ANNUAL REPORT 2014

Železničná spoločnosť Cargo Slovakia, a. s.

ZSSK CARGO

CONTENTS

EY
Building a better working world

Ernst & Young Slovakia, spol. s r.o.
Hodžovo námestie 1A
811 06 Bratislava
Slovenská republika

Tel.: +421 2 3333 9111
Fax: +421 2 3333 9222
ey.com

Appendix to the independent auditor's report on the consistency of annual report with the financial statements in accordance with Act No. 540/2007 Coll. § 23 par. 5

To the Shareholders of Železničná spoločnosť Cargo Slovakia, a.s.:

I. We have audited the financial statements of Železničná spoločnosť Cargo Slovakia, a.s. ("the Company") as at 31 December 2014 presented in the annual report. We issued the following independent audit report dated 17 April 2015 on the financial statements:

"Independent Auditors' Report

To the Shareholders of Železničná spoločnosť Cargo Slovakia, a.s.:

We have audited the accompanying separate financial statements of Železničná spoločnosť Cargo Slovakia, a.s. ('the Company'), which consist of the statement of financial position as at 31 December 2014 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal controls as management determines are necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these separate financial statements on the basis of our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the separate financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Spoločnosť zo skupiny Ernst & Young Global Limited
Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B a v zozname audítorov vedenom Slovenskou komorou audítorov pod č. 257.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following matters:

i. As set out in Note 2.1 to the financial statements, the Company reported total accumulated losses of EUR 288,762 thousand. The future of the Company depends on the implementation of measures directly linked to the revitalization program for the railways sector passed by the Slovak government in 2013. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

ii. As set out in Note 21 to the financial statements, the Company recorded provisions of EUR 22,838 thousand for potential environmental remediation. Estimates of the future costs relating to environmental remediation are not necessarily accurate, due to uncertainties concerning the constant development of laws and regulatory requirements on the environment and the methods, timing and extent of corrective action, and so cannot be precisely specified. These costs could have a significant impact on the Company's financial results in future accounting periods.

iii. As set out in Note 25 to the financial statements, the Company has significant related party transactions and significant trading relationships with Železnice Slovenskej republiky and Železničná spoločnosť Slovensko, a.s., which are generally contracted on an annual basis.

17 April 2015
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Martin Ostrochovsky
UDVA Licence No. 1056"

II. We have also audited the consistency of the annual report with the above-mentioned financial statements. The management of the Company is responsible for the accuracy of preparation of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements, based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accounting information presented in the annual report and derived from the financial statements is consistent, in all material respects, with the financial statements. We have checked that the information presented in the annual report is consistent with that contained in the financial statements as at 31 December 2014. We have not audited information that has not been derived from financial statements or Company accounting records. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements of the Company as at 31 December 2014 and is in accordance with the Act on Accounting No 431/2002 Coll., as amended by later legislation.

17 April 2015
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Martin Ostrochovsky
UDVA Licence No. 1056

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

FOREWORD FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Ing. Vladimír Ľupták

Chairman of the Board
and CEO

Železničná spoločnosť Cargo Slovakia, a. s.

Dear ladies and gentlemen,

Železničná spoločnosť Cargo Slovakia, a.s., entered the year 2014 as the largest provider of rail freight transport services in Slovakia, with the network-wide servicing of its territory. Despite tough competition from other carriers, we have managed to sustain a 80-per cent market share. We transported over 36 million tons of goods, and good news for us is that our former customers have been leaving the competitors for us, which I consider a stabilising element in the liberalised environment. A road-to-rail shift can be seen in the transport of certain commodities, such as timber. This shows that comprehensiveness, experience and reliability are our competing advantage, upon which we intend to build our strategy for the years to come.

In 2014, we continued accomplishing the tasks set in the Government-approved document concerning the consolidation of the railway sector and ZSSK CARGO. We successfully completed the international tender process to find a strategic partner to enter the subsidiary Cargo Wagon, a.s., responsible for freight wagon management. Although we currently do not operate as a carrier on foreign rail infrastructure, we are able to provide transport services along the whole transport route. We are preparing for the option of having our own carrier on foreign route sections in the future. A challenge for ZSSK CARGO is also the development of intermodal transport in collaboration with the experienced partner within the subsidiary ZSSK CARGO Intermodal, a.s. The development of single wagonload transport, where a decline has been recorded on a global scale, remains a future for the European railways. Out of the total ZSSK CARGO transport volume, single wagonloads represent nearly one quarter. At the company level, we have prepared a project of system support for single wagonloads both at the operational level and as part of our trade policy in order to continue increasing their share. These transports are financially most demanding for the company but necessary in terms of wagon use efficiency or ecology. In 2014, ZSSK CARGO took part in a number of goods transport service tenders, facing tough competition indeed. Favourable information is that we were successful in the major tenders, which affords great potential in the future.

In the previous years the ZSSK CARGO management took several important measures aimed to consolidate the company financially. Those measures were aimed not only at the trade policy but also at wagon management and maintenance including inventory management. We place emphasis on enhancing the efficiency of cooperation between trade and rolling stock operation and maintenance. We welcome the activities of the Ministry of Transport that are aimed to contribute towards the strengthening and development of rail freight transport in our country. By introducing a new framework for railway infrastructure charges, Slovakia's ability to compete with the surrounding countries in transit transport has grown. Today it can be stated that ZSSK CARGO has been stabilising in all areas. In 2014, ZSSK CARGO managed to reduce the amount of its liabilities whilst observing payment discipline towards its suppliers at the same time. We also met our liabilities arising from repayable loans totalling over EUR 24 million. On the other hand, the year 2014 was a year with historically lowest amount of accounted-for investments since founding of our company. We primarily invested funds in rolling stock repairs, including wagons and locomotives. In order to ensure the real development of the company, it is necessary that the amount of investments in the renewal of the motive power unit fleet, transshipment technologies, ICT, and in the elimination of ecological burdens should be significantly increased in the following years.

The year 2014 showed ZSSK CARGO's ability to generate a relatively high operating profit, the major portion of which was, however, used to make loan and interest repayments. This causes asset replacements to be constrained. Given the high depreciation charges and loan interest payments, as well as the provisions for unused assets, the total economic result for 2014 is a loss; it should, however, be noted that this loss is much lower than the plan expected.

The rail freight transport market is rather dynamic and open, and is gradually becoming unified thanks to the application of EU legislation. Our effort is to monitor this segment and to respond flexibly to the needs of customers. In the following period it will remain our priority to discharge the company's debt and to stabilise the company with a view to ensuring its further development. ZSSK CARGO's strength consists in having fair relationships with our business partners as well as in providing a solid background for our employees, to whom my thanks especially go.

LIST OF USED ABBEVIATIONS

AVV	General Contract of Use for Wagons (GCU)
BTS	BULK TRANSSHIPMENT SLOVAKIA, a.s.
ČD	Czech Railways
EDI	Electronic Data Interchange
ESTY	Eastern Slovak Transshipment Yards
EU	European Union
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISP	Information System of Operation
IT	Information Technologies
MPU	Motive Power Unit
MTCRD SR	Ministry of Transport, Construction and Regional Development of the Slovak Republic
PED	Mail Registry for Electronic Documents
PGV	Regulation on Use of Wagons in International Rail Transport of Goods
RIV	Agreement Governing the Exchange and Use of Wagons between Railway Undertakings
SR	Slovak Republic
VAT	Value Added Tax
VUŽ	Railway Research Institute
ZSSK	Železničná spoločnosť Slovensko, a.s.
ZSSK CARGO	Železničná spoločnosť Cargo Slovakia, a.s.
ŽSR	Železnice Slovenskej republiky
ŽS	Železničná spoločnosť, a.s.

MILESTONES OF THE YEAR 2014

- Preparing and drawing up contracts with AAE as the winner of the international tender for the sale of an ownership interest in the subsidiary Cargo Wagon, a.s.
- Preparing an international tendering process for the entry of a strategic partner into the subsidiary ZSSK CARGO Intermodal, a.s.
- Resuming Slovakia's regular membership in the Agreement on International Goods Transport by Rail (SMGS) as of 1 October 2014.
- Drawing up the comprehensive material „Systemic support for the transport of single wagonloads on Slovakia's railway network", and launching the project of systemic support for single wagonloads in the operating conditions - at the first stage by way of surveys conducted at the regional level by the first customer contact staff in the regions of the whole Slovak railway network.
- Drawing up the „Concept of ZSSK CARGO motor traction motive power units for 2015 - 2021".
- Approving the „Technical specifications of new multi-system electric traction motive power units" which are planned to be procured due to changes in the system of traction power supply on the ŽSR network, as well as due to the regular renewal of ZSSK CARGO electric traction motive power units.
- Setting up a cross-sectional task force to adopt measures aimed at enhancing the daily availability of modernised motive power units of the 736, 746, 756 and 773.8 series.
- Fulfilling the measures laid down in the „ZSSK CARGO Rolling Stock Development Concept for 2013 – 2017" in order to optimise the situation in the wagon fleet and the motive power unit fleet with respect to the expected business and operational needs of ZSSK CARGO.
- Coordinating the activities of the ZSSK CARGO Steering Committee for the purpose of determining the optimum number of freight wagons and motive power units on a quarterly basis with respect to the expected transport volumes.
- Being a successful tenderer in transport, maintenance and repair service tenders announced by ZSSK CARGO's strategic customers.
- Launching the services of intermodal transport from the Greek port Pireus (Thriasio station) to the Bratislava ÚNS (Central Freight Station) and the Česká Třebová station (Czech Railways).
- The gradual launching of the operation of electronic invoices based on the EDI application, starting from 1 April 2014 according to the pilot customer schedule, with the final stage of double-entry full operation taking place at the end of the year.
- Launching electronic data interchange with this customer's information system at the connecting point in Haniska pri Košiciach (broad-gauge).
- Involving other customers in the testing of electronic submission via the ISP customer portal.
- Launching the full operation of invoices sending via the PED repository also for non-core business customers (once a contract is signed, all invoices are sent to the customer electronically).
- Providing the ISP customer portal services on a contractual basis for a fee, as well as providing chargeable information on the wagon location via the info service.
- Implementing the project „Central Contracts Register" within the SAP information system, linked to SAP objects, and with the partially computerised process of contract processing on the part of the SAP information system.
- Implementing new technologies in the ZSSK CARGO conditions, aimed inter alia at IT security, centralised administration, etc.
- In November 2014, a re-certification audit of the product „rolling stock maintenance and repairs" was successfully conducted in accordance with STN EN ISO 9001:2008, with the certificate of quality being retained for another three years.
- Purchasing technological equipment for the ultrasound measurement of residual stresses in the rims of whole freight wagon wheels, and commissioning a wheelset lathe technological device at the Žilina freight wagon repair workshop.
- Obtaining approval for the use of Sgnss wagons being extended to the transport of round timber on stanchion pallets.
- Reconstructing 4 two-system electric locomotives of the 363 series, with a multiple-unit control system installed enabling the control of coupled locomotives from a control locomotive, including successful type tests on the VUŽ Cerhenice test circuit.
- Implementing the 2nd stage of reconstruction of frequency changers and of a portal crane at the Eastern Slovak Transshipment Yards in Čierna nad Tisou.
- Replacing the cabins of bridge cranes at the Eastern Slovak Transshipment Yards in Čierna nad Tisou, and leasing TEREX/FUCHS RHL 350D diesel-hydraulic excavators with an electronic engine regulator and a height-adjustable pull-out cabin (hydraulic control).
- Reconstructing the main switch, the circuit breakers and the static charger on a 240-series locomotive.
- Reconstructing the radio-communication equipment on 4 locomotives of 363-series and on 2 locomotives of 183-series.
- Extending the functionalities of the operations information system, with a focus on motive power unit and locomotive driver performance figures; support for dispatcher work with empty wagons; modifications to train documentation and wagon labels; and on the extension of the technical locomotive running foreman module.
- Putting in place the monitoring and evaluation of efficiency of the use of company cars via the GPS system.

FREIGHT TRANSPORT

In 2014 our company transported 36,017 million tons of goods. Although this is a decrease of 290 thousand tons when compared to 2013, the transport volume planned for 2014 was exceeded by nearly 120 thousand tons.

The largest share in the transport volume (about 66%) is imputable to the transport of raw materials and metallurgical products. When compared to 2013, an increase in the volume of transported iron ore is gratifying. A decline was recorded in the commodity of coal, which was caused not only by a mild winter leading to lower demand on the part of heating plants but also by competitors' fight.

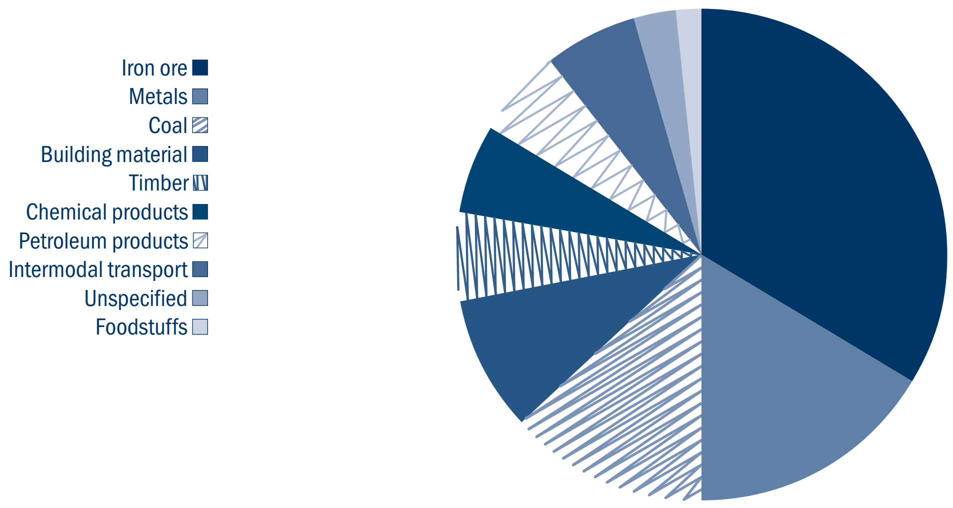
The year 2014 confirmed the positive trends in the commodity of timber, where, thanks to lower charges for the use of railway infrastructure, a road-to-rail shift in the transport of timber is partially successful. On the contrary, the transport of petroleum products shows a downward tendency.

An achievement made in 2014 was almost a 2.5-fold rise in the volume of goods transported (1,562.7 thousand tons) by our company along the whole transport route, including the foreign route sections, which were served through subcontractors.

Freight transport by commodities

In thousand of tons	2014	2013	2012	2011	2010	2014/13
Iron ore	12,918	12,589	11,924	12,253	12,268	1.03
Metals	5,450	5,537	5,906	5,543	5,769	0.98
Coal	4,772	5,028	5,516	5,950	6,422	0.95
Building material	3,022	3,015	2,936	3,223	3,118	1.00
Timber	2,577	2,333	1,968	2,308	2,448	1.10
Chemical products	2,259	2,181	1,874	2,578	2,730	1.04
Petroleum products	1,921	2,232	2,011	2,195	2,154	0.86
Intermodal transport	1,864	2,018	1,870	2,243	2,779	0.92
Unspecified	874	1,043	1,001	768	623	0.84
Foodstuffs	360	331	277	421	298	1.09
	36,017	**36,308**	**35,284**	**37,483**	**38,610**	**0.99**

Classification according to the commodities



Domestic freight transport

	2014	2013	2012	2011	2010	2014/2013
Transported goods (in thous. of tons)	4,245	4,473	4,206	4,566	4,413	0.95
Operation Performance (in mil. of net tkm)	796	787	690	712	762	1.01
Average forwarding distance (in km)	187.5	175.8	164.0	156.0	172.7	1.07

International freight transport

Import	2014	2013	2012	2011	2010	2014/2013
Transported goods (in thous. of tons)	14,812	14,515	14,740	15,364	15,924	1.02
Operation performance (in mil. net tkm)	2,236	2,243	2,374	2,613	2,686	1.00
Average forwarding distance (in km)	151.0	154.6	161.1	170.1	168.7	0.98
Export	**2014**	**2013**	**2012**	**2011**	**2010**	**2014/2013**
Transported goods (in thous. of tons)	8,282	8,661	8,057	8,768	9,325	0.96
Operation performance (in mil. net tkm)	1,167	1,108	1,110	1,202	1,404	1.05
Average forwarding distance (in km)	140.9	127.9	137.8	137.1	150.6	1.10
Transit	**2014**	**2013**	**2012**	**2011**	**2010**	**2014/2013**
Transported goods (in thous. of tons)	8,678	8,659	8,281	8,785	8,947	1.00
Operation performance (in mil. net tkm)	2,690	2,673	2,680	2,763	2,817	1.01
Average forwarding distance (in km)	309.9	308.7	323.6	314.5	314.9	1.00
International Transport in Total	**2014**	**2013**	**2012**	**2011**	**2010**	**2014/2013**
Transported goods (in thous. of tons)	31,772	31,835	31,078	32,917	34,196	1.00
Operation performance (in mil. net tkm)	6,092	6,024	6,164	6,578	6,907	1.01
Average forwarding distance (in km)	191.8	189.2	198.3	199.8	202.0	1.01

Freight traffic performance

(mil. gross tkm)	2014	2013	2012	2011	2010	2014/2013
Electric Traction	11,232	10,998	11,608	12,797	13,301	1.02
Diesel Traction	1,217	1,561	1,645	1,838	2,156	0.78
Total Freight Performance	12,449	12,559	13,253	14,635	15,457	0.99

Freight operation performance

(mil. net tkm)	2014	2013	2012	2011	2010	2014/2013
Electric Traction	6,203	6,052	6,258	6,761	7,037	1.02
Diesel Traction	588	728	759	837	984	0.81
Total Operation Performance	6,791	6,780	7,016	7,598	8,021	1.00

Note: Operating performance is calculated in real net tkm.

Ratio of operating and traffic performance in freight transport

(%)	2014	2013	2012	2011	2010	2014/2013
net tkm / gross tkm	54.55	53.99	52.94	51.91	51.90	1.01

Train-path kilometres in freight transport

(in thousand of train-path kms)	2014	2013	2012	2011	2010	2014/2013
Electric Traction	7,413	7,394	7,825	8,802	9,058	1.00
Diesel Traction	1,725	2,051	2,122	2,482	2,889	0.84
Freight Transport in Total	9,138	9,445	9,947	11,284	11,947	0.97

STRUCTURE OF MPU

Development of MPU number

	2014	2013	2012	2011	2010
Electric locomotives	299	309	309	323	324
Diesel locomotives	338	338	338	373	372
Diesel coaches	1	1	1	1	1
	638	**648**	**648**	**697**	**697**

Besides MPU in personal possession mentioned in the table, ZSSK CARGO used also 12 diesel locomotives acquired through financial leasing.

Age structure of MPU

Years	Up to 15	Up to 30	Over 30	Total
Electric locomotives	6	27	266	299
Diesel locomotives	49	33	256	338
Diesel coaches	-	-	1	1
	55	**60**	**523**	**638**

STRUCTURE OF FREIGHT WAGON FLEET

Development of number of wagons

	2014	2013	2012	2011	2010
Covered wagons	1,963	1,964	1,952	2,141	2,190
Open wagons	6,524	6,694	6,808	6,860	7,125
Flat wagons	3,306	3,311	3,076	2,973	2,891
Other freight wagons	1,473	1,473	1,473	1,474	1,482
	13,266	**13,442**	**13,309**	**13,448**	**13,688**

Besides above-mentioned wagons in personal possession, ZSSK CARGO rented 1,104 wagons through the financial leasing as at 31 December 2014. Financial leasing was used also in the previous years.

Number of wagons according to the international specifications and their age structure

Years	Up to 15	Up to 30	Over 30	Total
E - ordinary open high-sided wagon	448	3,088	2,156	5,692
F - special open wagon	-	-	832	832
G - ordinary covered wagon	-	228	80	308
H - special covered wagon	713	88	498	1,299
K - ordinary flat wagon	14	18	213	245
L - special flat wagon	242	-	3	245
R - ordinary flat bogie wagon	532	235	937	1,704
S - special flat bogie wagon	281	397	434	1,112
T - wagon with opening roof	-	248	108	356
U - special wagon	-	123	91	214
Z - tank wagon	-	382	877	1,259
	2,230	**4,807**	**6,229**	**13,266**

CAPITAL INVESTMENTS OF ZSSK CARGO

(accounting balance as at 31.12.2014 in EUR)

Company	Number of equities (pcs)	Type	Share (%)	Value of Capital Investments
Intercontainer - Interfrigo s. c. Brussels, Belgium	385	paper	0.03	7,610.33
Bureau Central de Clearing s. c. r. l. Brussels, Belgium	4	paper	2.96	2,974.72
BULK TRANSSHIPMENT SLOVAKIA, a.s.	54,932	paper	40	2,829,503.54
Cargo Wagon, a.s.	103	paper	100	10,002,500.00
ZSSK CARGO Intermodal, a.s.	25	paper	100	27,500.00
				12,870,088.59

INTEGRATED MANAGEMENT SYSTEM

The top management places great emphasis on ensuring that our customers are satisfied with the quality of the transport process. Besides, the company constantly monitors the situation as to employees‘ occupational safety and health protection with a view to minimising the risk of bodily injuries suffered by employees or of damage or losses occasioned by industrial diseases. The integrated management system is an indispensable instrument that is used by the company‘s management to accomplish demanding tasks regarding the quality of provided services and occupational safety and health protection.

In 2014, the independent certification company TÜV SÜD checked the functionality of the integrated management system and confirmed the rightfulness of the management system certificates awarded pursuant to ISO 9001 and OHSAS 18001.

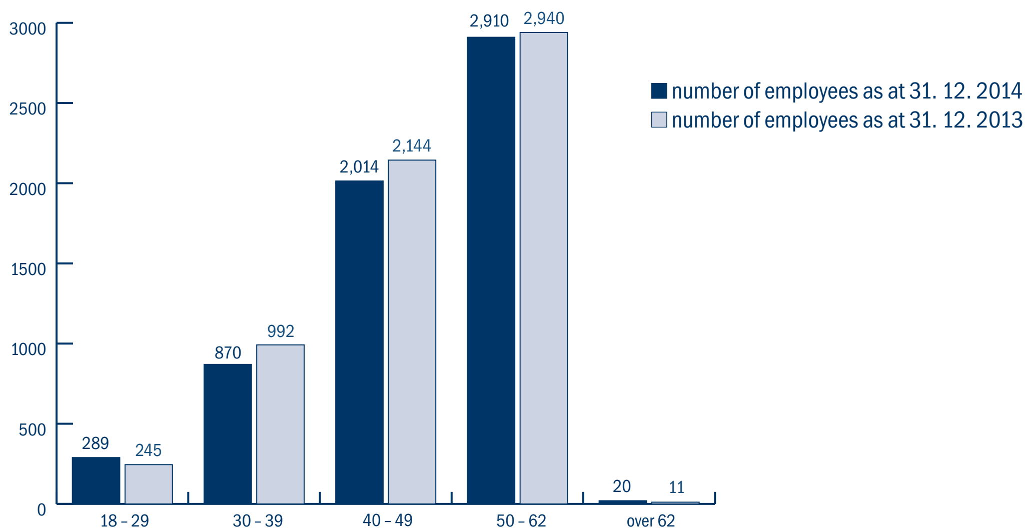
We hold these certificates:

- According to the ISO 9001 standards for the following products:
  - Railway freight transport (logistic trains)
  - Maintenance and repairs of rolling stock
  - Procurement and Purchase Processes, Methods and Analysis Processes, Storage Processes and Services, Fleet of vehicles, Processes and Services
  - East Slovak Transshipment Yards
  - Ensuring professional qualification and education of employees
- According to the OHSAS 18001 standards:
  - Managerial system of work safety and health protection at work

HUMAN RESOURCES

As at 31.12.2013, the company employed 6,332 people. Via mobility and optimization the number of registered employees was 6,103 as at 31.12.2014. As compared with the year 2013, an employment decrease by 229 people (3.62%) is indicated.

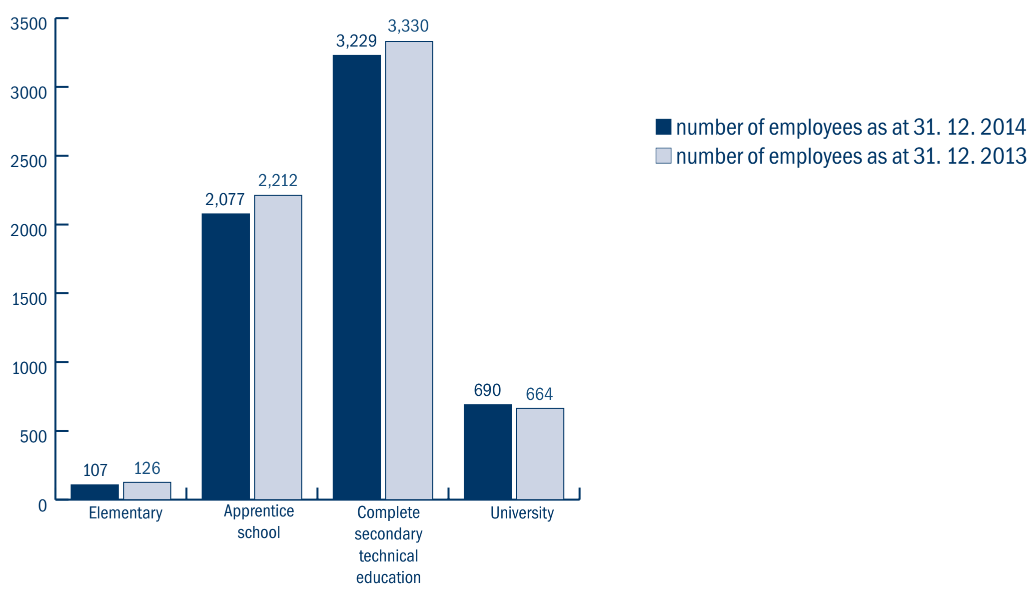
Age structure



- The largest decrease in the number of employees (130 employees – 56.77%) was found in the age category 40 - 49 years of the total number of employees decrease (229 employees).
- The largest number of employees (2,910 employees – 47.68%) was found in the age category 50 – 62 years.

As at 31.12.2014, the average age of employees was **47.95**.

Structure of employees by education



- the largest decrease in the headcount was found in the category of „employees with apprentice education“ (135 employees – 59%), compared to the total headcount reduction (229 employees).
- the highest number of ZSSK CARGO employees (3,229 employees - 53%) fall within the category of „employees with complete secondary technical education“.

The average wage for the year 2014 was 858.40 EUR which represents an 4.94% increase as compared with the year 2013.

As part of HR development in the area of training and education, a residential training course for engine drivers and a residential examiner training course aimed at attaining vocational skills required under the Railways Act were held in 2014.

The company had a collective agreement with 13 trade union headquarters.

RISKS

ZSSK CARGO's activities in 2014 were influenced by a number of internal and external factors and risks that had a varying impact on the achievement of its main goals:

- The developments in Ukraine and the Russian Federation brought about uncertainty and loss of transports from the former countries of the Commonwealth of Independent States.
- As in the previous year, the railway operations in 2014 were also affected by the modernisation of ŽSR railway lines (including other surrounding infrastructures), which had an adverse impact on the smoothness and efficiency of train traffic and goods transport and required a greater number of wagons, motive power units and operating staff.
- The year 2014 saw an increase in the transport volumes achieved by competing rail carriers, such increase being seen almost exclusively in the transport of containers. Tough competition puts pressure on the pricing policies of individual carriers, including ZSSK CARGO, leading to a decline in revenues from certain transport services. The company will focus on stabilising its share in Slovakia's rail transport market.
- Continuing the application of the Principles of the State Transport Policy of the Slovak Republic and promoting environmentally friendly modes of transport by temporarily reducing the charges for the use of railway infrastructure, the company managed to divert certain transports from road back to rail.
- The continued overloading and low efficiency in the transport of single wagonloads has a negative impact on the company's economic results.
- Failure to implement all investment projects due to various factors in the procurement process (inadequate specification of technical conditions, lengthy procurement process, decision of the management/shareholder) as well as due to unexpected complications in the implementation phase has a negative impact on the operating results and the budgeted savings. The year 2014 was also marked by a shortage of funds; these primarily went towards reducing the company's debt. The amount of capital expenditures was the lowest since the establishment of the company in 2005, and did not cover standard replacement costs, which precluded the development of the company to the extent required. Capital expenditure projects were primarily aimed to ensure the operability of freight wagons and locomotives by carrying out technical inspections and H-repairs, and to remove emergency conditions.
- By applying the public procurement principles, ZSSK CARGO as a contracting authority prolongs the purchasing process, which results in the company's lower flexibility and competitiveness in the conduct of both core and non-core business activities.
- Owing to a time shift in the Cargo Wagon transactions, a need arose for ensuring revision repairs of freight wagons.
- Changes in the customers' requirements affected the need for a fleet of freight wagons (especially Eas series).
- The persisting high fault rate and unreliability of modernised motor traction locomotives entails a higher operating demand for the chosen series of locomotives.
- A high level of redundant assets that burdens the company with additional costs which was impossible to sell or to place in the market.

EXPECTED FUTURE DEVELOPMENT

Based on adopted Resolution of the Government of the Slovak Republic No. 390/2013 of 10 July 2013, a process was launched to implement several measures aimed at the economic consolidation and further development of ZSSK CARGO. In 2014, a process was undertaken to select qualified partners to enter two subsidiaries, and negotiations were conducted about the setting of further cooperation so as to improve the company's economic results and reduce its total debt. The sale of ownership interests in the subsidiary Cargo Wagon, a.s., is expected to be completed in the first half of 2015. Thereafter, an international tender will be held to find a strategic partner to enter the subsidiary ZSSK CARGO Intermodal, a.s., with the closing of the tender expected to come about at the end of 2015.

The company will continue the chosen trend of optimising the intra-company processes and making them more efficient. In the years to come, the company expects to stabilise its transport volumes and revenues, which can, however, be negatively affected by external factors, especially by the advantages of road transport, the continued slow economic recovery, and tough competition.

PARTICULAR INFORMATION FOR THE YEAR 2014

In 2014, an international tender was held and negotiations conducted with its winner as a strategic investor to join the subsidiary Cargo Wagon, a.s. At ZSSK CARGO investment and development activities were restrained; the real entry of a strategic investor and the implementation of measures aimed at the economic consolidation of the company are expected particularly in 2015.

In 2014, the company did not expend any research and development costs.

The company does not have any business units abroad.

No events have occurred subsequent to the end of the financial year as of 31 December 2014 that would significantly affect the fair presentation of facts disclosed in the attached financial statements.

A recognised accounting loss of EUR 5,492 thousand for 2014 will be proposed to be reclassified to accumulated losses from previous years.

SELECTED ECONOMIC INDICATORS

According to the data from the separate financial statement

In thousand of EUR	2014	2013
Total assets	551,240	657,859
Long-term tangible property	296,904	517,166
Assets held for sale	180,429	-
Equity	114,138	119,630
Loans (short-term + long-term)	233,128	275,244
Revenues	296,216	369,132
Costs	(292,441)	(357,415)
Profit/(loss) out of financial operatios	(9,228)	(11,373)
Income tax	(39)	(82)
Economic result	**(5,492)**	**262**

Independent auditor‘s report and financial statements prepared in accordance with International financial reporting standards as adopted by the European Union

Year ended 31 december 2014

ZSSK CARGO

INDEPENDENT AUDITOR'S REPORT

EY
Building a better working world

Ernst & Young Slovakia, spol. s r.o.
Hodžovo námestie 1A
811 06 Bratislava
Slovenská republika

Tel: +421 2 3333 9111
Fax: +421 2 3333 9222
ey.com

Independent Auditors' Report

To the Shareholders of Železničná spoločnosť Cargo Slovakia, a.s.:

We have audited the accompanying separate financial statements of Železničná spoločnosť Cargo Slovakia, a.s. ('the Company'), which consist of the statement of financial position as at 31 December 2014 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal controls as management determines are necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these separate financial statements on the basis of our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the separate financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Spoločnosť zo skupiny Ernst & Young Global Limited
Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B a v zozname audítorov vedenom Slovenskou komorou audítorov pod č. 257.

EY
Building a better working world

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following matters:

i. As set out in Note 2.1 to the financial statements, the Company reported total accumulated losses of EUR 288,762 thousand. The future of the Company depends on the implementation of measures directly linked to the revitalization program for the railways sector passed by the Slovak government in 2013. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

ii. As set out in Note 21 to the financial statements, the Company recorded provisions of EUR 22,838 thousand for potential environmental remediation. Estimates of the future costs relating to environmental remediation are not necessarily accurate, due to uncertainties concerning the constant development of laws and regulatory requirements on the environment and the methods, timing and extent of corrective action, and so cannot be precisely specified. These costs could have a significant impact on the Company's financial results in future accounting periods.

iii. As set out in Note 25 to the financial statements, the Company has significant related party transactions and significant trading relationships with Železnice Slovenskej republiky and Železničná spoločnosť Slovensko, a.s., which are generally contracted on an annual basis.

17 April 2015
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Martin Ostrochovsky
UDVA Licence No. 1056

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

In thousands of EUR	Note	31 December 2014	31 December 2013
Revenues			
Transportation and related revenues	3	281,805	283,241
Other revenues	4	14,411	85,891
		296,216	**369,132**
Costs and expenses			
Consumables and services	5	(128,936)	(163,896)
Staff costs	6	(90,247)	(87,977)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	11, 12	(65,682)	(103,676)
Other operating revenues (expenses), net	7	(7,576)	(1,866)
		(292,441)	**(357,415)**
Finance costs			
Interest expense	8	(9,874)	(11,235)
Other finance revenues (costs), net	9	646	(138)
		(9,228)	**(11,373)**
Income tax	10	(39)	(82)
Profit (Loss) for the period		**(5,492)**	**262**
Other comprehensive income for the period		-	-
Total comprehensive income for the period		**(5,492)**	**262**

The accounting policies and notes form an integral part of the financial statements.

Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 15 April 2015.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

In thousands of EUR	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	12	296,904	517,166
Intangible assets	11	10,140	12,514
Investment in joint venture	13	2,840	1,541
Investment in subsidiaries	13	10,030	55
		319,914	**531,276**
Current assets			
Inventories	14	7,209	8,559
Trade and other receivables	15	43,383	117,953
Cash and cash equivalents	16	305	71
		50,897	**126,583**
Assets held for sale	24	180,429	-
		231,326	**126,583**
TOTAL ASSETS		**551,240**	**657,859**
EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital	17	401,646	401,646
Legal reserve fund	17	26	-
Other funds	17	1,228	1,228
Accumulated losses	17	(288,762)	(283,244)
Total equity		**114,138**	**119,630**
Non-current liabilities			
Subordinated debt	18	97,720	117,220
Interest-bearing loans and borrowings	19	13,098	15,153
Employee benefits	20	14,993	14,062
Provisions	21	29,641	22,148
Trade and other payables	22	35,546	-
Finance lease liabilities	23	17,671	39,004
Other non-current liabilities	22	200	155
		208,869	**207,742**
Current liabilities			
Subordinated debt	18	19,500	19,500
Interest-bearing loans and borrowings	19	102,810	123,371
Employee benefits	20	852	682
Provisions	21	9,560	11,019
Trade and other payables	22	73,973	161,297
Finance lease liabilities	23	21,538	14,618
		228,233	**330,487**
Liabilities directly associated with assets held for sale	24	-	-
Total liabilities		437,102	538,229
TOTAL EQUITY AND LIABILITIES		**551,240**	**657,859**

The accounting policies and notes form an integral part of the financial statements.

Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 15 April 2015.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

In thousands of EUR	Share capital	Legal reserve fund	Other funds	Accumulated losses	Total
At 1 January 2013	**401,646**	-	**1,228**	**(283,506)**	**119,368**
Loss for the period	-	-	-	262	**262**
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	262	**262**
At 31 December 2013	**401,646**	-	**1,228**	**(283,244)**	**119,630**
Profit for the period	-	-	-	(5,492)	**(5,492)**
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	(5,492)	**(5,492)**
Legal reserve fund	-	26	-	(26)	-
At 31 December 2014	**401,646**	**26**	**1,228**	**(288,762)**	**114,138**

The accounting policies and notes form an integral part of the financial statements.

Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 15 April 2015.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

In thousands of EUR	Note	31 December 2014	31 December 2013
Cash flows from operating activities			
Profit / (Loss) before tax		(5,453)	344
Adjustments for:			
Non-cash items			
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	11, 12	65,430	103,676
Loss (gain) on sale of property, plant and equipment		(693)	(2,047)
Allowance of receivables and inventories	14, 15	(894)	326
Interest expense	8	9,874	11,235
Interest income		-	-
Movements in provisions and employee benefits		7,186	(4,292)
Other non-cash items	4, 13	(1,061)	(69,944)
		74,389	**39,298**
Working capital adjustments			
Decrease in inventories		1,340	271
Decrease (increase) in trade and other receivables		5,529	(4,867)
Increase (decrease) in trade and other payables		8,433	(2,442)
Cash flows from operating activities		**89,691**	**32,260**
Income tax paid	10	(36)	(82)
Net cash flows from operating activities		**89,655**	**32,178**
Investing activities			
Purchase of property, plant and equipment	11, 12	(24,197)	(25,124)
Share capital contribution in subsidiaries	13	(10,191)	(55)
Proceeds from sale of property, plant and equipment		1,079	17,969
Net cash flows from (used in) investing activities		**(33,309)**	**(7,210)**
Financing activities			
Proceeds from loans and borrowings	19, 20	9,975	45,350
Repayment of loans and borrowings	20	(19,898)	-
Repayment of subordinated debt	18	(19,500)	(19,500)
Interest paid		(9,558)	(11,006)
Interest received		-	-
Payments of finance lease liabilities	23	(14,413)	(33,234)
Net cash flows used in financing activities		**(53,394)**	**(18,390)**
Net (decrease) increase in cash and cash equivalents		**2,952**	**6,578**
Cash and cash equivalents at 1 January	16	**(88,402)**	**(94,980)**
Cash and cash equivalents at 31 December	16	**(85,450)**	**(88,402)**

The accounting policies and notes form an integral part of the financial statements.

Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 15 April 2015.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Information on Reporting entity

Železničná spoločnosť Cargo Slovakia, a.s. ("ZSSK CARGO" or "the Company"), a joint stock company registered in the Slovak Republic, was founded on 1 January 2005 as one of two successor companies to Železničná spoločnosť, a.s. ("ŽS"). ZSSK CARGO was incorporated with the Commercial Register of the District Court Bratislava I, Section Sa, Insert No. 3496/B at the date of its establishment, IČO 35 914 921, DIČ 20 219 200 65.

The Slovak Republic is the sole shareholder of the Company through the Ministry of Transport, Construction and Regional Development of the Slovak Republic ("MTCRD") with its registered office on Námestie slobody 6, 811 06 Bratislava. The Company does not belong to any group for consolidation purposes. The Company is not an unlimited liability partner in any other company.

The Company's predecessor, ŽS, was founded on 1 January 2002 through the demerger of Železnice Slovenskej Republiky ("ŽSR") and assumed responsibility for the provision of freight and passenger rail transport and traffic services within Slovakia, while ŽSR retained responsibility for the operation of the traffic routes. ŽS was dissolved without liquidation effective 31 December 2004 and replaced, following a second demerger, by two newly established successor companies: Železničná spoločnosť Slovensko, a.s. ("ZSSK") for passenger transportation and traffic services and ZSSK CARGO for freight transportation and traffic services.

Principal activities

ZSSK CARGO's main business is the provision of freight transportation and related services. Additionally, the Company rents properties and provides repair and maintenance, cleaning and other support services to ZSSK and other external customers. The Company is organized and managed as a single business unit and is viewed as a single operating unit by the Board of Directors for the purposes of resource allocation and assessing performance.

The registered office of ZSSK CARGO

Drieňová 24
820 09 Bratislava
Slovak Republic

These separate financial statements are filed at the Company's registered address and at the Commercial Register of the District Court Bratislava I, Záhradnícka 10, 812 44 Bratislava.

2.1 BASIS OF PREPARATION AND MEASUREMENT

These separate financial statements were approved and authorized for issue by the Board of Directors on 15 April 2015. The General Meeting held on 25 June 2014 approved the Company's financial statements for the previous accounting period.

The financial statements have been prepared on the historical cost basis. These financial statements constitute the statutory accounts of ZSSK CARGO, prepared in accordance with Article 17a (6) of Slovak Act No. 431/2002 Coll. on Accounting for the accounting period from 1 January 2014 to 31 December 2014.

The financial statements were prepared using the going concern assumption that the Company will continue its operations for the foreseeable future. The Company reported a loss of EUR 5,492 thousand for the year and total accumulated loss of EUR 288,762 thousand. In 2014, Company failed to meet financial covenants for one particular loan contract (note 19).

The Government of the Slovak republic approved the resolution No. 390/2013 on 10 July 2013 which sets measures to consolidate rail freight transport and its implementation should allow an economic consolidation and further development of the Company. The measures compensate a late introduction of a new regulatory framework for rail freight companies in the form of reduced fees for the use of railway infrastructure in the years 2014-2016 and also allow the Company to establish three subsidiaries in the sector of management of wagons, intermodal transport and repair and maintenance of machines and wagons and subsequently allow qualified and reputable partners to enter into those subsidiaries. The Company established two subsidiaries Cargo Wagon, a.s. and ZSSK CARGO Intermodal, a.s. in 2013. The Company signed a sale and purchase of shares contract with AAE Wagon a.s. (member of VTG/AAE Group), the winner of the international tender on 5 March 2015. According to the contract AAE Wagon a.s. will acquire 66% of share capital of Cargo Wagon, a.s. A shareholders agreement governing relations between both shareholders AAE and ZSSK CARGO has been also signed. After an approval of the Antimonopoly authorities, registering transfer of share and the fulfillment of other conditional clauses the final transaction documents, which have already been agreed on and approved by both parties, will be signed – Agreement on transfer of movable assets for consideration and subsequent lease back of means of transport (Agreement on sale of 12 342 railway carriages and lease back of 8 216 railway carriages) and Bank loan agreement between financing banks and Cargo Wagon, a.s. which will be used to finance the purchase of railway carriages. ZSSK CARGO will subsequently receive a payment for the sale of carriages of EUR 216.6 million (incl. VAT) which will be used to decrease Company's debt. The Company is expecting the finalization of the deal in May – June 2015. The Company also expects the finalization of the entry process into ZSSK CARGO Intermodal, a.s. The aim of establishing subsidiaries is besides a significant debt reduction a gradual achievement of balanced budget in medium-term while continuing with other internal measures to increase the productivity and efficiency of internal processes.

The financial statements and accompanying notes are presented in thousands of Euro.

The Company's financial year is the same as the calendar year.

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

At this time, due to the endorsement process of the European Union and the nature of the Company's activities, there is no difference between the IFRS policies applied by the Company and those adopted by the European Union.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Standards issued but not yet effective up to the date of issuance of the Company's separate financial statements are listed below:

- IAS 1 Amendments to IAS 1: Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016; these amendments have not been approved by the EU yet);
- IAS 16 IAS 41 Amendments to IAS 16 and IAS 41: Bearer Plants (effective for annual periods beginning on or after 1 January 2016; these amendments have not been approved by the EU yet);
- IAS 16 IAS 38 Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016; these amendments have not been approved by the EU yet);
- IAS 19 Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014);
- IAS 27 Amendments to IAS 27: Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016; these amendments have not been approved by the EU yet);
- IFRS 9 Financial Instruments (effective date for annual periods beginning on or after 1 January 2018; this standard has not been approved by the EU yet);
- IFRS 10 IAS 28 Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016; these amendments have not been approved by the EU yet);
- IFRS 10 IFRS 12 IAS 28 Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016; these amendments have not been approved by the EU yet);
- IFRS 11 Amendments to IFRS 11: Accounting for Acquisition of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016; these amendments have not been approved by the EU yet);
- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016; this standard has not been approved by the EU yet);
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2017, this standard has not been approved by the EU yet);

Annual improvements to IFRSs 2010 – 2012 Cycle (effective for annual periods beginning on or after 1 July 2014);

Annual improvements to IFRSs 2011 – 2013 Cycle (effective for annual periods beginning on or after 1 July 2014);

Annual improvements to IFRSs 2012 – 2014 Cycle (effective for annual periods beginning on or after 1 January 2016; these improvements have not been approved by the EU yet).

The principal effects of these changes are as follows:

Amendments to IAS 1: Disclosure Initiative

The amendments address some of the concerns expressed about the existing presentation and disclosure requirements and ensure that the entities are able to use judgement when applying IAS 1. The amendments clarify that materiality applies to the whole financial statements and that the inclusion of immaterial information can inhibit the usefulness of the disclosures. It is also emphasized that the companies have flexibility about the order in which they present the notes to the financial statements, considering the understandability and comparability of the information. The Company is considering the impact of these amendments on its separate financial statements.

Amendments to IAS 16 and IAS 41: Bearer Plants

The amendments included the bearer plants within the scope of IAS 16 Property, Plant and Equipment, instead of IAS 41 Agriculture. Bearer plants will be subject to all the requirements of this standard, including the option to choose between the cost model and revaluation model for the subsequent measurement. The produce growing on the bearer plants will remain within the scope of IAS 41 Agriculture. The application of the amendments will not have any impact on the Company's separate financial statements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated and clarify the meaning of the term "consumption of the expected future economic benefits embodied in the asset", when determining the appropriate method of depreciation and amortisation under IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. Revenue-based method is not considered to be an appropriate manifestation of consumption, as revenue represents the generation of expected economic benefits, rather than the consumption of the economic benefits. The Company is considering the impact of these amendments on its separate financial statements.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 are intended to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Company is considering the impact of these amendments on its separate financial statements.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow the use of the equity method in separate financial statements for the accounting of investments in subsidiaries, joint ventures and associates. The amendments also clarify some aspects regarding the investment entity. In particular, it was clarified that when a company ceases to be an investment entity, it shall account for an investment in a subsidiary in accordance with IAS 27 Separate Financial Statements. Otherwise, when an entity becomes an investment entity, it shall account for an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments. The Company is considering the impact of these amendments on its separate financial statements.

IFRS 9 Financial Instruments

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The Company is considering the impact of this standard on its separate financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

According to these amendments, the current requirements of IAS 28 Investment in Associates and Joint Ventures regarding the partial gain or loss recognition for transaction between an investor and its associate or joint venture only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business as defined in IFRS 3 Business Combinations. The gain or loss resulting from the sale or contribution of assets to an associate or joint venture of assets that constitute a business as defined by IFRS 3 Business Combinations is recognised in full.

IFRS 10 Consolidated Financial Statements was amended so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined by IFRS 3 Business Combinations to an associate or joint venture is recognised only to the extent of unrelated investors interests in the associate or joint venture. The Company is considering the impact of these amendments on its separate financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities - Applying the Consolidation Exception

These amendments address the issues that have arisen in relation to the exemption from consolidation for investment entities and the interaction between the investment entity amendments and the exemption from preparing consolidated financial statements requirements in IFRS 10 Consolidated Financial Statements. The amendments clarify whether an investment entity parent should account for an investment entity subsidiary at fair value, when the subsidiary provides investment-related services to third parties and whether a non-investment entity must apply the fair value accounting to its joint ventures or associates that are investment entities. The Company is considering the impact of these amendments on its separate financial statements.

Amendments to IFRS 11: Accounting for Acquisition of Interests in Joint Operations

According to these amendments, the acquirer of an interest in a joint operation, when the operation constitutes a business, as defined in IFRS 3 Business Combinations, is required to apply all of the principles on business combinations accounting as defined in IFRS 3 Business Combinations and other IFRSs, with the exception of those principles that conflict with the guidance in IFRS 11 Joint Arrangements. The amendments apply to the acquisition of an interest in an existing joint operation and also to the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of a business. The Company is considering the impact of these amendments on its separate financial statements.

IFRS 14 Regulatory Deferral Accounts

The standard permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account for regulatory deferral account balances in accordance with its previous GAAP requirements, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required.

The Standard cannot be adopted by the entities that currently prepare their financial statements under IFRS. The application of the standard will not have any impact on the separate financial statements of the Company.

IFRS 15 Revenue from Contracts with Customers

The standard establishes a comprehensive framework for revenue recognition and measurement and the related disclosures. The new standard will replace IAS 11 Construction contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers and SIC 31 Revenue - Barter transactions involving advertising services. According to IFRS 15 a company should recognize revenue as it satisfies a performance obligation by transferring the control over a promised good or service to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The Company is considering the impact of this standard on its separate financial statements.

Annual Improvements to IFRSs 2010 - 2012 Cycle

In December 2013 the IASB issued a collection of amendments to IAS and IFRS, the document contains formal modifications and clarifications of the existing standards.

The following standards were amended:

- IFRS 2 Share-based Payments
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IFRS 13 Fair Value Measurement
- IAS 16 Property, Plant and Equipment
- IAS 24 Related Party Disclosures
- IAS 38 Intangible Assets

It is expected that these changes will have no significant effect on the Company's separate financial statements.

Annual Improvements to IFRSs 2011 - 2013 Cycle

In December 2013 the IASB issued a collection of amendments to IAS and IFRS, the document contains formal modifications and clarifications of the existing standards.

The following standards were amended:

- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IFRS 3 Business Combinations
- IFRS 13 Fair Value Measurement
- IAS 40 Investment Property

It is expected that these changes will have no significant effect on the Company's separate financial statements.

Annual improvements to IFRSs 2012 - 2014 Cycle

In September 2014 the IASB issued a collection of amendments to IAS and IFRS, the document contains formal modifications and clarifications of the existing standards.

The following standards were amended:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- IAS 19 Employee Benefits
- IAS 34 Interim Financial Reporting

It is expected that these changes will have no significant effect on the Company's separate financial statements.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgments in applying accounting policies

In the process of applying accounting policies, management has made certain judgments that have a significant effect on the amounts recognized in the financial statements (apart from those involving estimates, which are dealt with below). These are detailed in the respective notes, however the most significant judgments relate to the following:

Environmental matters

Existing regulations, especially environmental legislation, do not specify the extent of remediation work required or the technology to be applied in resolving environmental damage. Management uses the work of specialists, its previous experience and its own interpretations of the relevant regulations in determining the need for environmental provisions.

Lease arrangements

The Company has entered into a number of lease arrangements by which it gains the right to use specific assets, primarily railway wagons, for extended periods of time. The Company has determined that under these arrangements it takes on substantially all the risks and rewards of ownership and so accounts for these arrangements as finance leases.

The Company has entered into other lease arrangements by which it gains the right to use railway wagons that are owned by other transport networks for short-term periods. The Company has determined that under these arrangements it does not take on the significant risks and rewards of ownership and so accounts for these arrangements as operating leases (these transactions are disclosed in the financial statements as "wagon rentals").

Similarly, the Company has entered into lease arrangements by which it leases railway wagons to other transport networks and third parties. The Company has determined that under these arrangements it retains the significant risks and rewards of ownership and so accounts for these arrangements as operating leases (these transactions are disclosed in the financial statements as "wagon rentals").

Sources of estimate uncertainty

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and the notes thereto. Although these estimates are based on management's best knowledge of current events, actual results may differ from these estimates. These issues are detailed in the respective notes, however, the most significant estimates comprise the following:

Legal claims

The Company is party to a number of legal proceedings arising in the ordinary course of business. Management uses the work of specialists and its previous experience of similar actions in making an assessment of the most likely outcome of these actions and of the need for legal provisions.

Quantification and timing of environmental liabilities

Management makes estimations as to the future cash outflows associated with environmental liabilities using comparative prices, analogies to previous similar work and other assumptions. Furthermore, the timing of these cash outflows reflects management's current assessment of priorities, technical capabilities and the urgency of such obligations. The estimates made and the assumptions upon which these estimates are made are reviewed at each balance sheet date.

Impairment of property, plant and equipment

The Company determines at each reporting date whether there is an indication that items of property, plant and equipment are impaired. Where such indications exist, the Company makes an estimate as to the recoverable amount of the assets concerned or of the cash-generating unit to which the assets are allocated. In determining value in use the Company is required to make an estimate of expected future cash flows and to choose a suitable discount rate in order to calculate the present value of those cash flows, while net selling price is determined by reference to market developments in Slovakia and other central European countries.

Actuarial estimates applied for calculation of retirement benefit obligations

The cost of defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality or fluctuation rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Depreciable lives and residual values of property, plant and equipment

Management assigns depreciable lives and residual values to items of property, plant and equipment by reference to the organisation's latest strategic objectives. Management determines at each reporting date whether the assumptions applied in making such assignations continue to be appropriate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Functional and presentation currency

These separate financial statements are presented in euro, which is the Company's functional currency.

Foreign currency transactions are translated into EUR using the reference foreign exchange rate pertaining in the day preceding the transaction, as determined and published by the European Central Bank or the National Bank of Slovakia. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are recognized in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction.

Property, plant and equipment

Property, plant and equipment is measured at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. When parts of an item of property, plant and equipment need to be regularly replaced, they are accounted for as separate items (major components) of property, plant and equipment with a specific useful life and depreciation. Also, general overhaul repairs are measured at cost, if measurement criteria are met.

Ongoing repairs, maintenance and minor renewals are expensed as incurred. Depreciation is calculated on a straight-line basis over the useful life of an asset (8-50 years for buildings, 3-40 years for machines, equipment and other assets). Land is not depreciated. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit or loss in the year the asset is derecognised.

When items of property, plant and equipment meets the criteria to be classified as held for sale, they are measured at the lower of their carrying amount and fair value less costs to sell. The Company measures an item of property, plant and equipment that ceases to be classified as held for sale at the lower of:

a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation and amortisation that would have been recognised had the asset not been classified as held for sale, and

b) its recoverable amount at the date of the subsequent decision not to sell.

The residual values, useful lives and depreciation methods of property, plant and equipment are reviewed and adjusted, if appropriate, at each financial year end.

Intangible assets

Intangible assets are measured at cost, less accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated on a straight-line basis over the useful life of the assets (3-8 years).

Intangible assets are derecognised upon disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit and loss in the year the asset is derecognised. The residual values, useful lives and amortisation methods of intangible assets are reviewed and adjusted, if appropriate, at each financial year end.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset‘s recoverable amount. An asset‘s recoverable amount is the higher of an asset‘s or cash-generating unit‘s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the statement of comprehensive income within depreciation, amortisation and impairment of property, plant and equipment and intangible assets.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset‘s recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset‘s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Inventories

Inventories are measured at the lower of cost and net realisable value. Cost includes the purchase price of inventory and expenses related to the acquisition of inventory (including transportation costs, insurance and customs duties) and is accounted for using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Allowances for old, obsolete and slow-moving items are booked to reduce the carrying value of these items to net realisable value.

Joint venture and subsidiaries

Securities and interests in joint ventures and subsidiaries that are not classified as held for sale are measured at book value (cost less any accumulated impairment losses).

The cost of securities and interests in joint ventures is the price that was paid for the shares.

Financial assets

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial assets are designated on initial recognition. Financial assets are recognized initially at fair value plus, in case of financial assets not classified at fair value through profit or loss, directly attributable transaction costs. The Company’s financial assets comprise cash at bank, petty cash and cash equivalents, trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that do not meet the hedge accounting criteria as defined by IAS 39. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with gains or losses recognized in the statement of comprehensive income.

The Company has not designated any financial assets at fair value through profit or loss in the current year.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial measurement loans and receivables are measured at amortized cost using the effective interest rate method (EIR) less any impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments, have fixed maturities and which the Company has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the statement of comprehensive income for the period when the investments are derecognized or impaired, as well as through the amortization process.

As at 31 December 2014 and 2013, no financial assets have been designated as held-to-maturity investments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories of financial assets. Subsequent to initial measurement, available for sale financial assets are measured at fair value with unrealized gains or losses being recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss.

Subsequent to initial recognition available-for-sale financial assets are measured on the basis of existing market conditions and management intent to hold on to the investment in the foreseeable future. In rare circumstances when these conditions are no longer appropriate, the Company may choose to reclassify these financial assets to loans and receivables or held-to-maturity investments when this is in accordance with the applicable IFRS.

As at 31 December 2014 and 2013, no financial assets have been designated as available-for-sale financial assets.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any impairment loss and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective rate.

Financial liabilities

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss,loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value less directly attributable transaction costs in case of loans and borrowings.

The Company's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near future. This category includes derivative financial instruments entered into by the Company that do not meet criteria of hedge accounting as defined by IAS 39. Gains or losses arising on liabilities held for trading are recognised in profit or loss.

The Company has not designated any financial liabilities at fair value through profit or loss.

Loans and borrowings & subordinated debt

Subsequent to initial recognition, interest bearing loans and borrowings are measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Trade and other payables

Trade and other payables are recognized and measured at amortized cost, being the original invoice amount. The Company accrues for those expenses that have not been invoiced at the balance sheet date. Penalty interest charged on overdue payables is accounted for in trade payables.

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Classification and derecognition of financial instruments

Financial assets and financial liabilities presented in the balance sheet include cash and cash equivalents, trade and other accounts receivable and payable and loans and borrowings. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments (including compound financial instruments) are classified as assets, liabilities or equity in accordance with the substance of the contractual agreement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability are reported as expense or income as incurred. Distributions to holders of financial instruments classified as equity are charged directly to equity. In case of compound financial instruments the liability component is valued first, with the equity component being determined as a residual value. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

The derecognition of a financial asset takes place when the Company no longer controls the contractual rights that comprise the financial asset, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Derivative financial instruments and hedging activities

The Company uses derivative financial instruments such as forwards, options and swaps to hedge its risks related to foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of comprehensive income as finance income or costs.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- The economic characteristics and the risks of the embedded derivative are not closely related to the economic characteristics of the host contract.
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

- A hybrid (combined) instrument is not measured at fair value with changes in fair value reported in current period net profit.

Hedging

Hedge accounting recognizes the offsetting effects of changes in the fair values of the hedging instrument and the hedged item in profit/loss for the period. For the purpose of hedge accounting, hedges are classified as:

- Fair value hedge,
- Cash flow hedge

At the inception of the hedge the Company formally designates and documents the hedging relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and the method by which the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedge is expected to be highly effective in achieving offsetting of changes in fair value or cash flows attributable to the hedged risk and is assessed on an ongoing basis to determine that it has been highly effective throughout the financial reporting periods for which it was designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedge

Fair value hedge is a hedge of the Company's exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit/loss for the period.

The gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with IAS 21 (for a non-derivative hedging instrument) is recognized in profit/loss for the period. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in profit/loss for the period. The same method is used when the hedged item is an available-for-sale financial asset.

The adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit/loss for the period over the remaining term to maturity of the financial instrument. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit/loss for the period. The changes in the fair value of the hedging instrument are also recognized in profit/loss for the period.

The Company discontinues fair value hedge accounting if the hedging instrument expires, the hedging instrument is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation.

Cash flow hedge

Cash flow hedge is a hedge of the Company's exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit/loss for the period.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognized in profit/loss for the period.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income are reclassified from other comprehensive income to profit/loss in the same period or periods during which the asset acquired or liability assumed affects profit/loss for the period. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated gains and losses that were recognized in other comprehensive income are transferred to the initial cost or other carrying amount of the non-financial asset or liability.

As at 31 December 2014 and 2013, no financial liabilities have been designated as derivative financial instruments.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Employee benefits

The Company makes contributions to the State health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The cost of these payments is charged to the statement of comprehensive income in the same period as the related salary cost. The Company has no obligation to contribute to these schemes beyond the statutory rates in force.

Also, the Company operates unfunded long-term defined benefit programmes comprising lump-sum post-employment, jubilee and disability benefits. The cost of providing these employee benefits is assessed separately for each programme using the projected unit credit method, by which the costs incurred in providing such benefits are charged to the statement of comprehensive income so as to spread the cost over the service lives of the Company's employees. The benefit obligation is measured as the present value of the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of comprehensive income when incurred. Amendments to these long-term defined benefit programmes are charged or credited to the statement of comprehensive income over the average remaining service lives of the related employees.

Termination payments

The employees of the Company are eligible, immediately upon termination due to organizational changes, for redundancy payments pursuant to the Slovak law and the terms of the Collective Agreement between the Company and its employees. The amount of such a liability is recorded as a provision in the balance sheet when the workforce reduction program is defined, announced and the conditions for its implementation are met.

Provisions

A provision is recognized if the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. The amount of the provision is the present value of the risk adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as discount rate. Where discounting is used, the carrying amount of the provision increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognized as interest expense.

Environmental matters

Liabilities for environmental costs are recognized when environmental clean-ups are probable and the associated costs can be reliably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognized is the best estimate of the expenditure required.

Legal claims

Liabilities arising from litigation and disputes, which are calculated by using available information and assumptions, are recognized when an outflow of resources embodying economic benefits is probable and when such outflows can be reliably measured.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

As Lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

As Lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income is recognised on a straight-line basis over the lease term.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes.

Revenue from transport and related services and from repair and maintenance and other such services is recognized in the period in which the services are provided, net of discounts and deductions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are recognized as part of the cost of a given asset. Other related expenses are recognized as an expense in the period in which they are incurred.

Income tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised directly in equity and not in income.

3. TRANSPORTATION AND RELATED REVENUES

In thousands of EUR	31 December 2014	31 December 2013
Inland transport:		
Transport of goods	32,631	33,541
Wagon deposition	8,049	7,646
Haulage fees	1,158	1,117
	41,838	**42,304**
International transport:		
Import	98,633	99,838
Export	107,379	107,218
Transit	14,971	15,313
	220,983	**222,369**
Other transport related revenues:		
Usage of wagons under RIV, PGV and AVV regimes	9,597	8,713
Wagon rentals	3,381	3,306
Cross-border services	3,387	3,573
Other	2,619	2,976
	18,984	**18,568**
	281,805	**283,241**

4. OTHER REVENUES

In thousands of EUR	31 December 2014	31 December 2013
Repairs and maintenance	6,114	6,499
Operational performance	2,298	3,641
Property rentals	3,759	3,699
Other	2,240	72,052
	14,411	**85,891**

Other revenues included revenues charged to ZSSK of EUR 6,652 thousand (2013: EUR 8,651 thousand) for repair and maintenance, operational performance, property rental and other support services.

The line „Other“ includes a compensation from ŽSR in amount of EUR 69,947 thousand. On 10 July 2013, the Government of the Slovak Republic (No.390/2013) approved the compensation system for freight rail companies due to late introduction of new regulations of charges for the access to railway infrastructure since 1 January 2011. In December 2013, a contract between ŽSR and MTCRD SR on the compensation of financial impacts on rail freight companies for the year 2010 was put in force. Based on the decision of the Government of the Slovak Republic and the contractual arrangements between ŽSR and MTCRD SR, the Company submitted an application for the compensation on 31 December 2013, which was approved by ŽSR on 20 January 2014 and subsequently granted.

5. CONSUMABLES AND SERVICES

In thousands of EUR	31 December 2014	31 December 2013
Traction electricity	(28,591)	(34,541)
Network fees	(26,679)	(46,105)
Traction crude oil	(13,972)	(16,387)
Wagon rentals	(10,667)	(13,021)
Materials	(9,278)	(10,845)
IT services and telecommunication charges	(7,508)	(7,810)
Third party transhipment services	(5,661)	(5,545)
Other energy costs	(4,620)	(6,052)
Repair and maintenance	(4,094)	(3,308)
Cross-border services	(3,882)	(4,047)
Foreign segments	(3,796)	(4,261)
Rentals	(3,242)	(3,737)
Security services	(1,587)	(2,172)
Travelling and entertainment	(1,244)	(1,266)
Advisory and consultancy fees	(595)	(1,254)
Cleaning of cars, property, waste disposal	(589)	(632)
Medical care	(365)	(424)
Training	(200)	(161)
Other	(2,366)	(2,328)
	(128,936)	**(163,896)**

Consumables and services include amounts charged by ŽSR of EUR 64,025 thousand (2013: EUR 88,300 thousand), primarily relating to the usage of ŽSR's network (the Company has a one year contract with ŽSR which specifies planned kilometres and charge rates for different types of transport) and also to the purchase of traction energy (refer to Note 25).

6. STAFF COSTS

In thousands of EUR	31 December 2014	31 December 2013
Wages and salaries	(61,799)	(62,034)
Social security costs	(27,794)	(26,854)
Employee benefits (Note 20)	(1,587)	21
Termination payments (Note 21)	933	890
	(90,247)	**(87,977)**

Employee numbers at 31 December 2014 were 6,103 (2013: 6,331), thereof five were members of management (as members of the Board of Directors or directors of individual departments). Average employee numbers at 31 December 2014 were 6,210 (2013: 6,515).

The average salary in 2014 amounted to EUR 858 (2013: EUR 818).

ZSSK CARGO

7. OTHER OPERATING REVENUES (EXPENSES), NET

In thousands of EUR	31 December 2014	31 December 2013
Reversal of provision for environmental matters, net (Note 21)	(10)	715
Profit on sale of property, plant, equipment and inventories (Note 24)	1,499	2,934
Provision for legal cases and onerous contracts (Note 21)	(6,445)	(520)
Allowance for doubtful debts	(207)	(563)
Insurance of assets	(1,085)	(1,972)
Other	(1,328)	(2,460)
	(7,576)	**(1,866)**

8. INTEREST EXPENSE

In thousands of EUR	31 December 2014	31 December 2013
Interest on loans and borrowings	(3,416)	(3,349)
Interest on subordinated debt	(4,499)	(5,244)
Interest charges on finance lease liabilities	(1,443)	(2,075)
Unwinding of discount on provisions and employee benefits	(516)	(567)
	(9,874)	**(11,235)**

9. OTHER FINANCE REVENUES (COSTS), NET

In thousands of EUR	31 December 2014	31 December 2013
Foreign exchange losses, net	(18)	14
Other revenues (costs)	664	(152)
	646	**(138)**

10. INCOME TAX

The reported income tax represents a withholding tax paid abroad and in the amount of EUR 36 thousand and tax license in the amount of EUR 3 thousand. (2013: EUR 82 thousand and EUR 0 thousand). A reconciliation between the reported income tax expense and the theoretical amount that would arise using the standard rates is as follows:

In thousands of EUR	31 December 2014	31 December 2013
Profit (Loss) before tax	(5,492)	262
Tax charge at statutory tax rate of 22% (2013: 23%)	(1,208)	60
Tax paid abroad a tax license	(39)	(82)
Forfeit tax loss carry forwards	25,114	-
Unrecognized deferred tax asset (incl. impact of change in tax rate)	(23,877)	(2,246)
Non-deductible expenses	(29)	2,186
Total income tax	**(39)**	**(82)**

Deferred tax assets and liabilities at 31 December related to the following (for the year ended 31 December 2014 an income tax rate of 22% applicable in future accounting period was used, for the year ended 31 December 2013: 22%):

In thousands of EUR	31 December 2014	31 December 2013
Deferred tax assets		
Tax loss carried forward	4,113	25,114
Provision for environmental matters	5,024	5,050
Provision for employee benefits	3,486	3,244
Allowance for trade and other receivables	925	1,124
Allowance for inventories	258	256
Provision for legal cases	3,418	2,005
Termination payments	182	242
Other overdue liabilities (over 36 months)	10,234	19,565
Other	2,851	2,750
	30,491	**59,350**
Deferred tax liabilities		
Accelerated depreciation for tax purposes (net of value adjustments)	(4,268)	(9,238)
Other	(45)	(57)
	(4,313)	**(9,295)**
Valuation allowance	**(26,178)**	**(50,055)**
Net deferred tax assets (liabilities)	**-**	**-**

A valuation allowance of EUR 26,178 thousand (2013: EUR 50,055 thousand) has been recognised for temporary deductible differences due to uncertainty as to the realization of tax benefits in future years. The Company will continue to assess the valuation allowance and, to the extent it is determined that such allowance is no longer required, the tax benefits of the remaining deferred tax assets will be recognised at that time.

The company reported tax losses of EUR 18,695 thousand in 2014. Under Slovak tax legislation, the company be able to use these losses in future.

Under Slovak tax legislation, the company lost tax losses from 2009 of EUR 114,153 EUR.

11. INTANGIBLE ASSETS

In thousands of EUR	Software	Assets under construction	Total
Acquisition cost			
At 1 January 2014	**29,261**	**451**	**29,712**
Additions	-	843	843
Disposals	(10)	-	(10)
Transfers	819	(819)	-
At 31 December 2014	**30,070**	**475**	**30,545**
Accumulated amortization			
At 1 January 2014	**(17,198)**	**-**	**(17,198)**
Charge for the period	(3,217)	-	(3,217)
Disposals	10	-	10
At 31 December 2014	**(20,405)**	**-**	**(20,405)**
Net book value at 31 December 2014	**9,665**	**475**	**10,140**

In thousands of EUR	Software	Assets under construction	Total
Acquisition cost			
At 1 January 2013	**28,373**	**474**	**28,847**
Additions	-	1,029	1,029
Disposals	(22)	(142)	(164)
Transfers	910	(910)	-
At 31 December 2013	**29,261**	**451**	**29,712**
Accumulated amortization			
At 1 January 2013	**(13,838)**	**(142)**	**(13,980)**
Charge for the period	(3,382)	-	(3,382)
Disposals	22	142	164
At 31 December 2013	**(17,198)**	**-**	**(17,198)**
Net book value at 31 December 2013	**12,063**	**451**	**12,514**

12. PROPERTY, PLANT AND EQUIPMENT

In thousands of EUR	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
Acquisition cost				
At 1 January 2014	**77,787**	**888,747**	**3,705**	**970,239**
Additions	-	-	23,354	23,354
Disposals	(237)	(28,459)	(35)	(28,731)
Transfers – Assets held for sale	-	(420,455)	-	(420,455)
Transfers	11	22,599	(22,610)	-
At 31 December 2014	**77,561**	**462,432**	**4,414**	**544,407**
Accumulated depreciation				
At 1 January 2014	**(29,105)**	**(423,434)**	**(534)**	**(453,073)**
Additions	(1,685)	(57,653)	-	(59,338)
Disposals	160	27,658	-	27,818
Transfers – Assets held for sale	-	240,026	-	240,026
Impairment loss	(1,153)	(1,783)	-	(2,936)
At 31 December 2014	**(31,783)**	**(215,186)**	**(534)**	**(247,503)**
Net book value at 31 December 2014	**45,778**	**247,246**	**3,880**	**296,904**

In thousands of EUR	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
Acquisition cost				
At 1 January 2013	**92,555**	**900,686**	**4,468**	**997,709**
Additions	-	124	23,971	24,095
Disposals	(15,712)	(35,838)	(15)	(51,565)
Transfers – Assets held for sale	-	-	-	-
Transfers	944	23,775	(24,719)	-
At 31 December 2013	**77,787**	**888,747**	**3,705**	**970,239**
Accumulated depreciation				
At 1 January 2013	**(28,914)**	**(362,545)**	**(534)**	**(391,993)**
Additions	(3,763)	(55,155)	-	(58,918)
Disposals	3,447	35,607	-	39,054
Transfers – Assets held for sale	-	-	-	-
Impairment loss	125	(41,341)	-	(41,216)
At 31 December 2013	**(29,105)**	**(423,434)**	**(534)**	**(453,073)**
Net book value at 31 December 2013	**48,682**	**465,313**	**3,171**	**517,166**

Land and buildings consists of halls used in the repair of locomotives and wagons, depots, stores, workshops and administrative building, machines, equipment and other assets include locomotives and wagons, cranes, trucks, cars and other vehicles, tools and equipment used in repair and maintenance, boilers and other heating equipment and office equipment, including computers, printers and other IT equipment.

The Company recorded impairment losses on assets individually assessed as damaged or not capable for further use. The impairment losses were recorded to reflect the amount of actual damage, respectively, the net book value of an asset component at 31 December 2014.

In relation to the establishment of subsidiaries, in which a transfer of the company‘s assets during 2015 is expected, the Company reassessed the net book value of such assets (wagons, assets related to the operation of intermodal transport terminals) and an expert‘s value reports have been updated. Based on the expert‘s value report and future operational and market utilization the Company has recorded an impairment for selected assets as at 31 December 2014 if net book values were higher that the expert‘s opinion value. Railway carriages to be sold to the company Cargo Wagon, a.s. have been presented under assets held for sale in the amount of EUR 180,429 thousand in accordance with the expert‘s value report and agreed sales price.

The impairment test required by IAS 36 was performed by management of the Company as at 31 December 2014. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The fair value less cost to sell of an asset was determined as its selling price adjusted for costs associated with the sale of the asset. The value in use of the asset was determined by discounted cash flows method. The Company as a whole is considered as a single cash generating unit. No impairment losses have been identified based on the impairment test when comparing the recoverable amounts of the assets and carrying values after considering impairment losses of selected assets.

The relevant cash flows were estimated based on the 2015 business plan updated to the latest available information at the balance sheet date and on forecasts of future periods based on best estimates using all available information. The future cash flows were estimated for the next 15 years which is an average remaining useful life of the cash generating unit‘s assets. The cash flows include unavoidable investment expenditures required to maintain the ability of the cash generating unit to generate revenues and proceeds from scrap value at the end of the useful life. Discount rate of 7.92% used in the calculation was determined based on interest rates for incremental financing of fixed assets purchases by the Company as at the day of preparation of a financial statements and was adjusted for factors of time, risk and liquidity.

As a result of the procedures described above, the Company has increased an impairment loss by EUR 2,936 thousand due to a lower usage of assets and a decrease of cash inflows mainly from a transport revenues’ decrease in 2014 and expected utilization of assets and expected transported volumes (mainly in diesel traction) in the next period.

Property, plant and equipment include locomotives acquired by means of finance lease with a total acquisition value of EUR 21,217 thousand (net book value EUR 16,017 thousand), wagons with an aggregate acquisition value of EUR 111,724 thousand (net book value EUR 83,598 thousand) and computing technology with a total acquisition value of EUR 2,772 thousand (net book value EUR 0 thousand).

Property, plant and equipment in the ownership of the Company with a total acquisition value of EUR 2,219 thousand (EUR 2,223 thousand at 31 December 2013) and with a net book value of EUR 2,034 thousand (EUR 2,056 thousand at 31 December 2013) is registered by the State as protected for cultural purposes.

Since 1 January 2014 the Company‘s property, plant and equipment and inventories have not been insured. Motor vehicles have third party and accident insurance cover, the cost of which is immaterial. Before 2014 property, plant, equipment and inventories were insured against (i) natural disaster, (ii) theft and vandalism and (iii) damage of machinery (all risk cover). Risks (i) and (ii) are covered to a maximum of 240,104 EUR thousand and (iii) to a maximum of EUR 306,148 thousand.

The Company classified certain assets as held for sale as at 31 December 2014 (Note 24).

13. INVESTMENT IN JOINT VENTURE AND SUBSIDIARIES

The Company has a 40% share in BULK TRANSSHIPMENT SLOVAKIA, a. s. which is involved in the transshipment of iron ore in Čierna nad Tisou in the east of Slovakia. Based on contractual arrangements with the other shareholder, the management of the Company decided to consider this investment as a joint venture.

Details of the Company's joint venture and subsidiaries at 31 December 2014 are as follows:

Corporate name	Registration country	Ownership 2014	Carrying amount of investment 2014	Equity 2014	Profit/Loss 2014
Investment in joint ventures					
BULK TRANSSHIPMENT SLOVAKIA, a. s.	Slovakia	40%	2,840	15,891	1,683
Investments in subsidiaries					
Cargo Wagon, a.s.	Slovakia	100%	10,003	10,030	29
ZSSK CARGO Intermodal, a.s.	Slovakia	100%	27	26	(1)
Total investment in subsidiaries			**10,030**		

Details of the Company's joint venture and subsidiaries at 31 December 2013 are as follows:

Corporate name	Registration country	Ownership 2013	Carrying amount of investment 2013	Equity 2013	Profit/Loss 2013
Investment in joint ventures					
BULK TRANSSHIPMENT SLOVAKIA, a. s.	Slovakia	40%	1,541	10,961	1,714
Investments in subsidiaries					
Cargo Wagon, a.s.	Slovakia	100%	27.5	26	(1)
ZSSK CARGO Intermodal, a.s.	Slovakia	100%	27.5	26	(1)
Total investment in subsidiaries			**55**		

The Company established two subsidiaries Cargo Wagon, a.s. and ZSSK CARGO Intermodal, a.s. with share capital of 25 thousand EUR in 2013. The Company has a 100% in both companies and presents them as subsidiaries. As of 31 December 2013 share capital and reserve fund contribution were paid in full.

Cargo Wagon, a.s. increased its share capital to 10,000 EUR thousand during 2014. Share capital was paid as at 31 December 2014.

As of 31 December 2014 both subsidiaries are dormant with no operation.

During 2014, BTS, a.s. increased its share capital in the form of non-cash contribution in the total amount of 1,298.6 EUR thousand (1,082.2 EUR thousand without VAT) while the share equity of the company stayed the same.

14. INVENTORIES

In thousands of EUR	At cost 2014	At lower of cost or net realizable value 2014	At cost 2013	At lower of cost or net realizable value 2013
Electrical materials	3,290	2,665	3,481	2,860
Machine and metal-working materials	3,078	2,556	3,433	2,920
Diesel fuel	1,036	1,036	1,742	1,742
Chemicals and rubber	605	585	679	658
Protective tools	255	254	281	280
Other	119	113	107	99
	8,383	**7,209**	**9,723**	**8,559**

15. TRADE AND OTHER RECEIVABLES

In thousands of EUR	31 December 2014	31 December 2013
Domestic trade receivables	28,079	32,592
Foreign trade receivables	13,252	12,629
VAT receivables	3,227	3,885
Other receivables	3,029	73,956
Allowance for impaired trade and other receivables	(4,204)	(5,109)
	43,383	**117,953**

At 31 December 2014 overdue receivables amounted to EUR 7,340 thousand (EUR 6,240 thousand at 31 December 2013).

Trade receivables are non-interest bearing and are generally due within 30-90 days.

Other receivables included a compensation claim against the ŽSR amounting to EUR 69,947 thousand at 31 December 2013; further details are in note 4.

For details of related party receivables, refer to Note 25.

As at 31 December, the ageing analysis of trade receivables is as follows:

Year	Total	Neither past due nor impaired	Past due but not impaired				
			< 90 days	90 - 180 days	180 – 270 days	270 – 365 days	> 365 days
2014	**43,383**	41,163	1,920	-	-	-	-
2013	**117,953**	116,765	1,182	1	1	4	-

16. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

In thousands of EUR	31 December 2014	31 December 2013
Cash at banks, on hand and cash equivalents	305	71
Bank overdrafts	(85,755)	(88,473)
	(85,450)	**(88,402)**

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Bank overdrafts as of 31 December are as follows:

In thousands of EUR	31 December 2014		31 December 2013	
	Overdraft limit	Drawn down	Overdraft limit	Drawn down
Všeobecná úverová banka, a.s.	23,500	**22,967**	23,500	**22,565**
Tatra banka, a.s.	20,870	**12,947**	21,870	**20,852**
Citibank Europe plc, poboč. zahr. banky.	20,000	**19,483**	20,000	**18,390**
Slovenská sporiteľňa, a.s.	20,000	**17,876**	20,000	**14,479**
UniCredit Bank Slovakia a.s.	17,593	**12,482**	17,593	**12,188**
	101,963	**85,755**	102,963	**88,473**

17. SHAREHOLDER'S EQUITY

Share capital

Share capital represents the State's investment in the Company, held through MTCRD, made through the contribution of certain assets and liabilities of the Company's predecessor, ŽS, and comprises 121 registered ordinary shares, each with a nominal value of EUR 3,319,391.8874. All of these shares are issued and fully paid.

Legal reserve fund

On the Company's incorporation, in accordance with Slovak legislation, a legal reserve fund was established at 10% of the Company's registered capital, again through an in-kind contribution. Slovak legislation requires that the legal reserve fund be increased by amounts at least equal to 10% of annual net profit up to an amount equal to 20% of the Company's registered capital. Under the Company's Articles of Association, the legal reserve fund is not available for distribution and can only be used to cover losses or increase registered capital.

Based on the decision of the sole shareholder of 9 November 2010, the statutory reserve fund was utilized to cover the losses of the Company.

Other funds

Other funds represent the difference between the value of the assets and liabilities contributed by the State on the Company's incorporation and through an additional capital contribution made on 2 November 2005 and that of the Company's registered capital and legal reserve fund, adjusted by an amount of EUR 4,216 thousand to restate an error in the initial valuation of the assets contributed by the State identified in 2006.

During 2008 the Company received an additional capital contribution of EUR 12,149 thousand from MTCRD, this being a previously unpaid part of the initial equity contribution made on the Company's incorporation. In addition, the Company was awarded penalty interest of EUR 8,830 thousand to compensate for the late payment of this contribution.

Distribution of profit from previous accounting period

The distribution of profit of the 2013 statutory result was approved by the Company's General Meeting on 25 June 2014 and was booked in the amount of EUR 26 thousand to legal reserve fund and the amount of EUR 236 thousand was booked to accumulated losses.

18. SUBORDINATED DEBT

Subordinated debt of original amount EUR 165,970 thousand represents funding from the Ministry of Finance, approved by the Government on 4 March 2009 and received on 6 April 2009, to support the Company's operations. Under the terms of the original agreement, the first principal repayment was due in February 2011 and the loan has to be repaid in full by February 2019.

Under Supplement No. 6 to the subordinated debt agreement dated 22 August 2012 the first repayment was due and paid in August 2012 and the total balance is to be paid by August 2020. The company has paid two principal payments in total amount of EUR 19,500 thousand during 2014. The fair value of the subordinated debt is EUR 117,220 thousand as at 31 December 2014.

The loan bears interest at the rate of 6M EURIBOR + interest margin of 3.2%.

19. INTEREST-BEARING LOANS AND BORROWINGS

In thousands of EUR	Maturity date	31 December 2014	31 December 2013
Long-term loans			
Secured			
ING Bank N.V., pobočka zahr. banky.	31 July 2019	15,153	17,146
Total		**15,153**	**17,146**
Short-term portion of loans		**2,055**	**1,993**
Long-term portion of loans		**13,098**	**15,153**
Short-term loans			
Secured			
Privatbanka, a.s.	9 June 2015	10,000	10,000
Slovenská záručná a rozvojová banka, a.s.	30 November 2014	-	10,000
Sberbank Slovensko, a.s.	31 October 2014	-	7,905
Československá obchodná banka, a.s.	30 June 2015	5,000	5,000
Short-term loans		**15,000**	**32,905**
Short-term portion of loans (see above)		**2,055**	**1,993**
Overdrafts (Note 16)		**85,755**	**88,473**
Short-term portion of loans		**102,810**	**123,371**
Total		**115,908**	**138,524**

All loans are denominated in EUR, except as otherwise noted in the table above.

All loans presented in the table above are secured by promissory notes with a value of EUR 95,443 thousand (EUR 108,161 thousand at 31 December 2013), and with a nominal value of EUR 118,060 thousand (EUR 155,044 thousand as of 31 December 2013) except for the loan from ING Bank N.V.. The long-term loan from ING Bank N.V. is secured by a lien on 250 wagons "Shimmns". The long-term debt is related to the transformation of a financial lease contract to a loan because of the exit of the leasing company from Slovakia and the contract has been taken over by ING Bank N.V.. For further details refer to Note 23.

Under the terms of a loan agreement the Company is required to meet a financial debt ratio covenant. The covenant is derived from the Company's management accounts. At 31 December 2014 the Company did not comply with the covenant for a loan in the amount of EUR 22,967 thousand (EUR 22,565 thousand as of 31 December 2013). The Company received a waiver from the bank on 29 Octover 2014 confirming the fact that earlier repayment of an overdraft would not be requested.

The fair value of interest-bearing loans and borrowings amounts to EUR 115,908 thousand (EUR 138,524 thousand at 31 December 2013).

All interest-bearing loans and borrowings bear interest at floating rates which range from 2.023% to 3.224% (2.214% to 3.434% in 2013) except the loan from Privatbanka, a.s., which is generated interest by fix rate.

The loan from Cargo Wagon, a.s. in amount of EUR 9,975 thousand. EUR is presented to related party loan as at 31 December 2014. The loan is due to 30 June 2015, presented as other liabilities (Note 22).

20. EMPLOYEE BENEFITS

In thousands of EUR	Retirement benefits	Jubilee payments	Disability benefits	Total
At 1 January 2014	11,253	3,461	30	14,744
Current service cost	421	123	-	544
Interest expense	394	121	1	516
Actuarial gains and losses	813	366	(9)	1,170
Utilization of benefits	(463)	(533)	(7)	(1,003)
Past service cost	2	(128)	-	(126)
At 31 December 2014	**12,420**	**3,410**	**15**	**15,845**
Current 31 December 2014	412	433	7	852
Non-current 31 December 2014	12,008	2,977	8	14,993
At 31 December 2014	**12,420**	**3,410**	**15**	**15,845**

In thousands of EUR	Retirement benefits	Jubilee payments	Disability benefits	Total
At 1 January 2013	11,414	3,382	123	14,919
Current service cost	432	123	-	555
Interest expense	434	128	5	567
Actuarial gains and losses	38	217	(84)	171
Utilization of benefits	(319)	(389)	(14)	(722)
Past service cost	(746)	-	-	(746)
At 31 December 2013	**11,253**	**3,461**	**30**	**14,744**
Current 31 December 2013	241	433	8	682
Non-current 31 December 2013	11,012	3,028	22	14,062
At 31 December 2013	**11,253**	**3,461**	**30**	**14,744**

The principal actuarial assumptions used were as follows:	2014	2013
Discount rate (% p.a.)	2.40	3.50
Future salary increases (%)	2.0	1.2
Mortality probability (male) (%)	0.04 – 2.26	0.04 – 2.26
Mortality probability (female) (%)	0.02 – 0.88	0.02 – 0.88

21. PROVISIONS

In thousands of EUR	Environmental	Legal	Terminations	Total
At 1 January 2014	22,955	9,112	1,100	33,167
Additions	13	6,602	828	7,443
Reversals	(3)	(157)	-	(160)
Utilization	(127)	(22)	(1,100)	(1,249)
At 31 December 2014	**22,838**	**15,535**	**828**	**39,201**
Current 31 December 2014	8,732	-	828	9,560
Non-current 31 December 2014	14,106	15,535	-	29,641
At 31 December 2014	**22,838**	**15,535**	**828**	**39,201**

In thousands of EUR	Environmental	Legal	Terminations	Total
At 1 January 2013	23,858	8,912	3,947	36,717
Additions	13	611	1,100	1,724
Reversals	(728)	(91)	(1,259)	(2,078)
Utilization	(188)	(320)	(2,688)	(3,196)
At 31 December 2013	**22,955**	**9,112**	**1,100**	**33,167**
Current 31 December 2013	9,919	-	1,100	11,019
Non-current 31 December 2013	13,036	9,112	-	22,148
At 31 December 2013	**22,955**	**9,112**	**1,100**	**33,167**

Environmental matters

In 2014, the Company updated its analysis of potential breaches of environmental regulations at its various sites, with the support of an environment specialist, Centrum environmentalnych sluzieb, s.r.o. (previously operating under the name, Life & Waste, s.r.o.). As a result of this analysis, and based on the findings of Centrum environmentalnych sluzieb, s.r.o., the Company has estimated that costs of EUR 22,838 thousand (EUR 22,955 thousand at 31 December 2013) are required to remedy the significant environmental issues relating to water, oil and fuel management identified in the past.

There estimate to determine exact amount of future costs relating to environmental remediation are not necessarily accurate due to of several uncertainties involving the continuous development of laws and regulatory requirements in the areas of environment and methods, timing and extent of corrective actions which could have a potentially significant impact on the economic results of the company in future periods.

Expenditures will be incurred through 2015 – 2017. A discount rate of 2.4% p.a. was used in the calculation.

Legal claims

Provisions for legal claims relate to a number of claims, the most significant being cases with REFIN B.A., Ltd. in the amount of EUR 7,028 thousand and with I4NEXT, Ltd. in the amount of EUR 2,813 thousand.

22. TRADE AND OTHER PAYABLES, AND OTHER NON-CURRENT LIABILITIES

In thousands of EUR	31 December 2014	31 December 2013
Domestic trade payables	76,686	134,206
Foreign trade payables	7,213	7,390
Payables due to employees	6,526	5,960
Payables due to social institutions	3,721	3,506
Other payables	15,373	10,235
	109,519	**161,297**

At 31 December 2014 overdue trade payables amounted to EUR 1,194 thousand (EUR 2,645 thousand at 31 December 2013). For details of related party payables, refer to Note 25 and 19.

The social fund payable is included in other non-current liabilities. Movements in the social fund during the period are shown in the table below:

In thousands of EUR	31 December 2014	31 December 2013
At 1 January	**155**	**162**
Additions	602	601
Utilization	(557)	(608)
At 31 December	**200**	**155**

23. COMMITMENTS AND CONTINGENCIES

Finance lease commitments

At 31 December 2014 the Company has finance lease commitments relating to the acquisition of 1,104 wagons, 12 powered vehicles and hardware equipment (1,104 wagons and 12 powered vehicles and hardware equipment at 31 December 2013).

All leases are on a fixed repayment basis with floating interest rates derived from EURIBOR, except for leasing from AAE. Future minimum lease payments under finance leases, together with the present value of net minimum lease payments are as follows:

In thousands of EUR	31 December 2014		31 December 2013	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Within one year	22,597	21,538	16,173	14,618
After one year but not more than five years	17,390	16,098	38,397	36,837
More than five years	1,577	1,573	2.257	2,167
Total minimum lease payments	**41,564**	**39,209**	**56,827**	**53,622**
Less: future finance charges	(2,355)	-	(3,205)	-
Present value of minimum lease payments	**39,209**	**39,209**	**53,622**	**53,622**

Investing commitments

The Company's investment expenditure for the period from 1 January 2015 to 31 December 2015 (1 January 2014 to 31 December 2014) is as follows:

In thousands of EUR	31 December 2014	31 December 2013
Land and buildings	656	34
Machines, equipment and other assets	1,395	389
Intangible assets	26	20
	2,077	**443**

Expenditures of EUR 2,077 thousand (EUR 443 thousand at 31 December 2013) are committed under contractual arrangements.

Contingent liabilities

ČD CARGO, a.s. filed a lawsuit against the Company claiming an amount of EUR 1,508 thousand (including interest) in respect of unpaid VAT related to the Company's usage of their wagons for international transportation during the period from 24 May 2007 to 3 May 2008.

District Court Bratislava II announced judgment on 26 November 2014 in which rejected the charge in its entirety. Currently, it is expected that the applicant lodges an appeal.

Under Slovak legislation, trade practices of neighbouring countries and international agreements, the usage of wagons for international transportation is not deemed to be a rental arrangement and is, therefore, exempt from VAT. Consequently, supported by their legal advisors, management has concluded that the probability of ČD CARGO, a.s. succeeding in this legal action against the Company is remote and therefore no provision has been recorded in these financial statements.

The Company reports an administrative procedure conducted by the Antimonopoly Office of the Slovak Republic regarding a possible misuse of the dominant position in 2005-2010 on the market of sale and rental of electric locomotives capable of operation in the Slovak Republic and on the market of fuel stations. The Antimonopoly Office charged a penalty of EUR 10,254 thousand. The company had appealed the penalty on 6 September 2013.

The appeal was subsequently complemented on 6 December 2013. The Board of the Antimonopoly Office of the Slovak Republic has confirmed the penalty on 5 November 2014. The Company filed an appeal to the District Court in Bratislava against the ruling of the Antimonopoly Office. The Court has not made any judgment yet. The Company's management has some arguments which may result in cancellation of the Antimonopoly ruling. It is concluded that the result of this lawsuit is uncertain.

24. ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS HELD FOR SALE

In thousands of EUR	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
At 1 January 2014	-	-	-	-
Transfers – Assets held for sale	-	180,429	-	180,429
At 31 December 2014	**-**	**180,429**	**-**	**180,429**

In thousands of EUR	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
At 1 January 2013	3,629	-	-	3,629
Disposals	(3,629)	-	-	(3,629)
Transfers	-	-	-	-
At 31 December 2013	**-**	**-**	**-**	**-**

The Company signed a sale and purchase of shares contract with AAE Wagon a.s. (member of VTG/AAE Group), the winner of the international tender on 5 March 2015. According to the contract AAE Wagon a.s. will acquire 66% of share capital of Cargo Wagon, a.s. A shareholders agreement governing relations between both shareholders AAE and ZSSK CARGO has been also signed. After an approval of the Antimonopoly authorities, registering transfer of share and the fulfillment of other conditional clauses the final transaction documents, which have already been agreed on and approved by both parties, will be signed – Agreement on transfer of movable assets for consideration and subsequent lease back of means of transport (Agreement on sale of 12 342 railway carriages and lease back of 8 216 railway carriages) and Bank loan agreement between financing banks and Cargo Wagon, a.s which will be used to finance the purchase of railway carriages. The Company is expecting the finalization of the deal in May – June 2015. Based on these facts, at 31 December 2014 the Company reported wagons in amount of EUR 180,429 thousand as assets held for sale.

25. RELATED PARTY DISCLOSURES

Related parties of the Company comprise all companies under common ownership (meaning under the control of the State), the Company's joint venture and the Board of Directors.

The following tables provide the total amount of transactions which have been entered into with related parties for the years ended 31 December 2014 and 2013:

In thousands of EUR	31 December 2014			
Related party	**Sales to related parties**	**Purchases from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
ŽSR	938	64,025	201	55,632
ZSSK	13,338	4,169	2,027	580
Ministry of Finance	-	4,499	-	117,220
Slovenský plynárenský priemysel	-	225	-	28
Cargo Wagon, a.s.	-	41	-	10,016
BTS (joint venture)	636	5,981	67	1,229
Other related parties	365	586	56	6

In thousands of EUR	31 December 2013			
Related party	**Sales to related parties**	**Purchases from related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
ŽSR	83,867	88,300	70,173	114,985
ZSSK	20,391	5,042	2,221	607
Slovenská záručná a rozvojová banka	-	6	-	10,000
Ministry of Finance	-	5,244	-	136,720
Slovenský plynárenský priemysel	-	340	-	3
BTS (joint venture)	1,214	5,892	296	1,629
Other related parties	497	748	17	278

The Company's major contractual relationships with ŽSR and ZSSK are for fixed one year periods and are subject to an annual renewal process. Purchases from ŽSR include primarily network fees and traction electricity. Sales to ŽSR comprise transport services, while sales to ZSSK include gains on sale of property, plant, equipment, the repair of passenger wagons and track vehicles and the sale of diesel oil.

Statutory and supervisory bodies

Members of the Company's statutory and supervisory bodies as registered in the Commercial Register at the District Court Bratislava I at 31 December 2014 are as follows:

Board of Directors:

Ing. Vladimír Ľupták, chairman
(since 26 April 2012)
Ing. Jaroslav Daniška
(since 26 April 2012)
Ing. Peter Fejfar
(since 26 April 2012)

Supervisory Board:

Ing. Martin Čatloš, chairman
(since 11 September 2012)
Ing. Radovan Majerský, PhD.,
(since 11 September 2012)
Bc. Anton Andel
(since 2 February 2010)
Ján Baláž,
(since 2 February 2010)
Ing. Pavol Gábor
(since 11 September 2012)
Ing. Štefan Hlinka
(since 11 September 2012)

Emoluments of the members of the Board of Directors and Supervisory Board

The Board of Directors' total remuneration approximated EUR 29 thousand (EUR 27 thousand in 2013). The total remuneration of members of the Supervisory Board amounted to EUR 9 thousand (EUR 9 thousand in 2013).

Loans granted

No loans have been granted to key management and members of the Board of Directors and Supervisory Board.

26. FINANCIAL RISK MANAGEMENT

The Company's principal financial liabilities comprise interest-bearing loans and borrowings, overdrafts and trade payables. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has various financial assets such as trade and other receivables and short-term deposits, which arise directly from its operations.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates to the Company's long-term and short-term borrowings and overdrafts with floating interest rates. The Company has a broad portfolio of borrowings bearing a range of fixed and floating interest rates.

The following table demonstrates the sensitivity of the Company's profit before taxes for the period of 12 months after the reporting date to a reasonable change in interest rates of 50 basis points higher/lower, with all other variables held constant. There is no impact on the Company's equity.

In thousands of EUR	31 December 2014	31 December 2013
EURIBOR (+0.5%)	453	520
EURIBOR (-0.5%)	(166)	(375)

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate number of credit facilities to cover the liquidity risk in accordance with its financing strategy. The amounts available in the form of credit facilities as at 31 December 2014 and 2013 consist of the following:

In thousands of EUR	31 December 2014	31 December 2013
Long-term loan facilities available	-	-
Short-term loan facilities available	10,295	8,578
Total loan facilities available	**10,295**	**8,578**

As at 31 December 2014 the Company did not have any banks guarantees (EUR 0 thousand at 31 December 2013).

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2014 based on contractual undiscounted payments.

In thousands of EUR	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Subordinated debt	-	-	19,500	78,000	19,720	**117,220**
Long-term loans	-	-	-	13,098	-	**13,098**
Trade and other payables	1,194	55,981	16,796	35,546	-	**109,517**
Obligations under finance leases	-	752	20,786	16,098	1,573	**39,209**
Short-term loans	-	-	102,810	-	-	**102,810**
	1,194	56,733	159,892	142,742	21,293	**381,854**

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2013 based on contractual undiscounted payments.

In thousands of EUR	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Subordinated debt	-	9,750	9,750	78,000	39,220	**136,720**
Long-term loans	-	-	-	11,203	3,950	**15,153**
Trade and other payables	2,645	77,963	80,689	-	-	**161,297**
Obligations under finance leases	-	986	13,632	36,837	2,167	**53,622**
Short-term loans	-	12,188	111,183	-	-	**123,371**
	2,645	100,887	215,254	126,040	45,337	**490,163**

Credit risk

The Company provides a variety of customers with products and services, none of whom, based on volume and creditworthiness, present a significant credit risk, individually or in aggregate. The Company has three major customers, US Steel Košice, Budamar Logistics and Express Slovakia, sales to which represent 55% of transport and related revenues (46% in 2013), but management is confident, based on historic experience, projections for the future and contracts in place, that the Company is not overly exposed to credit risk in respect of these three customers. The Company's procedure is to ensure that sales are made to customers with appropriate credit histories and that acceptable credit limits are not exceeded.

The value of financial assets, recognised in the balance sheet reduced by impairment losses reflects the Company's maximum exposure to credit risk.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure, and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2014 and 31 December 2013.

The Company monitors indebtedness using a debt to equity ratio, by which debt consists of external interest-bearing loans and borrowings and excludes subordinated debt provided by related parties and finance lease obligations, divided by total equity. In 2014 the ratio has improved in comparison with the previous period.

In thousands of EUR	31 December 2014	31 December 2013
Long-term debt, net of current portion (excluding subordinated debt and finance lease obligations)	13,098	15,153
Short-term debt, including current portion of long-term debt (excluding finance lease obligations)	102,810	123,371
Debt	**115,908**	**138,524**
Equity	**114,138**	**119,630**
Debt to equity ratio (%)	**102%**	**116%**

27. EVENTS AFTER THE BALANCED SHEET DATE

The following events occurred subsequent to 31 December 2014 that might have a material effect on the fair presentation of the matters disclosed in these financial statements:

- The Company signed a sale and purchase of shares contract with AAE Wagon a.s. (member of VTG/AAE Group), the winner of the international tender on 5 March 2015. According to the contract AAE Wagon a.s. will acquire 66% of share capital of Cargo Wagon, a.s. A shareholder agreement governing relations between both shareholders AAE and ZSSK CARGO has been also signed. After an approval of the Antimonopoly authorities, registering transfer of shares and the fulfillment of other conditional clauses the final transaction documents, which have already been agreed on and approved by both parties, will be signed.
- Effective 1 January 2015 2 member of the Supervisory Board were changed, representatives of employees voted in elections in late 2014.

Approved by Ing. Vladimír Ľupták and Ing. Peter Fejfar on behalf of the Board of Directors on 15 April 2015.

ORGANIZATION STRUCTURE AS AT 31. 12. 2014

CONTACTS

Železničná spoločnosť Cargo Slovakia, a.s.
Drieňová 24
820 09 Bratislava
tel.: +421 2 2029 7776
fax: +421 2 4342 0389
e-mail: cargo.gr@zscargo.sk
www.zscargo.sk

FOREIGN REPRESENTATION:

General Agency in Ukraine

Železničná spoločnosť Cargo Slovakia, a.s.
General Agency in Ukraine
Ing. Jozef VIRBA
Gogolya 1, 290 604 Lviv
tel.: +380 322 971 198
fax: +380 322 971 198
Mobile phone: +380 954 786 565
e-mail: gzcargo.lviv@gmail.com

ZSSK CARGO

Železničná spoločnosť Cargo Slovakia, a. s.
Drieňová 24, 820 09 Bratislava
www.zscargo.sk