EUROPEAN COMMISSION
Competition DG

Markets and cases V: Transport, Post and other services

Brussels, 10.06.2015
COMP/F2/RH/ tt*D- 2015/053880

Permanent Representation of the Czech
Republic to the EU
15, rue Caroly
1050 Brussels

Subject: SA.39113 (2014/PN) – Czech Republic – Transfer of certain property of the Czech Railways to the State

Dear Madam/Sir,

By Email dated 18 July 2014, your authorities first contacted the Commission's services concerning their intention to transfer all railway stations and other property from the Czech Railways (CR) to the railway infrastructure manager SZDC. On 23 October 2014, the Czech authorities provided a market price valuation of the property to be transferred based on the income method.

The Czech authorities based their valuation on a business plan of a hypothetical third party buyer acting as market economy operator. Subsequently further information to this valuation was provided.

The valuation is made on the basis of the internal accountancy of the station (part of Czech Railways' business in 2013 and assumes three main increases in the income:

1. The currently low internal rent of CR would be significantly increased after the transfer to the level of the current external rent of SZDC;

2. In accordance with the Directive 2012/34/EU, the station fees would be introduced and equal the costs attributed to the areas used by railway passengers topped up by a 5% margin;

3. the buyer would receive a subsidy for the minimum maintenance of areas that are structurally unused.

The Czech authorities confirmed that these increases are realistic and a private investor would reasonably expect them to materialise.

Consequently the buyer would perceive three main sources of income:

1. Rental income (from CR, SZDC, commercial lessees, and flat rental),
2. Station fees and
3. A subsidy.

According to the Czech authorities the income from the Czech Railways, SZDC, the station fees and the subsidy are very low risk since they will be predominantly borne by the public authorities.

The station fees largely depend on the distribution of costs among the publically accessible area and the remaining areas. According to the Czech authorities, costs which are clearly incurred in connection with one area type are attributed to this area type. Some common costs are attributed according to the direct costs, to which they relate. Costs that are incurred in connection with the entire building are attributed to the area types proportionally to their surface in m^2.

The Czech authorities explicitly confirmed that the provided valuation takes into account all costs and in particular all maintenance and investment that is necessary to operate the assets being sold during the period relevant for the business plan underlying the valuation. In particular, the Czech authorities confirmed that the maintenance and investment costs included in the business plan are those that a private investor would be expected to incur in order to generate the revenue streams estimated in the business plan over the valuation period.

The Commission services conclude that a state subsidy covering the costs of structurally unused premises, if it was transferred through the sales price to the transport undertaking Czech Railways, would constitute state aid. Such state aid to the Czech Railways would not be justified by a common interest and would not provide an incentive effect. Therefore it could not be deemed compatible with the Treaty.

The Czech authorities provided a modified valuation that does not take into account any subsidy for the structurally unused areas, including a sensitivity analysis related to the weighted average costs of capital and terminal growth rate. The base scenario indicates the value of the property to be transferred of CZK 2.93 billion.

The Commission Services reviewed in detail the submitted valuation and additional information provided by the Czech authorities. On this basis, the Commission Services are of the opinion that it is based on realistic assumptions and the transfer price of CZK 2.93 billion corresponds to a price that a market economy investor would pay. It therefore does not provide an advantage to Czech Railways and does not constitute state aid in the sense of Article 107.1 TFEU.

This conclusion was based on data established on 31.10.2014. It is without prejudice to a possible appropriate modification of the definitive purchase price based on the updated final valuation, should this valuation comply with all principles and key assumptions of the preliminary indicative valuation. Nevertheless, I advise to contact DG Competition if the update leads to a higher price.

Therefore it appears not to be necessary to formally notify this measure and the pre-notifications will be closed with no further follow-up.

Yours faithfully,

Henrik MØRCH
Director f.f.

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