 1546 of the Government of the Czech Republic dated 21 December 2015 on the purchase of a part of a facility, a part of a facility, designated as “Railway Stations”, was transferred from ČD to SŽDC on 1 July 2016. The subject of the purchase were land, buildings, movable assets and other, together with sub-ledger accounts, inventories, receivables, liabilities and accruals/deferrals.

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. For 2018, SŽDC has contractually ensured funding from the State Fund of Transport Infrastructure for investment and non-investment activities of TCZK 38,393,455 (2017 – TCZK 31,299,142). SŽDC’s management believes that these funds will enable SŽDC to provide services in the same extent as in 2017, accordingly, the financial statements have been prepared on a going concern basis.

### 7.3. Transactions with major customers ČD and ČD Cargo

Significant revenues resulting from the transactions carried out with ČD:

	2016	2017
Revenues from using the railway infrastructure – passenger transport	1,806,854	1,823,864
Revenues from using the railway infrastructure – freight transport	35,088	34,960
Revenues from allocated railway infrastructure capacity	52,132	52,997
Revenues from electricity	1,404,696	1,399,636
Fire Section services	30,000	30,000
Telecommunication network operation services	58,165	57,037
<b>Total</b>	<b>3,386,935</b>	<b>3,398,494</b>

As at 31 December 2017, SŽDC recorded amounts due from and to ČD Cargo at the net amount resulting in a receivable of TCZK 273,975 (2016 – TCZK 299,586). The amount that is reported in the balance sheet as part of trade receivables and advances paid from ČD is TCZK 373,199 (2016 – TCZK 412,644). Trade payables including received prepayments amount to TCZK 99,224 (2016 – TCZK 113,058).

Revenues resulting from the transactions carried out with ČD Cargo:

	2016	2017
Revenues from using the railway infrastructure – freight transport	1,266,431	1,216,796
Revenues from allocated railway infrastructure capacity	28,296	26,274
Revenues from electricity	347	354
Fire Section services	10	9,900
Telecommunication network operation services	39,118	38,850
<b>Total</b>	<b>1,334,202</b>	<b>1,292,174</b>

As at 31 December 2017, SŽDC recorded amounts due from and to ČD Cargo at the net amount resulting in a receivable of TCZK 419,535 (2016 – TCZK 558,710). The amount that is reported in the balance sheet as part of trade receivables from ČD Cargo is TCZK 441,231 (2016 – TCZK 578,860). Trade payables including received prepayments amount to TCZK 21,696 (2016 – TCZK 23,205).

#### 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 2017, SŽDC completed three privatisation projects for assets within the MOZ accounting circle in the aggregate amount of TCZK 41 (2016 – TCZK 670).

Of the three 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 2017, SŽDC records fixed 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 486,034. As at 31 December 2016, the net book value of these assets amounted to TCZK 487,750.

#### 7.5. Sale of assets

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

In 2017, revenues from the sales of immovable assets approved by the Czech Government within the Railway Infrastructure Assets circle totalled TCZK 48,852 (2016 – TCZK 59,364).

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

In 2017, no sale of assets was carried out within the Assets for Remission of Debts circle (2016 – TCZK 82,072).

#### 7.6. Leased assets

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

As at 31 December 2017, SŽDC reports 70 contracts for the lease of apartments. Revenues from these leases were TCZK 2,147 (2016 – TCZK 1,973).

With respect to immovable assets not included in the residential living fund, SŽDC records 158 lease contracts with total revenues of TCZK 13,369 (2016 – TCZK 20,192).

Total revenues from the lease of real estate were TCZK 15,516 (2016 – TCZK 22,165).

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

As at 31 December 2017, SŽDC reports 2,601 contracts for the lease of apartments. Revenues from these leases were TCZK 88,225 (2016 – TCZK 63,436).

With respect to other immovable assets not included in the residential living fund, SŽDC records 6,847 lease contracts with total revenues, including movable assets, of TCZK 442,281 (2016 – TCZK 262,540).

Total rental revenues were TCZK 530,506 (2016 – TCZK 325,976).

#### 7.7. Cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents are defined to include cash in hand, cash in transit, cash at the bank and other financial assets whose valuation can be reliably determined and that can be readily converted to cash. Cash and cash equivalents as at the year end are as follows:

	Balance at 31/12/2016	Balance at 31/12/2017
Cash in hand	2,838	2,630
Cash at bank accounts	3,197,475	2,458,072
<b>Cash</b>	<b>3,200,313</b>	<b>2,460,702</b>

In the cash flow statement, cash flows from operating, investment or financial activities are reported on a gross basis.

In the cash flow statement, cash flows relating to interest payments included in the cost of fixed assets were recorded as part of investment activity, but not as a separate item. In 2017 these cash flows totalled TCZK 878 (2016 – TCZK 2,435).



## 8. SUBSEQUENT EVENTS

### 8.1. Changes in the bodies of SŽDC

Pavel Surý resigned as Director General of the Organisation as at 28 February 2018. The Statutory Deputy Director General Jiří Svoboda was authorised by the Management Board to manage the Organisation with effect from 1 March 2018.

At its session held on 22 March 2018, the Management Board of SŽDC appointed Jiří Svoboda as the new Director General in resolution No. 13/2018 with effect from 23 March 2018. This change was recorded in the Commercial Register on 9 April 2018.

On 22 March 2018, Jiří Svoboda resigned as Statutory Deputy Director General for Rail Operability as as the Statutory Deputy Director General. Mojmír Nejezchleb was appointed the Statutory Deputy Director General with effect from 23 March 2018. Marcela Pernicová was authorised to manage the Rail Operability Division with effect from 26 March 2018. As at 1 May 2018, Marcela Pernicová was appointed Deputy Director General for Rail Operability.

In its resolution No. 897 dated 22 December 2017, the Government of the Czech Republic removed Václav Horák as a member of the Management Board and appointed Ladislav Němec a new member of the Management Board with effect from 1 January 2018.

In its session held on 25 January 2018, the Management Board of SŽDC removed Václav Horák as a member of the Audit Committee as at 31 January 2018 and appointed Tomáš Čoček a new member of the Audit Committee as at 1 February 2018. It also removed Václav Horák as the chairman of the Strategy and Development Committee as at 31 January 2018 and appointed Ladislav Němec the new chairman of the Strategy and Development Committee.

Based on resolution of the Management Board of SŽDC No. 10/2018 dated 9 February 2018, six organisational units - Passenger Stations' Administrations in Olomouc, Brno, Hradec Králové, Prague, Ústí nad Labem and Pilsen were cancelled with effect from 1 April 2018 and they were included in the relevant Regional Directorates. The activities connected with the financial accounting of the Passenger Stations' Administrations were centralised in the organisational unit Centre of Shared Services with effect from 1 April 2018. The organisational unit Fire Section will be directly managed by the Deputy Director General for Asset Management effective from 1 April 2018. It was previously directly managed by the Deputy Director General for Rail Operability.

### 8.2. ČD-Telematika

Based on preceding negotiations, on 26 March 2018 an Agreement on settlement of unjust enrichment from using land and equipment was concluded between SŽDC, ČD, a.s. and ČD-Telematika, a.s. The amount of the consideration for using the land and equipment of ČD-Telematika, a.s. In 2011 – 2017 was determined in this agreement. Based on this agreement, SŽDC wrote off the outstanding amounts for 2011 – 2013. For 2014 – 2016, SŽDC issued corrective tax documents for ČD-Telematika, a.s. At the same time, the release of established adjustments will be recorded.

Prague, 8 June 2018



Jiří Svoboda  
Director General





Smooth travel is related to a continuous care for the whole railway network. Regular replacements and grinding of rails are carried out not only to ensure the travel safety and quality, but also contribute to reducing noise by up to 10 dB, which can be appreciated particularly by the people living in the vicinity of railway tracks.



# Persons responsible for the annual report

## Affirmation

We affirm that the information stated in the annual report for 2017 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.



**Jiří Svoboda**  
Director General



**Aleš Krejčí**  
Deputy Director General for Economics

The closing date of the annual report is 8 June 2018.

# 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 2017

In compliance with Section 18 of Act No. 106/1999 Coll., on Free Access to Information, as at 1 March 2018 we released the annual report for 2017 on the provision of information.

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

<b>a) Number of submitted requests for information</b>	<b>121</b>
<b>Number of issued decisions on dismissal</b>	
- of the request	26
- or a part of a request	16
<b>b) Number of submitted appeals against the decisions</b>	<b>7</b>
<b>c) Number of completed legal proceedings</b>	<b>4</b>
<b>d) Number of exclusive licences provided</b>	<b>0</b>
<b>e) Number of complaints submitted under Section 16a</b>	<b>1</b>

### To note e) of the annual report

The complaints in respect of the processing of the requests for information were submitted:

- Against the failure to act by the responsible entity in processing the request for information in accordance with s. 16a (1b) of the Free Access to Information Act. The department responsible for the processing of the request under the Free Access to Information Act did not record the original request since a system error occurred while the request was being received by the mail room of the responsible entity. The complaint was satisfied and the information provided.

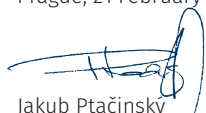
### To note c) of the annual report

The judgements of the administrative courts in respect of actions challenging the decisions of the obliged entity's supreme authorities appealing their decisions to (partially) refuse to provide information<sup>1</sup>

- 10 As 251/2016 - 75
- 8A 116/2013 - 91 - 100
- 3A 66/2015 - 34
- 3A 64/2015 - 44
- 3A 65/2015 - 45

The cost of the legal representation in court litigations amounted to CZK 90,625. Other cost related to the court litigations amounted to CZK 27,028.

Prague, 21 February 2018



Jakub Ptačinský  
Director of the Communication Section

<sup>1</sup> Správa železniční dopravní cesty, státní organizace, publishes an annual report about the activities in respect of the provision of information in accordance with Act no. 106/1999 Coll., in a manner allowing for remote access. Accordingly, this Annual report comprises the decisions' number and links to the website of the Supreme Administrative Court.



# List of abbreviations

<b>CEA</b> Civil Engineering Administration	<b>ERTMS</b> European Rail Traffic Management System	<b>LV</b> low voltage	<b>SERAC</b> Single European Railway Area Committee
<b>CEF</b> Connecting Europe Facility	<b>ETCS</b> European Train Control System	<b>MT</b> Ministry of Transport of the Czech Republic	<b>SFTI</b> State Fund for Transport Infrastructure
<b>CEN</b> European Committee for Standardisation	<b>ETSI</b> European Telecommunications Standards Institute	<b>OCR</b> Organisation for Cooperation between Railways	<b>SŽDC</b> Správa železniční dopravní cesty, státní organizace
<b>CENELEC</b> European Committee for Electrotechnical Standardization	<b>GP</b> geometric position	<b>OPT</b> Operational Programme Transport (EU)	<b>TAF</b> Telematics applications for freight service
<b>CER</b> Community of European Railway and Infrastructure Companies	<b>GSM-R</b> Global System for Mobile Communication – Railway	<b>PD</b> project documentation	<b>TCC</b> Traffic Control Centre
<b>CFT</b> contact-free track	<b>HV</b> high voltage	<b>RA</b> Railway Authority	<b>TEN-T</b> Trans-European Network – Transport
<b>ČD</b> Czech Railways (České dráhy, a. s.)	<b>HVT</b> high-voltage track	<b>RFC</b> Rail Freight Corridor	<b>TRS</b> Track radio system
<b>ČD, s. o.</b> České dráhy, s. o.	<b>IM</b> infrastructure manager	<b>RI</b> rail infrastructure	<b>TSI</b> Technical specification for Interoperability
<b>FA</b> fixed assets	<b>KPI</b> Key Performance Indicators	<b>RNE</b> Rail Net Europe	<b>UIC</b> International Union of Railways

# 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, Dlážděná 1003/7, postcode 110 00  
**Phone:** 972 235 711  
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