ANNUAL REPORT 2017

Železničná spoločnosť Cargo Slovakia, a. s.

CONTENTS

FOREWORD BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

To evaluate the year 2017 at ZSSK CARGO, a few important facts should be stated. In 2017, the company transported 35.665 million tonnes of goods, which represents a one percent increase compared to the plan, and a transport volume which is comparable to that in 2016. The company did not reach the planned transport revenues despite having fulfilled the transport volume plan, and the actual amount was only EUR 252.8 million.

This was caused by the continued price pressure, where the ambitious increase in unit prices in the plan was not achieved. On the contrary, there was a slight change in the carriage structure in favour of shipments with lower unit prices, and so the average transport distance decreased. A decline in the transport revenues was offset by freight wagon operations, higher income from repairs, leases, the operation of siding tracks, and the sale of unnecessary property. Lower volumes of carried goods resulted in a lower consumption of traction diesel and electric power at positively evolving unit prices and, along with lower railway infrastructure charges, largely offset the other kinds of costs which were exceeded. As a result, the company slightly exceeded the planned profit for 2017 and managed to reduce the amount of the interest-bearing debt, i.e. bank loans, financial leases, and debts to ŽSR, by EUR 8.1 million on a year-over-year basis. Given a decline in the transport revenues and the situation on the market, this can be seen as a success, although, on the other hand, the investment debt and activities underinvested due to the non-fulfilment of the investment plan are growing.

Concerning the transport structure itself, it should also be noted that the competitive struggle in the liberalised transport market brings significant year-over-year fluctuations in the ZSSK CARGO volumes of transport of some commodities where the carriage of goods in block trains is predominant. That was the case, for example, of last year's transit of coal. Therefore, we are pleased that the company succeeded in making new shipments in the commodity of building materials, especially in the export segment. A redirection of goods flows can also be seen in the commodity of timber. Last year container train shipments from

China to Germany and Hungary through Slovakia were launched successfully, which gives us the chance to revive transshipment operations at the Combined Transport Terminal Dobrá on the eastern border of our country.

However, let us return to the aforesaid investments, which have not been reflecting the need for the renewal and development of equipment, technologies, information systems and real estate for several consecutive years. In 2017, ZSSK CARGO spent EUR 16.5 million on the implementation of investment projects. The largest volume of funds went towards major repairs of motive power units (MPUs), the reconstruction of electrical equipment and two-unit control of MPUs of 363-series, MPUs radiofixation, the reconstruction of heating at the Zvolen locomotive depot. In the field of energy efficiency, the company implemented a project for monitoring, measuring and controlling the consumption of traction energies, which is its second highest cost item. At the transshipment yard in Čierna nad Tisou ZSSK CARGO's subsidiary BTS, in March 2017, put into operation the second transshipment complex with a circular tipper, enabling us to transship iron ore and other bulk substrates faster, more economically and cheaper. All these projects bring real cost savings and a commercially attractive return on investment.

In 2018, ZSSK CARGO intends to continue with investments by which it will respond to new models of realisation of shipments or the planned changes in the ŽSR infrastructure. At the same time, the company's management realises the importance for the basic means of production, i.e. locomotives and wagons, to be prepared for gradually penetrating the foreign markets or increasing their productivity. This is how the company can enhance its competitiveness and make it possible for itself to participate in a wider transport market than the Slovak one. These efforts are also supported by the intention to announce a tender in 2018 for the lease of 10 multi-system locomotives.

In addition to investments aimed at enhancing or maintaining its competitiveness, the company continues to focus on projects which are intended to increase the overall efficiency in the use of freight wagons through their active management, as well as projects aimed at ensuring a more favourable traction electric power price corresponding to the amount of energy withdrawn from the network. The Company also actively seeks to minimise the impact of legislative changes in the Labour Code which will come into effect in May this year, or from the beginning of the following year 2019. At the same time, the management accepts and wants to fulfil the need to gradually increase the basic wages of employees, in particular the operations staff.

Finally, let us take a look at the company's business and tariff policy for 2018. When assessing the cost factors that affect the company's business, we have found that many of them need to be reflected in the freight rates offered. Both Slovakia's economy and that of the entire Central European region have been recovering. Wages have been rising, unemployment is at an extraordinarily low level, and the shortage of qualified labour force in the labour market has been growing. This problem worries not only ZSSK CARGO, but in fact all major carriers and involves all operating professions, such as engine drivers, coach foremen and repairers, etc. As carriers need to renew and rejuvenate their headcounts, they must fight for them with other firms, which pushes up the wages at the same time. Another problematic area on a transnational scale is the lack of key series of wagons that must be solved by either huge investments or increasingly more costly maintenance and repairs of the existing obsolete fleet. The wagon fleet needs more frequent repairs and maintenance, but a certain role is also played by irregularities in the goods flows, the extended wagon circulation time in the performance of contracts for the use of trains on their way back or damage caused to wagons by loading or unloading mechanisms. These factors also had to be taken into account in the pricing process and price adjustments, and it should be noted that state-owned carriers in the surrounding countries also resort to similar solutions.

We believe that given the growing economy, a favourable financial period is coming for the development of investments that have so far been awaited in the railway sector. Higher demands, the pressure for ensuring shipments, and the customers' willingness to accept the price spell a more vigorous recovery in rail freight.

Ing. Martin Vozár, MBA
Chairman of the Board of Directors and CEO
Železničná spoločnosť Cargo Slovakia, a. s.

ZSSK CARGO

LIST OF USED ABBREVIATIONS

AVV	General Contract of Use for Wagons (GCU)
BTS	BULK TRANSSHIPMENT SLOVAKIA, a.s.
CEF	Connecting Europe Facility
ČD	Czech Railways (České dráhy)
CTT	Combined Transport Terminal
DCM	Diesel consumption measurement
EU	European Union
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISO	International Organization for Standardization
IT	Information Technologies
MÁV	Hungarian State Railways (Magyar Államvasutak)
MPU	Motive Power Unit
MTC	Ministry of Transport and Construction of the Slovak Republic
OIS	Operation Information System
PCM	Power consumption measurement
PGV	Regulation on Use of Wagons in International Rail Transport of Goods
RIV	Agreement Governing the Exchange and Use of Wagons between Railway Undertakings
TAF TSI	Telematics Applications for Freight
TSI	Technical specifications for interoperability
UTI	Intermodal Loading Unit
UZ	Ukrainian Railways
VAT	Value Added Tax
ZSSK	Železničná spoločnosť Slovensko, a.s.
ZSSK CARGO	Železničná spoločnosť Cargo Slovakia, a.s.
ŽSR	Železnice Slovenskej republiky

MILESTONES

- Gaining new shipments in the export of building materials + 650 thousand tonnes, especially to UZ and MÁV

- The deployment of container trains from China to the EU and back (regular lines to Budapest and to/from Duisburg; a testing train to Bratislava) with transshipment at the Combined Transport Terminal (CTT) Dobrá, i.e. transit through Ukraine, where ZSSK CARGO participates as a carrier in the territory of the Slovak Republic. The project began in June 2017 and meant a breakthrough to the Slovak Republic within the New Silk Road and the resumption of shipments through the CTT Dobrá. A total of 26 block trains were shipped from China to the EU through the CTT Dobrá, of which 24 to Budapest, one to Bratislava and one to Duisburg, representing almost 1100 intermodal transport units (UTIs - Unité de Transport Intermodale). Two block trains were shipped to China through the CTT Dobrá (one from Duisburg and the other from Mělník), representing more than 80 UTIs.

- In 2017, ZSSK CARGO implemented investment projects aimed at the renewal of fixed assets only to the extent necessary, given the financial possibilities of the company, with an increase of 13.1% in the amount of investments when compared to 2016. As to motive power units (MPUs), the company continued reconstructing 363-series MPUs (electrical equipment and new control system), which will make it possible for the MPUs of said series to be used to a larger extent for hauling heavy trains, eliminating downtimes in the re-coupling of MPUs due to the change of the traction power supply system. For the purpose of operating MPUs on modernised railways and on the railways of foreign infrastructure managers, ZSSK CARGO continued with the radiofication of the crucial series of MPUs, including the implementation of the GSM-R digital radio system (series 131, 240 and 363). In the area of reducing the costs of maintenance and replacement of some obsolete components, the reconstruction of 240-series MPUs continued (main switch, circuit breakers and static charger). In 2017, the revitalisation of electric power consumption measurement (PCM) and diesel consumption measurement (DCM) was carried out to re-establish traction energy measurement on MPUs, to increase the accuracy of traction power and diesel consumption planning, as well as to enable tracking the movement of MPUs outside the territory of the Slovak Republic. In connection with the revitalisation of PCM and DCM, the functionalities of the original information system for the evaluation of traction energy consumption were also modified and extended.

- In order to reduce its operating costs, ZSSK CARGO started to implement measures to increase energy efficiency in the operation of buildings located at the Zvolen locomotive depot.

- In 2017, the handling equipment (19 forklift trucks) was also renewed as part of the reduction of the operating costs.

- Unnecessary immovable property and related movable assets were sold at a total price of EUR 1,744 thousand, exclusive of VAT, of which the most significant was the sale of the property collectively referred to as the Vrútky supply plant.

- Within the development of information systems to optimise the processes with a direct impact on the company's economic results, the morally and technically obsolete central hardware and multifunctional devices were renewed to meet the increased performance, capacity and IT security requirements.

- The project of implementation of the technical specifications of interoperability for the subsystem of telematics applications for rail freight (TSI TAF) was launched. The aim of the project, which is co-financed from the EU fund (CEF), is to harmonise the exchange of information and processes between carriers and infrastructure managers with international legislation.

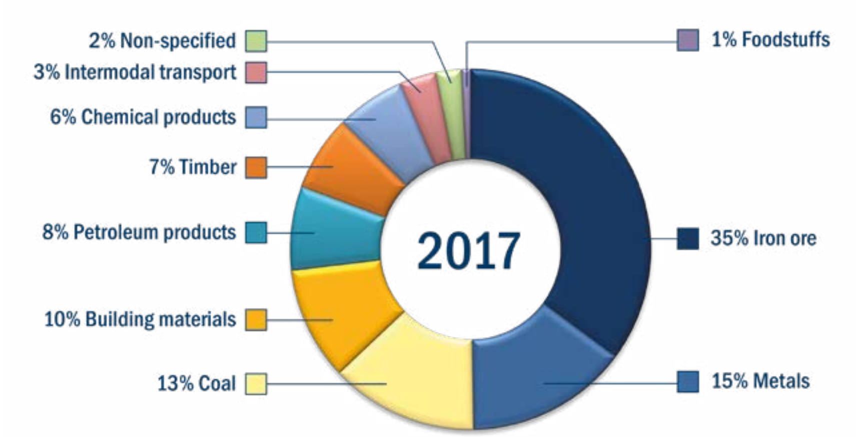
FREIGHT TRANSPORT

In 2017, ZSSK CARGO transported almost 35.7 million tonnes of goods, with the transport output reaching 7,008 million tonne-kilometres and the average transport distance being 196.5 km. On a year-over-year basis, the overall results are almost the same (an increase of 28 thousand tonnes, a decrease of 63 million tonne-kilometres and 1.9 kilometres, compared to 2016), but significant changes were also recorded in the individual modes and commodities, reflecting the natural variability in the flows of transported goods over time.

In international imports, a year-over-year increase of 7% was achieved in the transported tonnes of goods, in which the largest share is attributable to coal shipments (+677 thousand tonnes) and iron ore shipments (+224 thousand tonnes) for the Slovak metallurgical industry. A negative development was seen on transit routes (11% year-over-year decrease), which is largely attributable iron ore shipments (-489 thousand tonnes) for the Czech steel plants and coal shipments (-484 thousand tonnes) for metallurgical factories in Hungary and the Balkans. The total volume of international exports was comparable to that in 2016 (+ 1%); in 2017, the largest year-on-year increase was recorded in the commodity of building materials (+290 thousand tonnes) due to exports of slag to Ukraine and cement to Hungary; on the contrary, shipments of steel products declined (-159 thousand tonnes). As to domestic transport in 2017, the volume of transported goods decreased by 3%, compared to the previous year, such decrease being imputable mainly to a decline in coal shipments (-142 thousand tonnes) due to geological problems in the mining of coal, and in timber shipments (-86 thousand tons), where the domestic timber collection was replaced by increased imports. This decrease was partly offset by an increase in shipments of building materials (+136 thousand tonnes), especially for a ferro-alloy plant.

Freight transport by commodities

In thousand of tonnes	2017	2016	2015	2014	2013	2012	2011	2017/2016
Iron ore	12,533	12,764	12,497	12,918	12,589	11,924	12,253	0.98
Metals	5,204	5,377	4,906	5,450	5,537	5,906	5,543	0.97
Coal	4,717	4,674	4,279	4,772	5,208	5,516	5,950	1.01
Building material	3,621	3,040	3,307	3,022	3,015	2,936	3,223	1.19
Petroleum products	2,691	2,696	2,073	1,921	2,232	2,011	2,195	1.00
Timber	2,415	2,371	2,312	2,577	2,333	1,968	2,308	1.02
Chemical products	2,201	2,177	2,563	2,259	2,181	1,874	2,578	1.01
Intermodal transport	1,181	1,434	1,606	1,864	2,018	1,870	2,243	0.82
Non-specified	820	872	936	874	1,043	1,001	768	0.94
Foodstuffs	282	230	250	360	331	277	421	1.23
	35,665	**35,637**	**34,728**	**36,017**	**36,308**	**35,284**	**37,483**	**1.00**



Freight transport according to the transport modes

Domestic	2017	2016	2015	2014	2013	2012	2017/2016
Transported goods (in thous. of tonnes)	4,140	4,279	4,303	4,245	4,473	4,206	0.97
Operation performance (in mil. net tkm)	767	812	820	796	787	690	0.94
Import	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2017/2016**
Transported goods (in thous. of tonnes)	14,674	13,722	13,761	14,812	14,515	14,740	1.07
Operation performance (in mil. net tkm)	2,309	2,079	2,031	2,236	2,243	2,374	1.11
Export	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2017/2016**
Transported goods (in thous. of tonnes)	9,481	9,358	8,486	8,282	8,661	8,057	1.01
Operation performance (in mil. net tkm)	1,450	1,419	1,276	1,167	1,108	1,110	1.02
Transit	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2017/2016**
Transported goods (in thous. of tonnes)	7,369	8,278	8,179	8,678	8,659	8,281	0.89
Operation performance (in mil. net tkm)	2,483	2,762	2,712	2,690	2,673	2,680	0.90
Freight transport in total	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2017/2016**
Transported goods (in thous. of tonnes)	35,665	35,637	34,728	36,017	36,308	35,284	1.00
Operation performance (in mil. net tkm)	7,008	7,072	6,839	6,888	6,810	6,854	0.99

STRUCTURE OF MPU

Inventory state of MPU in ZSSK CARGO as at 31 December 2017

MPU	Total	up to 15 years	up to 30 years	over 30 years
Electric locomotives	264	5	28	231
Diesel locomotives	255	56	13	186
Diesel coaches	1	0	0	1
Total	**520**	**61**	**41**	**418**

STRUCTURE OF FREIGHT WAGON FLEET

Age structure of freight wagon fleet in ZSSK CARGO

	Total	0-5 years	6-10 years	11-15 years	16-20 years	21-25 years	26-30 years	over 30 years
Freight wagons - total	1,334		606	299	140	88	38	163
Covered wagons	126				1	2	6	117
Open wagons	89		56				32	1
Flat wagons	1,118		550	299	139	86		41
Other freight wagons	4							4

Besides above-mentioned wagons in personal possession, ZSSK CARGO rented 650 wagons through the financial leasing as at 31 December 2017. Financial leasing was used also in the previous years.

A radical change compared to 2014 and 2015 occurred as a result of a major transaction in 2015 that resulted in the sale of 12,342 freight wagons to subsidiary Cargo Wagon, a. s. (66% of shares are held by AAE Wagon, a. s.) from which ZSSK CARGO lease back 8,216 wagons (with an option for 200 more)

ZSSK CARGO

Structure of freight wagon fleet in ZSSK CARGO

Year	2017	2016	2015	2014	2013	2012
Freight wagons - total	1,334	1,361	1,017	13,266	13,442	13,309
Covered wagons	126	204	206	1,963	1,964	1,952
Open wagons	89	71	73	6,524	6,694	6,808
Flat wagons	1,115	1,075	727	3,306	3,311	3,076
Other freight wagons	4	11	11	1,773	1,473	1,473

Leasing

Year	2017	2016	2015	2014	2013	2012
Freight wagons – total	650	754	1,104	1,104	1,104	1,354
Covered wagons	150	150	150	150	150	150
Open wagons	300	356	356	356	356	356
Flat wagons	200	247	598	598	598	848
Other freight wagons	0	0	0	0	0	0

Structure of freight wagon fleet in ZSSK CARGO according to the age

Class	Total	0-5 years	6-10 years	11-15 years	16-20 years	21-25 years	26-30 years	over 30 years
E - ordinary open high-sided wagon	89		56				32	1
G - ordinary covered wagon	22						2	20
H - special covered wagon	45				1	2	1	41
K - ordinary flat wagon	15							15
L - special flat wagon	205		200	2				3
R - ordinary flat bogie wagon	322			297				22
S - special flat bogie wagon	576		350		139	86		1
T - wagon with opening roof	59						3	56
Z - tank wagon	4							4
TOTAL	**1,334**		**606**	**299**	**140**	**88**	**38**	**163**

CAPITAL INVESTMENTS OF ZSSK CARGO

(ACCOUNTING BALANCE AS AT 31 December 2017)

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.	54,950	paper	40	2,829,503.54
Cargo Wagon, a. s.	101	paper	34	3,402,500.00
ZSSK CARGO Intermodal, a. s.	25	paper	100	27,500.00
				6,270,088.59

INTEGRATED MANAGEMENT SYSTEM

The satisfaction of both external and internal customers with the provided services represents our primary goal. To meet the expectations of our business partners, ZSSK CARGO primarily focuses on continuous improvement of the provided services and products. Our company pays great attention to managing its processes.

The integrated management system implemented in accordance with the standards ISO 9001 and OHSAS 18001 helps to achieve this goal.

The integrated management system is an indispensable instrument that is used by the company's management to accomplish the tasks regarding the quality of services provided to our customers and occupational safety and health protection.

In October and November 2017, the independent certification company TÜV SÜD Slovakia checked the functionality of the integrated management system and confirmed that the management system certificates were rightfully awarded pursuant to ISO 9001 and OHSAS 18001.

In 2017, we successfully certified the products "Maintenance and repairs of rolling stock" and "Procurement and purchasing, methodology and analysis, storage and road transport services" in accordance with the updated standard **STN EN ISO 9001:2016**.

We hold certificates:

according to STN EN ISO 9001:2009 for the following products:

- East Slovak Transshipment Yards
- Ensuring professional qualification and education of employees

according to STN EN ISO 9001:2016 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 Vericles Processes and Services.

according to STN OHSAS 18001:2009 standards:

- Managerial system of work safety and health protection at work in ZSSK CARGO

HUMAN RESOURCES

As at 31 December 2016, the company employed 5,794 employees. Within external mobility, 334 employees were taken on from available resources on the labour market, while employment was terminated with 489 employees. Owing to mobility and employment optimisation, the headcount recorded by the company as at 31 December 2017 was 5,632 employees.

This represents a headcount decrease of 162 employees (-2.8%), compared to 2016.

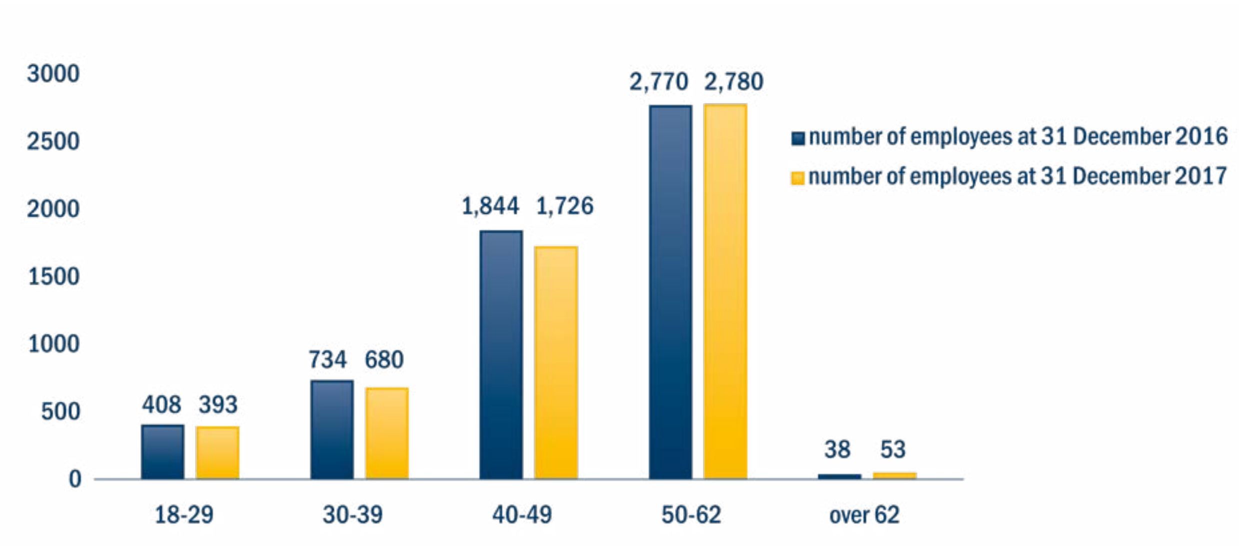
Structure of the employees according to the sex as at 31 December 2017

Men	4,230	(75.11%)
Women	1,402	(24.89%)
Total	**5,632**	**(100%)**

Structure of the employees according to the type of work as at 31 December 2017

Administrative employees	740	(13.14%)
Technical-economic employees and workers	4,892	(86.86%)
Total	**5,632**	**(100%)**

STRUCTURE OF THE EMPLOYEES ACCORDING TO THE AGE

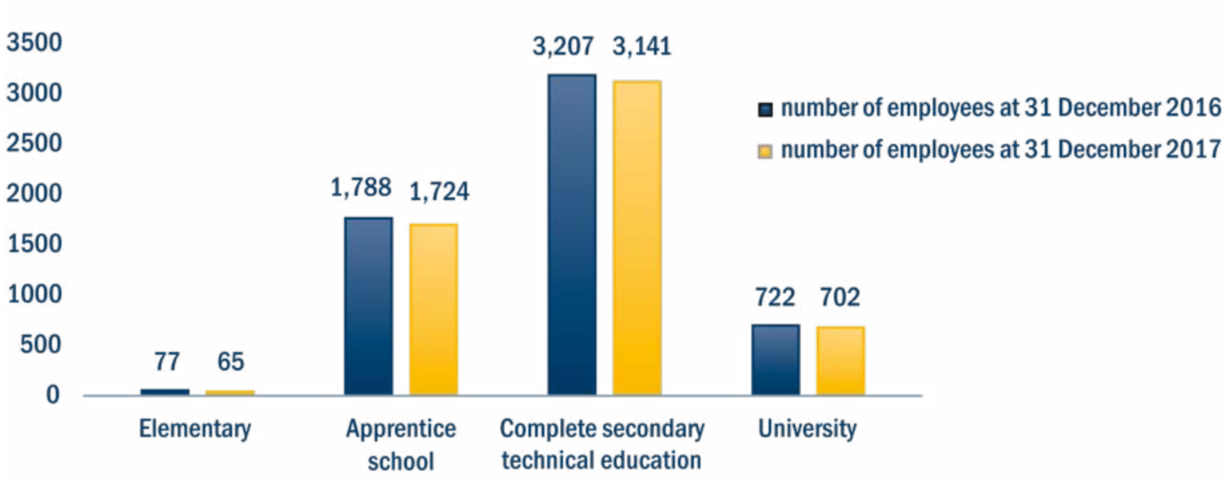


Decrease in the number of employees affected the structure of employees in terms of age and education:

- **with respect to the employees structure according to the age**, the largest decrease in the number of employees was found in the age category 40 – 49 years (72.84%) of the total decrease in the number of employees.

The average age of employees as at 31 December 2017 **47.41**.

STRUCTURE OF THE EMPLOYEES ACCORDING TO THE EDUCATION



- **with respect to the employees structure according to the education**, the largest decrease in the number of employees was found in the category „employees with complete secondary technical education“ (-40.74%) as compared to the total decrease in the number of employees. The largest number of employees is registered in the category „complete secondary technical education“(55.77%).

The average wage in 2017 was 954.0 € which represents a 4.48 % increase compared to 2016.

As part of HR development in the area of training and education, internship training courses for engine drivers and internship coach foreman training courses aimed at attaining vocational skills required under the Railways Act were held in 2017.

As regards human resources, in 2017, the company successfully regained the ISO 9001 certificate concerning employee training and the OHSAS 18001 certificate concerning occupational health and safety.

The company had a collective agreement with 11 trade unions.

RISKS

High financial costs associated with the implementation of the applicable EU legislation concerning technical specifications of interoperability (TSI).

Failure to attain the expected benefits of implementing measures to increase energy efficiency in the operation of buildings owned by ZSSK CARGO due to the failure by utilities suppliers to repair defects in the supply pipelines.

Lower effect of increasing the availability of the selected series of motor traction MPUs.

EXPECTED FUTURE DEVELOPMENT

ZSSK CARGO will continue to carry out investment projects aimed at modernizing and reconstructing the crucial series of ZSSK CARGO electric and motor traction MPUs, implement measures aimed at increasing energy efficiency in the operation of buildings, as well as extend the functionalities of key information systems (business-operational controlling, the extension of the PCM and DCM functionalities, the implementation of telematics applications in freight transport (TAF TSI) within the Operations Information System and VDS). In addition, the company intends to create conditions for the renewal of its fleet of MPUs by procuring new electric and motor traction MPUs for the purpose of pursuing the company's strategic goals.

PARTICULAR INFORMATION FOR THE YEAR 2017

In 2017, as in the previous year, when conditions were set for cooperation with Cargo Wagon, a. s., in the lease of wagons after the sale of 66% of the shares in 2015, ZSSK CARGO continued to reduce its debt and so the available funds were not used for development activities or more significant investment projects. The launch of progressive recovery activities and the development of assets and capacities is foreseen in 2018 in accordance with the medium-term investment plan.

In 2017, the company did not expend any research and development costs.

The company does not have any business unit abroad.

No events have occurred subsequent to the end of the financial year as of 31 December 2017 that would significantly affect the fair presentation of facts disclosed in the attached financial statements.

It will be proposed to the statutory body that 10% of the recognised accounting profit of EUR 149 thousand in 2017 should be assigned to the statutory reserve fund and the remainder transferred to cover accumulated losses from previous years.

SELECTED ECONOMIC INDICATORS

ACCORDING TO THE DATA OF THE CONSOLIDATED FINANCIAL STATEMENT

In thousands of EUR	2017	2016
Total assets	341,462	346,188
Long-term tangible property	249,114	260,648
Equity	119,685	118,266
Loans (short-term + long-term)	79,989	70,563
Revenues	282,423	278,036
Costs	(281,155)	(276,287)
Profit/(loss) from financial operations	(1,073)	(1,594)
Share of the profit of the joint venture and affiliated company	1,271	699
Income tax	(47)	(33)
Economic result	**1,419**	**821**

INDEPENDENT AUDITOR'S REPORT AND SEPARATE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

YEAR ENDED 31 DECEMBER 2017

Building a better working world

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Independent Auditor's Report

To the Shareholder, Supervisory Board and Board of Directors of Železničná spoločnosť Cargo Slovakia, a.s.:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Železničná spoločnosť Cargo Slovakia, a.s. (the Company), which comprise the statement of financial position as at 31 December 2017, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Statutory Audit No 423/2015 Coll. and on amendments to the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Statutory Audit") related to ethics, including Auditor's Code of Ethics, that are relevant to our audit of the financial statements, and we have fulfilled other requirements of these provisions related to ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 21 to the financial statements, the Company recorded provisions of EUR 21,889 thousand as at 31 December 2017 and EUR 22,154 thousand as at 31 December 2016 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.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give true and fair view in accordance with IFRS EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using

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.

the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements including the presented information as well as whether the financial statements captures the underlying transactions and events in a manner that leads to their fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Report on Other Legal and Regulatory Requirements

Report on Information Disclosed in the Annual Report

Management is responsible for the information disclosed in the annual report, prepared based on requirements of the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Accounting"). Our opinion on the financial statements expressed above does not apply to other information contained in the annual report.

In connection with audit of the financial statements it is our responsibility to understand the information disclosed in the annual report and to consider whether such information is not materially inconsistent with audited financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

We considered whether the Company's annual report contains information, disclosure of which is required by the Act on Accounting.

Based on procedures performed during the audit of financial statements, in our opinion:

- Information disclosed in the annual report prepared for 2017 is consistent with the financial statements for the relevant year,
- The annual report contains information based on the Act on Accounting.

Additionally, based on our understanding of the Company and its situation, obtained in the audit of the financial statements, we are required to disclose whether material misstatements were identified in the annual report, which we received prior to the date of issue of this auditor's report. In this regard, there are no findings which we should disclose.

24 April 2018
Bratislava, Slovak Republic

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

Ing. Peter Uram-Hrišo, statutory auditor
UDVA Licence No. 996

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of EUR	Note	31 December 2017	31 December 2016
Revenues			
Transportation and related revenues	3	269,359	265,392
Other revenues	4	13,064	12,644
		282,423	**278,036**
Costs and expenses			
Consumables and services	5	(161,408)	(155,374)
Staff costs	6	(91,517)	(91,147)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	12, 13	(27,751)	(28,395)
Other operating revenues (expenses), net	7	(478)	(1,370)
		(281,154)	**(276,286)**
Finance costs			
Interest expense	8	(1,699)	(2,164)
Other finance revenues (costs), net	9	626	570
		(1,073)	**(1,594)**
Income tax	11	(47)	(33)
Profit (Loss) for the period		**149**	**123**
Other comprehensive income for the period		-	-
Total comprehensive income for the period		**149**	**123**

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 24 April 2018.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

In thousands of EUR	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	13	249,114	260,648
Intangible assets	12	9,846	9,649
Group loans	16, 24	11,517	10,908
Investment in joint ventures	14	6,243	6,243
Investment in subsidiaries	14	28	28
Other non-current assets	10	494	492
		277,242	**287,968**
Current assets			
Inventories	15	6,643	6,487
Trade and other receivables	16	52,111	47,680
Cash and cash equivalents	17	269	125
		59,023	**54,292**
TOTAL ASSETS		**336,265**	**342,260**
EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital	18	401,646	401,646
Legal reserve fund	18	46	34
Other funds	18	1,228	1,228
Accumulated losses	18	-288,433	-288,57
Total equity		**114,487**	**114,338**
Non-current liabilities			
Interest-bearing loans and borrowings	19	10,728	8,798
Employee benefits	20	14,36	14,895
Provisions	21	44,745	43,902
Trade and other payables	22	10,998	16,546
Finance lease liabilities	23	4,134	5,496
Other non-current liabilities	22	96	79
		85,061	**89,716**
Current liabilities			
Interest-bearing loans and borrowings	19	69,261	61,765
Employee benefits	20	910	929
Provisions	21	2,245	2,574
Trade and other payables	22	59,887	59,869
Tax liabilities	11	-	-
Finance lease liabilities	23	4,414	13,069
		136,717	**138,206**
Total liabilities		**221,778**	**227,922**
TOTAL EQUITY AND LIABILITIES		**336,265**	**342,26**

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 24 April 2018.

STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2017

In thousands of EUR	Share capital	Legal reserve fund	Other funds	Accumulated losses	Total
At 1 January 2016	**401,646**	**26**	**1,228**	**(288,685)**	**114,215**
Profit for the period	-	-	-	123	**123**
Other comprehensive income	-	-	-	-	**-**
Total comprehensive income	-	-	-	123	**123**
Legal reserve fund	-	8	-	(8)	**-**
At 31 December 2016	**401,646**	**34**	**1,228**	**(288,570)**	**114,338**
Profit for the period	-	-	-	149	**149**
Other comprehensive income	-	-	-	-	**-**
Total comprehensive income	-	-	-	149	**149**
Legal reserve fund	-	12	-	(12)	**-**
At 31 December 2017	**401,646**	**46**	**1,228**	**(288,433)**	**114,487**

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 24 April 2018.

ZSSK CARGO

STATEMENT OF CASH FLOWS AS AT 31 DECEMBER 2017

In thousands of EUR	Note	31 December 2017	31 December 2016
Cash flows from operating activities			
Profit / (Loss) before tax		196	156
Adjustments for:			
Non-cash items			
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	12, 13	27,751	28,395
Gain on sale of property, plant and equipment		(1,615)	(1,081)
Allowance of receivables and inventories	15, 16	(21)	611
Interest expense	8	1,699	2,164
Interest income and shares of profits		(609)	(610)
Movements in provisions and employee benefits		(40)	703
Other non-cash items		-	2
		27,361	**30,340**
Working capital adjustments			
Decrease in inventories		(569)	452
Decrease (increase) in trade and other receivables		(3,999)	(6,182)
Increase (decrease) in trade and other payables		(5,936)	(6,451)
Cash flows from operating activities		**16,857**	**18,159**
Income tax paid	11	(47)	(1,420)
Net cash flows from operating activities		**16,810**	**(16,739)**
Investing activities			
Purchase of property, plant and equipment	12, 13	(16,535)	(14,688)
Proceeds from sale of property, plant and equipment		1,744	1,418
Net cash flows from (used in) investing activities		**(14,791)**	**(13,270)**
Financing activities			
Proceeds from loans and borrowings	19	9,250	3,000
Repayment of loans and borrowings	19	(2,182)	(2,118)
Interest paid		(1,284)	(1,701)
Payments of finance lease liabilities	23	(10,017)	(11,961)
Net cash flows used in financing activities		**(4,233)**	**(12,780)**
Net (decrease) increase in cash and cash equivalents		**(2,214)**	**(9,311)**
Cash and cash equivalents at 1 January	**17**	**(49,458)**	**(40,147)**
Cash and cash equivalents at 31 December	**17**	**(51,672)**	**(49,458)**

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 24 April 2018.

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, Company ID 35 914 921, Tax identification number 20 219 200 65.

The Slovak Republic is the sole shareholder of the Company through the Ministry of Transport and Construction of the Slovak Republic ("MTC") 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 24 April 2018. The General Meeting held on 14 June 2017 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 2017 to 31 December 2017.

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 profit of EUR 149 thousand for the year and total accumulated loss of EUR 288,433 thousand.

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. acquired 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 shares and the fulfillment of other conditional clauses the final transaction documents were signed in May 2015– 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 used to finance the purchase of railway carriages. The whole transaction was completed on 10 July 2015, when ZSSK CARGO received a payment for the sale of carriages in amount of EUR 216.6 million (incl. VAT) which was used to decrease the Company´s debt. The Company began to lease a significant part of its freight wagons. Regarding ZSSK CARGO Intermodal, a. s. the Company has closed an international tender without selecting a qualified partner in 2015. The Company will support activities of intermodal transportation within ZSSK CARGO.

The successful rail freight transport consolidation, with the goal being the achievement of balanced results in the mid-term while continuing to implement internal measures, which should increase the productivity and effectivity of internal processes, considering the decreasing transports and fiercer competition will depend on additional supporting measures and a new regulatory framework for rail freight transporters and the fee set for the usage of rail infrastructure after the year 2017. In 2018 with outlook for 2019-2020 the support for rail freight transport in Slovakia continues in form of reduced network fees.

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

The Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been endorsed for use in the EU and that are relevant to its operations and effective for accounting periods beginning on 1 January 2017. The following standards, amendments and improvements issued by the IASB and adopted by the EU are effective for the current accounting period:

- IAS 12 Income taxes - Amendment to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses - effective for financial years beginning on 1 January 2017;
- IFRS 7 Financial Instruments – Amendment to IAS 7 Disclosure Initiative – effective for financial year beginning on 1 January 2017;
- Improvements to IFRS Project Cycle 2014 – 2016 - effective for financial years beginning on 1 January 2017 – improvements has not yet been endorsed by the EU;
- IFRS 12 Disclosure of Interests in Other Entities.

International standards, interpretations and amendments to published standards that have been published and are not effective yet

- IFRS 9 - Financial Instruments – Classification and Measurement - effective for financial years beginning on or after 1 January 2018, with early application permitted;
- IFRS 15 Revenue from Contracts with Customers - effective for financial years beginning on or after 1 January 2018;
- IFRS 15: Revenue from Contracts with Customers (Clarifications) - effective for financial years beginning on or after 1 January 2018, with earlier application permitted;
- IFRS 16: Leases – effective for financial years beginning on or after 1 January 2019;
- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – amendments have not yet been endorsed by the EU;
- IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments) – Amendments have not yet been endorsed by the EU;
- IAS 40: Investment Property (Amendments) - effective for financial years beginning on or after 1 January 2018 – Amendments have not yet been endorsed by the EU;
- IFRS 9 - Financial Instruments Financial instruments – Prepayments features with negative compensation (Amendment) – effective for financial years beginning on or after 1 January 2019 with earlier

application permitted – Amendments have not yet been endorsed by the EU:

- IAS 28: Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures (Amendments) – effective for financial years on or after 1 January 2019 with earlier application permitted – Amendments have not yet been endorsed by the EU;
- IFRIC 22 INTERPRETATION — Foreign Currency Transactions and Advance Consideration – Interpretation is effective for financial years on or after 1 January 2018 with earlier application permitted – Interpretation has not yet been endorsed by the EU`;
- Improvements to IFRS Project Cycle 2014 – 2016 - effective for financial years beginning on or after 1 January 2018 – Improvements have not yet been endorsed by the EU;
  - » IFRS 1 — First-time Adoption of International Financial Reporting Standards
  - » IAS 28 Investments in Associates and Joint Ventures
- IFRIC 23 INTERPRETATION – Uncertainty over income Taxes Treatments – effective for financial year beginning on or after 1 January 2019 – Interpretation has not yet been endorsed by the EU;
- Improvements to IFRS Project Cycle 2015 – 2017 – effective for financial years beginning on or after 1 January 2019 – Improvements have not yet been endorsed by the EU:
  - » IFRS 3 Business Combinations and IFRS 11 Joint Arrangements
  - » IAS 12 Income Taxes
  - » IAS 23 Borrowing Costs

If not otherwise stated, the Company anticipates that the adoption of these standards, amendments to the existing standards, and interpretations will not have material impact on its 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 are 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 subsidiary

Securities and interests in joint ventures and subsidiary 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 2017 and 2016, 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 2017 and 2016, 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

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 2017 and 2016, 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.

In line with Act No. 235/2012 Coll., on a Special Levy on Business in Regulated Industries and on the Amendment to and Supplementation of Certain Acts, the Company is obliged to pay a monthly special levy effective from September 2012. This levy is based on the profit before tax and is presented as a part of the current income tax pursuant to the IFRS requirements.

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 2017	31 December 2016
Inland transport:		
Transport of goods	31,282	33,150
Wagon deposition	8,493	6,450
Haulage fees	1,141	1,317
	40,916	**40,917**
International transport:		
Import	94,976	89,231
Export	102,733	100,767
Transit	12,526	15,597
	210,235	**205,595**
Other transport related revenues:		
Usage of wagons under RIV, PGV and AVV regimes	10,184	11,571
Wagon rentals	2,322	2,046
Cross-border services	3,072	3,357
Other	2,630	1,906
	18,208	**18,880**
	269,359	**265,392**

4. OTHER REVENUES

In thousands of EUR	31 December 2017	31 December 2016
Repairs and maintenance	6,187	5,599
Operational performance	2,115	2,206
Property rentals	2,320	2,322
Other	2,442	2,517
	13,064	**12,644**

Other revenues included revenues charged to ZSSK of EUR 6,369 thousand (2016: EUR 5,850 thousand) for repair and maintenance, operational performance, property rental and other support services.

5. CONSUMABLES AND SERVICES

In thousands of EUR	31 December 2017	31 December 2016
Wagon rentals	(41,500)	(41,372)
Traction electricity	(26,044)	(27,047)
Network fees	(25,322)	(27,194)
Traction crude oil	(10,858)	(10,126)
Third party transhipment services	(10,054)	(254)
Foreign segments	(8,122)	(7,287)
Materials	(7,693)	(8,580)
Repair and maintenance	(6,817)	(7,553)
IT services and telecommunication charges	(6,684)	(6,878)
Other energy costs	(4,060)	(4,140)
Rentals	(3,657)	(3,433)
Cross-border services	(3,579)	(4,029)
Travelling and entertainment	(1,272)	(1,186)
Security services	(1,240)	(1,221)
Cleaning of cars, property, waste disposal	(692)	(862)
Advisory and consultancy fees	(662)	(359)
Training	(374)	(428)
Medical care	(305)	(337)
Other	(2,473)	(3,088)
	(161,408)	**(155,374)**

Consumables and services include amounts charged by ŽSR of EUR 57,183 thousand (2016: EUR 60,197 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 24).

6. STAFF COSTS

In thousands of EUR	31 December 2017	31 December 2016
Wages and salaries	(63,567)	(62,622)
Social security costs	(26,973)	(26,980)
Employee benefits (Note 20)	(293)	(2,738)
Termination payments (Note 21)	(684)	1,193
	(91,517)	**(91,147)**

Employee numbers at 31 December 2017 were 5,632 (2016: 5,794), thereof seven were members of management (as members of the Board of Directors or directors of individual departments). Average employee numbers at 31 December 2017 were 5,738 (2016: 5,932).

The average salary in 2017 amounted to EUR 954 (2016: EUR 913).

7. OTHER OPERATING REVENUES (EXPENSES), NET

In thousands of EUR	31 December 2017	31 December 2016
Profit on sale of property, plant, equipment and inventories	2,713	1,686
Provision for legal cases and other provisions (Note 21)	(2,338)	(1,063)
Release (creation) of Allowance for doubtful debts	82	(146)
Insurance of assets	(1,017)	(1,140)
Other	82	(707)
	(478)	**(1,370)**

8. INTEREST EXPENSE

In thousands of EUR	31 December 2017	31 December 2016
Interest on loans and borrowings	(960)	(974)
Interest charges on finance lease liabilities	(349)	(693)
Unwinding of discount on provisions and employee benefits	(379)	(497)
Other	(11)	-
	(1,699)	**(2,164)**

9. OTHER FINANCE REVENUES (COSTS), NET

In thousands of EUR	31 December 2017	31 December 2016
Foreign exchange losses, net	63	(5)
Other revenues (costs), net	563	575
	626	**570**

10. OTHER NON-CURRENT ASSETS

In thousands of EUR	31 December 2017	31 December 2016
Advanced payments	480	480
Accrued costs	14	12
	494	**492**

11. INCOME TAX

The reported income tax represents a withholding tax paid abroad in the amount of EUR 44 thousand and tax license in the amount of EUR 3 thousand (2016: EUR 30 thousand and EUR 3 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 2017	31 December 2016
Profit (Loss) before tax	196	156
Tax charge at statutory tax rate of 21% (2016: 21%)	41	33
Tax paid abroad and tax license	(47)	(33)
Forfeit tax loss carry forwards	17	31
Unrecognized deferred tax asset (incl. impact of change in tax rate)	(1,845)	(1,788)
Non-deductible expenses	1,787	1,724
Total income tax	**(47)**	**(33)**

Deferred tax assets and liabilities at 31 December related to the following (for the year ended 31 December 2017 an income tax rate of 21% applicable in future accounting period was used, for the year ended 31 December 2016: 21%):

In thousands of EUR	31 December 2017	31 December 2016
Deferred tax assets		
Tax loss carried forward	982	1,963
Provision for environmental matters	4,597	4,652
Provision for employee benefits	3,036	3,323
Allowance for trade and other receivables	781	872
Allowance for inventories	349	262
Provision for legal cases	4,004	3,720
Termination payments	186	314
Other overdue liabilities (over 36 months)	2,260	3,796
Other	6,749	7,667
	22,944	**26,569**
Deferred tax liabilities		
Accelerated depreciation for tax purposes (net of value adjustments)	(449)	(2,207)
Other	(30)	(52)
	(479)	**(2,259)**
Valuation allowance	**(22,465)**	**(24,310)**
Net deferred tax assets (liabilities)	**-**	**-**

A valuation allowance of EUR 22,465 thousand (2016: EUR 24,310 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.

Under Slovak tax legislation, the company lost tax losses from 2009 of EUR 114,153 € in 2014.

Other tax liabilities as advances on employee income tax, property tax, etc. are reported under other liabilities in note 22.

12. INTANGIBLE ASSETS

In thousands of EUR	Software	Assets under construction	Total
Acquisition cost			
At 1 January 2017	**31,563**	**675**	**32,238**
Additions	-	1,670	1,670
Disposals	-	-	-
Transfers	2,059	(2,059)	-
At 31 December 2017	**33,622**	**286**	**33,908**
Accumulated amortization			
At 1 January 2017	**(22,589)**	**-**	**(22,589)**
Charge for the period	(1,473)	-	(1,473)
Disposals	-	-	-
At 31 December 2017	**(24,062)**	**-**	**(24,0623)**
Net book value at 31 December 2017	**9,560**	**286**	**9,846**

In thousands of EUR	Software	Assets under construction	Total
Acquisition cost			
At 1 January 2016	**31,841**	**227**	**32,068**
Additions	-	1,000	1,000
Disposals	(830)	-	(830)
Transfers	552	(552)	-
At 31 December 2016	**31,563**	**675**	**32,238**
Accumulated amortization			
At 1 January 2016	**(21,938)**	**-**	**(21,938)**
Charge for the period	(1,481)	-	(1,481)
Disposals	830	-	830
At 31 December 2016	**(22,589)**	**-**	**(22,589)**
Net book value at 31 December 2016	**8,974**	**675**	**9,649**

13. PROPERTY, PLANT AND EQUIPMENT

In thousands of EUR	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
Acquisition cost				
At 1 January 2017	**73,899**	**468,464**	**5,134**	**547,497**
Additions	-	-	14,865	14,865
Disposals	(3,999)	(14,056)	(52)	(18,107)
Transfers	262	14,673	(14,935)	-
At 31 December 2017	**70,162**	**469,081**	**5,012**	**544,255**
Accumulated depreciation				
At 1 January 2017	**(30,260)**	**(256,055)**	**(534)**	**(286,849)**
Additions	(1,589)	(25,425)	-	(27,014)
Disposals	3,985	13,929	-	17,914
Impairment loss	(404)	1,212	-	808
At 31 December 2017	**(28,268)**	**(266,339)**	**(534)**	**(295,141)**
Net book value at 31 December 2017	**41,894**	**202,742**	**4,478**	**249,114**

In thousands of EUR	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
Acquisition cost				
At 1 January 2016	**72,659**	**468,056**	**5,364**	**546,079**
Additions	-	112	13,576	13,688
Disposals	(379)	(11,729)	(162)	(12,270)
Transfers	1,619	12,025	(13,644)	-
At 31 December 2016	**73,899**	**468,464**	**5,134**	**547,497**
Accumulated depreciation				
At 1 January 2016	**(28,294)**	**(242,665)**	**(534)**	**(271,493)**
Additions	(1,603)	(25,118)	-	(26,721)
Disposals	202	11,496	-	11,698
Impairment loss	(565)	232	-	(333)
At 31 December 2016	**(30,260)**	**(256,055)**	**(534)**	**(286,849)**
Net book value at 31 December 2016	**43,639**	**212,409**	**4,600**	**260,648**

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 2017.

The impairment test required by IAS 36 was performed by management of the Company as at 31 December 2017. 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 2018 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 5.90% 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 decreased an impairment loss by EUR 808 thousand (2016: increase in impairment loss by 303 thousand EUR) due to a lower usage of assets and a decrease of cash inflows mainly from a transport revenues’ decrease in 2017 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 6,426 thousand (net book value EUR 4,025 thousand), wagons with an aggregate acquisition value of EUR 72,187 thousand (net book value EUR 51,669 thousand) and motor vehicles a total acquisition value of EUR 115 thousand (net book value EUR 107 thousand).

Property, plant and equipment in the ownership of the Company with a total acquisition value of EUR 709 thousand (EUR 709 thousand at 31 December 2016) and with a net book value of EUR 469 thousand (EUR 488 thousand at 31 December 2016) 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 € thousand and (iii) to a maximum of EUR 306,148 thousand.

The gross carrying amount of any fully depreciated property, plant and equipment that is still in use, is EUR 26,609 thousand.

ZSSK CARGO

14. INVESTMENT IN JOINT VENTURES AND SUBSIDIARY

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.

The Company has 34% share in Cargo Wagon, a. s. This investment is presented as a joint venture based on the agreed conditions of shareholder agreement.

Details of the Company's joint ventures and subsidiary at 31 December 2017 are as follows:

Corporate name	Registration country	Ownership 2017	Carrying amount of investment 2017	Equity 2017	Profit/ Loss 2017
Investment in joint ventures					
BULK TRANSSHIPMENT SLOVAKIA, a. s.	Slovak Republic	40%	2,829.5	23,023	2,307
Cargo Wagon, a. s.	Slovak Republic	34%	3,402.5	3,862	1,023
Total investment in joint ventures			**6,232**		
Investments in subsidiary					
ZSSK CARGO Intermodal, a. s.	Slovak Republic	100%	27.5	24	(1)

Details of the Company's joint ventures and subsidiary at 31 December 2016 are as follows:

Corporate name	Registration country	Owner hip 2016	Carrying amount of investment 2016	Equity 2016	Profit/ Loss 2016
Investment in joint ventures					
BULK TRANSSHIPMENT SLOVAKIA, a. s.	Slovak Republic	40%	2,829.5	20,726	2,285
Cargo Wagon, a. s.	Slovak Republic	34%	3,402.5	1,721	(1,381)
Total investment in joint ventures			**6,232**		
Investments in subsidiary					
ZSSK CARGO Intermodal, a. s.	Slovak Republic	100%	27.5	25	(1)

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. acquired 66% of share capital of Cargo Wagon, a. s. and the transaction was completed after the approval of Antimonopoly authorities in May 2015.

As of 31 December 2017 ZSSK CARGO Intermodal, a. s. is dormant with no operation.

15. INVENTORIES

In thousands of EUR	At cost 2017	At lower of cost or net realizable value 2017	At cost 2016	At lower of cost or net realizable value 2016
Machine and metal-working materials	3,587	2,927	3,143	2,700
Electrical materials	2,881	1,908	2,826	2,049
Chemicals and rubber	832	813	695	676
Diesel fuel	708	708	673	673
Protective tools	140	137	253	251
Other	157	150	146	138
	8,305	**6,643**	**7,736**	**6,487**

The Company expects to use up stocks amounted to EUR 20,532 thousand (2016: EUR 20,354 thousand) in a period of more than twelve months after the date of creation these financial statements.

16. TRADE AND OTHER RECEIVABLES

In thousands of EUR	31 December 2017	31 December 2016
Domestic trade receivables	34,260	29,718
Foreign trade receivables	15,351	15,381
VAT receivables	2,968	3,828
Other receivables	3,249	2,904
Allowance for impaired trade and other receivables	(3,717)	(4,151)
	52,111	**47,680**

At 31 December 2017 overdue receivables amounted to EUR 4,793 thousand (EUR 4,990 thousand at 31 December 2016).

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

For details of related party receivables, refer to Note 24.

The Company reported a long-term group loan in amount of 10,000 € to the joint venture Cargo Wagon, a. s. This loan is subordinate to long-term bank loans used for the purchase of freight wagons by the joint venture. Loan repayments and interest at 6% per annum subject to compliance with bank covenants under the terms of pari pass to the majority shareholder.

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

			Past due but not impaired				
Year	Total	Neither past due nor impaired	< 90 days	90 - 180 days	180 – 270 days	270 – 365 days	> 365 days
2017	**52,111**	48,264	3,847	-	-	-	-
2016	**47,680**	47,040	640	-	-	-	-

17. 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 2017	31 December 2016
Cash at banks and on hand and cash equivalents	269	125
Bank overdrafts	(51,941)	(49,583)
	(51,672)	**(49,458)**

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

Bank overdrafts as of 31 December are as follows:

	31 December 2017		31 December 2016	
In thousands of EUR	Overdraft limit	Drawn down	Overdraft limit	Drawn down
ING Bank N.V., pobočka z.b.	*20,000*	**12,980**	*20,000*	**12,166**
Všeobecná úverová banka, a. s.	*20,000*	**9,653**	*15,000*	**8,911**
Tatra banka, a. s.	*15,000*	**9,187**	*15,000*	**8,978**
Citibank Europe plc, poboč. zahr. banky.	*15,000*	**8,972**	*15,000*	**9,232**
Československá obchodná banka, a. s.	*10,000*	**5,812**	*10,000*	**5,319**
Slovenská sporiteľňa, a. s.	*10,000*	**5,337**	*10,000*	**4,977**
	90,000	**51,941**	**85,000**	**49,583**

18. SHAREHOLDER'S EQUITY

Share capital

Share capital represents the State's investment in the Company, held through MTC, 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 will be increased by amounts of 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 MTC, 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 2016 statutory result was approved by the Company's General Meeting on 14 June 2017 and was booked in the amount of EUR 12 thousand to legal reserve fund and the amount of EUR 111 thousand was booked to accumulated losses.

19. INTEREST-BEARING LOANS AND BORROWINGS

In thousands of EUR	Maturity date	31 December 2017	31 December 2016
Long-term loans			
Secured			
ING Bank N.V., pobočka zahr. banky.	31 July 2019	8,798	10,980
Slovenská sporiteľňa, a. s.	30 June 2022	9,250	-
Total		**18,048**	**10,980**
Short-term portion of loans		**7,320**	**2,182**
Long-term portion of loans		**10,728**	**8,798**
Short-term loans			
Secured			
Privatbanka, a. s.	6 June 2018	10,000	10,000
Short-term loans		**10,000**	**10,000**
Short-term portion of loans (see above)		**7,320**	**2,182**
Overdrafts (Note 17)		**51,941**	**49,583**
Short-term portion of loans		**69,261**	**61,765**
Total		**79,989**	**70,563**

All loans are denominated in EUR, if not stated otherwise.

All loans presented in the table above are secured by promissory notes with a value of EUR 71,191 thousand (EUR 59,583 thousand at 31 December 2016), and with a nominal value of EUR 135,800 thousand (EUR 107,800 thousand as of 31 December 2016) 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” and represents reclassification of a finance lease contract which has been taken over by ING Group after the lessor ING Lease (C.R.) ceased its operation in Slovakia. A long-term loan provided by Slovenská sporiteľňa, a. s. is secured by a promissory note (principal) as well as by a lien on 6 locomotives (interest).

At 31 December 2017, the Company has no obligation to comply any covenants.

The fair value of interest-bearing loans and borrowings amounts to EUR 79,989 thousand (EUR 70,563 thousand at 31 December 2016).

All interest-bearing loans and borrowings bear floating interest which range from 0.950% to 2.700% (0.950% to 2.700% in 2016) except for the fixed interest loan from Privatbanka, a. s.

20. EMPLOYEE BENEFITS

In thousands of EUR	Retirement benefits	Jubilee payments	Disability benefits	Total
At 1 January 2017	**12,658**	**3,152**	**14**	**15,824**
Current service cost	470	115	-	585
Interest expense	203	50	-	253
Actuarial gains and losses	59	27	(1)	85
Utilization of benefits	(956)	(430)	(4)	(1,390)
Past service cost	(94)	5	2	(87)
At 31 December 2017	**12,340**	**2,919**	**11**	**15,270**
Current 31 December 2017	584	324	2	910
Non-current 31 December 2017	11,756	2,595	9	14,360
At 31 December 2017	**12,340**	**2,919**	**11**	**15,270**

In thousands of EUR	Retirement benefits	Jubilee payments	Disability benefits	Total
At 1 January 2016	**12,470**	**3,189**	**7**	**15,666**
Current service cost	462	115	-	577
Interest expense	299	76	-	375
Actuarial gains and losses	432	157	1	590
Utilization of benefits	(988)	(387)	(6)	(1,381)
Past service cost	(17)	2	12	(3)
At 31 December 2016	**12,658**	**3,152**	**14**	**15,824**
Current 31 December 2016	521	405	3	929
Non-current 31 December 2016	12,137	2,747	11	14,895
At 31 December 2016	**12,658**	**3,152**	**14**	**15,824**

The principal actuarial assumptions used were as follows:

	2017	2016
Discount rate (% p. a.)	1.75	1.60
Future salary increases (%)	3.00	3.00
Mortality probability (male) (%)	0.04 – 2.26	0.04 – 2.26
Mortality probability (female) (%)	0.02 – 0.88	0.02 – 0.88

Sensitivity analysis

A sensitivity analysis of the provision to changes in significant assumptions is shown in the table below:

In thousands of EUR	31 December 2017	Discount rate (1.00%)	Average income (1.00%)	Mortality (-10.00%)
Net liability from employee benefits	15,270	(1,225)	389	153

In thousands of EUR	31 December 2016	Discount rate (1.00%)	Average income (1.00%)	Mortality (-10.00%)
Net liability from employee benefits	15,824	(1,309)	404	160

21. PROVISIONS

In thousands of EUR	Environmental	Legal	Terminations	Other	Total
At 1 January 2017	**22,154**	**17,716**	**1,493**	**5,113**	**46,476**
Additions	-	1,351	885	1,014	3,250
Interest costs	-	-	24	102	126
Reversals	-	-	(490)	(27)	(517)
Utilization	(265)	-	(1,027)	(1,053)	(2,625)
Transfers	-	-	-	-	280
At 31 December 2017	**21,889**	**19,067**	**885**	**5,149**	**46,990**
Current 31 December 2017	280	-	885	1,080	2,245
Non-current 31 December 2017	21,609	19,067	-	4,069	44,745
At 31 December 2017	**21,889**	**19,067**	**885**	**5,149**	**46,990**

In thousands of EUR	Environmental	Legal	Terminations	Other	Total
At 1 January 2016	22,242	16,636	981	6,073	45,932
Additions	-	1,100	1,493	-	2,593
Interest costs	-	-	-	121	121
Reversals	-	-	(300)	(37)	(337)
Utilization	(88)	(20)	(681)	(1,044)	(1,833)
At 31 December 2016	**22,154**	**17,716**	**1,493**	**5,113**	**46,476**
Current 31 December 2016	-	-	1,493	1,081	2,574
Non-current 31 December 2016	22,154	17,716	-	4,032	43,902
At 31 December 2016	**22,154**	**17,716**	**1,493**	**5,113**	**46,476**

Environmental matters

In 2017, 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. 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 21,889 thousand (EUR 22,154 thousand at 31 December 2016) are required to remedy the significant environmental issues relating to water, oil and fuel management identified in the past.

Their exact estimates are not necessarily accurate due to several uncertainties involving 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 in 2019 – 2020. A discount rate of 2.00 % p. a. was used in the calculation.

Legal claims

Provisions for legal claims relate to a number of claims, the most significant one is REFIN B.A., Ltd. in the amount of EUR 9,842 thousand.

Other

The provision relates mainly to one long-term contract for leasing wagons which has been partially classified as an onerous contract.

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

In thousands of EUR	31 December 2017	31 December 2016
Domestic trade payables	48,762	53,891
Foreign trade payables	6,965	7,719
Payables due to employees	6,582	6,102
Payables due to social institutions	3,767	3,516
Other payables	4,809	5,187
	70,885	**76,415**

At 31 December 2017 overdue trade payables amounted to EUR 1,474 thousand (EUR 871 thousand at 31 December 2016).

For details of related party payables, refer to Note 24.

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	2017	2016
At 1 January	**79**	**100**
Additions	614	605
Utilization	597	(626)
At 31 December	**96**	**79**

23. COMMITMENTS AND CONTINGENCIES

Finance lease commitments

At 31 December 2017 the Company has finance lease commitments relating to the acquisition of 650 wagons, 4 motive power units and 2 freight road vehicles (753 wagons and 12 motive power units at 31 December 2016).

All leases are on a fixed repayment basis with floating interest rates derived from EURIBOR. 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 2017		31 December 2016	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Within one year	4,542	4,414	13,371	13,069
After one year but not more than five years	4,215	4,134	5,642	5,496
More than five years	-	-	-	-
Total minimum lease payments	**8,757**	**8,548**	**19,013**	**18,565**
Less: future finance charges	(209)	-	(448)	-
Present value of minimum lease payments	**8,548**	**8,548**	**18,565**	**18,565**

Operating lease commitments

At 31 December 2017 the Company has operating lease for a fixed period including mainly wagons, motor vehicles and other equipment.

In thousands of EUR	31 December 2017	31 December 2016
Operating lease of wagons	41,075	41,603
Operating lease of motor vehicles	355	486
Operating lease of other equipment	158	158
	41,588	**42,247**

Future minimum lease payments under operate leases, together with the present value of net minimum lease payments are as follows:

In thousands of EUR	31 December 2017	31 December 2016
Within one year	41,908	40,247
After one year but not more than five years	178,779	191,823
More than five years	-	15,814
	220,687	**247,884**

Investing commitments

The Company's investment expenditure for the period from 1 January 2018 to 31 December 2018 (1 January 2017 to 31 December 2017) is as follows:

In thousands of EUR	31 December 2017	31 December 2016
Land and buildings	2,847	-
Machines, equipment and other assets	202	2,124
Intangible assets	480	-
	3,529	**2,124**

Expenditures of EUR 3,529 thousand (EUR 2,124 thousand at 31 December 2016) 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 8 November 2016 in which rejected the charge in its entirety. ČD CARGO, a. s. is obliged to pay lawsuit costs an amount of EUR 106 thousand. The lawsuit has been lawfully completed. ČD CARGO, a. s. has filed an extraordinary appeal against the final ruling within a legal period in 2017. The Supreme Court of the Slovak Republic issued a resolution which rejected the applicant´s appeal on 30 October 2017.The applicant filed a constitutional complaint, which has not been decided yet.

24. RELATED PARTY DISCLOSURES

Related parties of the Company comprise of all companies under same ownership (meaning under the control of the State), the Company's joint ventures 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 2017 and 2016:

In thousands of EUR	31 December 2017			
Related party	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
ŽSR	608	57,348	16	22,834
ZSSK	14,338	3,431	1,925	536
Slovenský plynárenský priemysel	-	1,341	-	199
Cargo Wagon, a. s. (joint venture)	978	35,309	11,617	4,594
BTS (joint venture)	853	10,338	130	2,288
Other related parties	571	589	18	4

In thousands of EUR	31 December 2016			
Related party	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
ŽSR	1,022	60,197	110	32,241
ZSSK	13,307	3,564	1,263	443
Slovenský plynárenský priemysel	-	1,326	-	226
Cargo Wagon, a. s. (joint venture)	744	35,422	10,928	4,442
BTS (joint venture)	1,305	523	144	368
Other related parties	667	2,353	22	4

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 of 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.

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 2017 are as follows:

Board of Directors:	Ing. Martin Vozár, MBA, chairman (since 7 July 2016)
	Ing. Miroslav Hopta, vice-chairman (since 30 May 2016)
	Ing. Róbert Nemčík, PhD., member (since 8 July 2016)
	Ing. Ľubomír Kuťka, member (since 28 July 2016)
	Ing. Jaroslav Daniška, member (since 30 May 2016 till 20 October 2017)
Supervisory Board:	Ing. Ján Lupták (since 12 October 2017)
	Ing. Jaroslav Mikla (since 25 October 2017)
	Ing. Bartolomej Kun (since 1 January 2015)
	Mgr. Zita Verčíková (since 1 January 2015)
	Ing. Ivan Gránsky (since 13 July 2016)
	Ing. Martin Čatloš, chairman (since 15 August 2012 till 15 August 2017)
	Ing. Radovan Majerský, PhD. (since 15 August 2012 till 15 August 2017)
	Ing. Štefan Hlinka (since 15 August 2012 till 15 August 2017)

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

The Board of Directors' total remuneration approximated EUR 50 thousand (EUR 38 thousand in 2016). The total remuneration of members of the Supervisory Board amounted to EUR 27 thousand (EUR 24 thousand in 2016).

Loans granted

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

25. FINANCIAL RISK MANAGEMENT

The Company's principal financial liabilities comprise of interest-bearing loans and borrowings, overdrafts and trade payables. The main purpose of these financial liabilities is to raise financing 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 reviewed and agreed 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 2017	31 December 2016
EURIBOR (+0.5%)	(315)	(460)
EURIBOR (-0.5%)	-	-

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 2017 and 2016 consist of the following:

In thousands of EUR	31 December 2017	31 December 2016
Long-term loan facilities available	20,750	-
Short-term loan facilities available	39,154	36,511
Total loan facilities available	**59,904**	**36,511**

As at 31 December 2017 the Company did not have any banks guarantees (EUR 0 thousand at 31 December 2016).

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2017 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
Long-term loans	-	-	-	10,728	-	**10,728**
Trade and other payables	1,474	50,359	8,054	10,998	-	**70,885**
Obligations under finance leases	-	286	4,128	4,134	-	**8,548**
Short-term loans	-	9,472	46,809	12,980	-	**69,261**
	1,474	60,117	58,991	38,840	-	**159,422**

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2016 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
Long-term loans	-	-	-	8,798	-	**8,798**
Trade and other payables	871	48,997	10,001	16,546	-	**76,415**
Obligations under finance leases	-	865	12,204	5,496	-	**18,565**
Short-term loans	-	-	54,606	7,159	-	**61,765**
	871	49,862	76,811	37,999	-	**165,543**

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, U. S. Steel Košice, s.r.o., BUDAMAR LOGISTICS, a.s. and ŠPED-TRANS (U. S. Steel Košice, s.r.o., BUDAMAR LOGISTICS, a.s., Express Slovakia in 2016), sales to which represent 58% of transport and related revenues (59% in 2016), 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 2017 and 31 December 2016.

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 thousands of EUR	31 December 2017	31 December 2016
Long-term debt, net of current portion (excluding subordinated debt and finance lease obligations)	10,728	8,798
Short-term debt, including current portion of long-term debt (excluding finance lease obligations)	69,261	61,765
Debt	**79,989**	**70,563**
Equity	**114,487**	**114,338**
Debt to equity ratio (%)	**70%**	**62%**

26. EVENTS AFTER THE BALANCED SHEET DATE

No events occurred subsequent to 31 December 2017 that might have a material effect on the fair presentation of the matters disclosed in these financial statements.

Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 24 April 2018.

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

YEAR ENDED 31 DECEMBER 2017

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Independent Auditor's Report

To the Shareholder, Supervisory Board and Board of Directors of Železničná spoločnosť Cargo Slovakia, a.s.:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Železničná spoločnosť Cargo Slovakia, a.s. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group give a true and fair view of the financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS EU").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Statutory Audit No 423/2015 Coll. and on amendments to the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Statutory Audit") related to ethics, including Auditor's Code of Ethics, that are relevant to our audit of the consolidated financial statements, and we have fulfilled other requirements of these provisions related to ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 21 to the consolidated financial statements, the Group recorded provisions of EUR 21,889 thousand as at 31 December 2017 and EUR 22,154 thousand as at 31 December 2016 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 Group's financial results in future accounting periods.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management responsible for the preparation of the consolidated financial statements that give true and fair view in accordance with IFRS EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements including the presented information as well as whether the consolidated financial statements captures the underlying transactions and events in a manner that leads to their fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other

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matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

Report on Information Disclosed in the Annual Report

Management is responsible for the information disclosed in the annual report, prepared based on requirements of the Act on Accounting No 431/2002 Coll., as amended by later legislation ("the Act on Accounting"). Our opinion on the consolidated financial statements expressed above does not apply to other information contained in the annual report.

In connection with audit of the consolidated financial statements it is our responsibility to understand the information disclosed in the annual report and to consider whether such information is not materially inconsistent with audited consolidated financial statements or our knowledge obtained in the audit of the consolidated financial statements, or otherwise appears to be materially misstated.

We considered whether the Group's annual report contains information, disclosure of which is required by the Act on Accounting.

Based on procedures performed during the audit of consolidated financial statements, in our opinion:

- Information disclosed in the annual report prepared for 2017 is consistent with the consolidated financial statements for the relevant year,
- The annual report contains information based on the Act on Accounting.

Additionally, based on our understanding of the Group and its situation, obtained in the audit of the consolidated financial statements, we are required to disclose whether material misstatements were identified in the annual report, which we received prior to the date of issue of this auditor's report. In this regard, there are no findings which we should disclose.

24 April 2018
Bratislava, Slovak Republic

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

Ing. Peter Uram-Hrišo, statutory auditor
UDVA Licence No. 996

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of EUR	Note	31 December 2017	31 December 2016
Revenues			
Transportation and related revenues	3	269,359	265,392
Other revenues	4	13,064	12,644
		282,423	**278,036**
Costs and expenses			
Consumables and services	5	(161,409)	(155,375)
Staff costs	6	(91,517)	(91,147)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	12, 13	(27,751)	(28,395)
Other operating revenues (expenses), net	7	(478)	(1,370)
		(281,155)	**(276,287)**
Finance costs			
Interest expense	8	(1,699)	(2,164)
Other finance revenues (costs), net	9	626	570
Share of the profit of the joint ventures	14	1,271	699
		198	**(895)**
Income tax	11	(47)	(33)
Profit (Loss) for the period		**1,419**	**821**
Other comprehensive income for the period		-	-
Total comprehensive income for the period		**1,419**	**821**

Profit attributable to:		
Shareholder of the Company	1,419	821
Non-controlling interest of other owners of subsidiaries	-	-

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 24 April 2018.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of EUR	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	13	249,114	260,648
Intangible assets	12	9,846	9,649
Group loans	16, 24	11,517	10,908
Investment in joint ventures	14	11,445	10,174
Other non-current assets	10	494	492
		282,416	**291,871**
Current assets			
Inventories	15	6,643	6,487
Trade and other receivables	16	52,111	47,681
Cash and cash equivalents	17	292	149
		59,046	**54,317**
TOTAL ASSETS		**341,462**	**346,188**
EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital	18	401,646	401,646
Legal reserve fund	18	46	34
Other funds	18	1,228	1,228
Accumulated losses	18	(283,235)	(284,642)
Total equity		**119,685**	**118,266**
Non-current liabilities			
Interest-bearing loans and borrowings	19	10,728	8,798
Employee benefits	20	14,360	14,895
Provisions	21	44,745	43,902
Trade and other payables	22	10,998	16,546
Finance lease liabilities	23	4,134	5,496
Other non-current liabilities	22	96	79
		85,061	**89,716**
Current liabilities			
Interest-bearing loans and borrowings	19	69,261	61,765
Employee benefits	20	910	929
Provisions	21	2,245	2,574
Trade and other payables	22	59,886	59,869
Finance lease liabilities	23	4,414	13,069
		136,716	**138,206**
Total liabilities		**221,777**	**227,922**
TOTAL EQUITY AND LIABILITIES		**341,462**	**346,188**

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 24 April 2018.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of EUR	Share capital		Other funds	Accumulated losses	Total
At 1 January 2016	**401,646**	**26**	**1,228**	**(285,455)**	**117,445**
Loss for the period	-	-	-	821	**821**
Other comprehensive income	-	-	-	-	**-**
Total comprehensive income	-	-	-	821	**821**
Legal reserve fund	-	8	-	(8)	**-**
At 31 December 2016	**401,646**	**34**	**1,228**	**(284,642)**	**118,266**
Profit for the period	-	-	-	1,419	**1,419**
Other comprehensive income	-	-	-	-	**-**
Total comprehensive income	-	-	-	1,419	**1,419**
Legal reserve fund	-	12	-	(12)	**-**
At 31 December 2017	**401,646**	**46**	**1,228**	**(283,235)**	**119,685**

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 24 April 2018.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

In thousands of EUR	Note	31 December 2017	31 December 2016
Cash flows from operating activities			
Profit / (Loss) before tax		**1,466**	**854**
Adjustments for:			
Non-cash items			
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	12, 13	27,751	28,395
Gain on sale of property, plant and equipment	7	(1,615)	(1,081)
Allowance of receivables and inventories	15, 16	(21)	611
Interest expense	8	1,699	2,164
Interest income and shares of profits		(609)	(610)
Share of the profit of the joint ventures		(1,271)	(699)
Movements in provisions and employee benefits		(40)	703
Other non-cash items	4, 14	-	2
		27,360	**30,339**
Working capital adjustments			
Decrease in inventories		(569)	452
Decrease (increase) in trade and other receivables		(3,999)	(6,182)
Increase (decrease) in trade and other payables		(5,936)	(6,451)
Cash flows from operating activities		**16,856**	**18,158**
Income tax paid	11	(47)	(1,420)
Net cash flows from operating activities		**16,809**	**16,738**
Investing activities			
Purchase of property, plant and equipment	12, 13	(16,535)	(14,688)
Proceeds from sale of property, plant and equipment		1,744	1,418
Net cash flows from (used in) investing activities		**(14,791)**	**(13,270)**
Financing activities			
Proceeds from loans and borrowings	19	9,250	3,000
Repayment of loans and borrowings	19	(2,182)	(2,118)
Interest paid		(1,284)	(1,701)
Payments of finance lease liabilities	23	(10,017)	(11,961)
Net cash flows used in financing activities		**(4,233)**	**(12,780)**
Net (decrease) increase in cash and cash equivalents		**(2,215)**	**(9,312)**
Cash and cash equivalents at 1 January	**17**	**(49,434)**	**(40,122)**
Cash and cash equivalents at 31 December	**17**	**(51,649)**	**(49,434)**

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 24 April 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

formation 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, Company ID 35 914 921, Tax identification number 20 219 200 65.

The Slovak Republic is the sole shareholder of the Company through the Ministry of Transport and Construction of the Slovak Republic ("MTC") 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

The Group consists of the Company, joint ventures and a subsidiary.

These consolidated 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 consolidated financial statements were approved and authorized for issue by the Board of Directors on 24 April 2018. The General Meeting held on 14 June 2017 approved the Group's financial statements for the previous accounting period.

The consolidated 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 2017 to 31 December 2017.

The consolidated financial statements were prepared using the going concern assumption that the Group will continue its operations for the foreseeable future. The Group reported a profit of EUR 1,419 thousand for the year and total accumulated loss of EUR 283,235 thousand.

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 Group. 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 Group 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 Group established two subsidiaries Cargo Wagon, a. s. and ZSSK CARGO Intermodal, a. s. in 2013. The Group 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. acquired 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 were signed in May 2015– 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 used to finance the purchase of railway carriages. Whole transaction was completed on 10 July 2015, when ZSSK CARGO received a payment for the sale of carriages of EUR 216.6 million (incl. VAT) which was used to decrease Group´s debt. The Group began to lease a significant part of its freight wagons. Regarding ZSSK CARGO Intermodal, a. s. the Group has closed the international tender without selecting a qualified partner in 2015. The Group will support activities of intermodal activities within ZSSK CARGO.

The successful rail freight transport consolidation, with the goal being the achievement of balanced results in the mid-term while continuing to implement internal measures, which should increase the productivity and effectivity of internal processes, considering the decreasing transports and fiercer competition will depend on additional supporting measures and a new regulatory framework for rail freight transporters and the fee set for the usage of rail infrastructure after the year 2017. In 2018 with outlook for 2019-2020 the support for rail freight transport in Slovakia continues in form of reduced network fees.

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

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

Statement of compliance

These consolidated 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 Group's activities, there is no difference between the IFRS policies applied by the Group and those adopted by the European Union.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been endorsed for use in the EU and that are relevant to its operations and effective for accounting periods beginning on 1 January 2017. The following standards, amendments and improvements issued by the IASB and adopted by the EU are effective for the current accounting period:

- IAS 12 Income taxes - Amendment to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses - effective for financial years beginning on 1 January 2017;
- IFRS 7 Financial Instruments – Amendment to IAS 7 Disclosure Initiative – effective for financial year beginning on 1 January 2017;
- Improvements to IFRS Project Cycle 2014 – 2016 - effective for financial years beginning on 1 January 2017 – improvements has not yet been endorsed by the EU;
- IFRS 12 Disclosure of Interests in Other Entities.

International standards, interpretations and amendments to published standards that have been published and are not effective yet

- IFRS 9 - Financial Instruments – Classification and Measurement - effective for financial years beginning on or after 1 January 2018, with early application permitted;
- IFRS 15 Revenue from Contracts with Customers - effective for financial years beginning on or after 1 January 2018;
- IFRS 15: Revenue from Contracts with Customers (Clarifications) - effective for financial years beginning on or after 1 January 2018, with earlier application permitted;
- IFRS 16: Leases – effective for financial years beginning on or after 1 January 2019;
- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – amendments have not yet been endorsed by the EU;
- IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments) – Amendments have not yet been endorsed by the EU;
- IAS 40: Investment Property (Amendments) - effective for financial years beginning on or after 1 January 2018 – Amendments have not yet been endorsed by the EU;
- IFRS 9 - Financial Instruments Financial instruments – Prepayments features with negative compensa-

tion (Amendment) – effective for financial years beginning on or after 1 January 2019 with earlier application permitted – Amendments have not yet been endorsed by the EU:

- IAS 28: Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures (Amendments) – effective for financial years on or after 1 January 2019 with earlier application permitted – Amendments have not yet been endorsed by the EU;
- IFRIC 22 INTERPRETATION — Foreign Currency Transactions and Advance Consideration – Interpretation is effective for financial years on or after 1 January 2018 with earlier application permitted – Interpretation has not yet been endorsed by the EU`;
- Improvements to IFRS Project Cycle 2014 – 2016 - effective for financial years beginning on or after 1 January 2018 – Improvements have not yet been endorsed by the EU;
  - IFRS 1 — First-time Adoption of International Financial Reporting Standards
  - IAS 28 Investments in Associates and Joint Ventures
- IFRIC 23 INTERPRETATION – Uncertainty over income Taxes Treatments – effective for financial year beginning on or after 1 January 2019 – Interpretation has not yet been endorsed by the EU;
- Improvements to IFRS Project Cycle 2015 – 2017 – effective for financial years beginning on or after 1 January 2019 – Improvements have not yet been endorsed by the EU:
  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements
  - IAS 12 Income Taxes
  - IAS 23 Borrowing Costs

If not otherwise stated, the Company anticipates that the adoption of these standards, amendments to the existing standards, and interpretations will not have material impact on its financial statements.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgments in applying accounting policies

In the process of applying accounting policies, Group's 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. Group's 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 Group 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 Group 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 Group 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 Group 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 Group has entered into lease arrangements by which it leases railway wagons to other transport networks and third parties. The Group 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 Group 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

Group's 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 Group determines at each reporting date whether there is an indication that items of property, plant and equipment are impaired. Where such indications exist, the Group 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 Group 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.

Functional and presentation currency

These consolidated financial statements are presented in euro, which is the Group'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 Group 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 Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group 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 Group 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 subsidiary

Securities and interests in joint ventures and subsidiary 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 Group'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 Group 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 Group 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 Group 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 2017 and 2016, 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 Group 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 2017 and 2016, 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 Group 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 Group'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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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

The Group 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 Group 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 Group 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 Group'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 Group 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 Group revokes the designation.

Cash flow hedge

Cash flow hedge is a hedge of the Group'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 2017 and 2016, 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 Group 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 Group has no obligation to contribute to these schemes beyond the statutory rates in force.

Also, the Group 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 Group'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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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.

In line with Act No. 235/2012 Coll., on a Special Levy on Business in Regulated Industries and on the Amendment to and Supplementation of Certain Acts, the Group is obliged to pay a monthly special levy effective from September 2012. This levy is based on the profit before tax and is presented as a part of the current income tax pursuant to the IFRS requirements.

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.

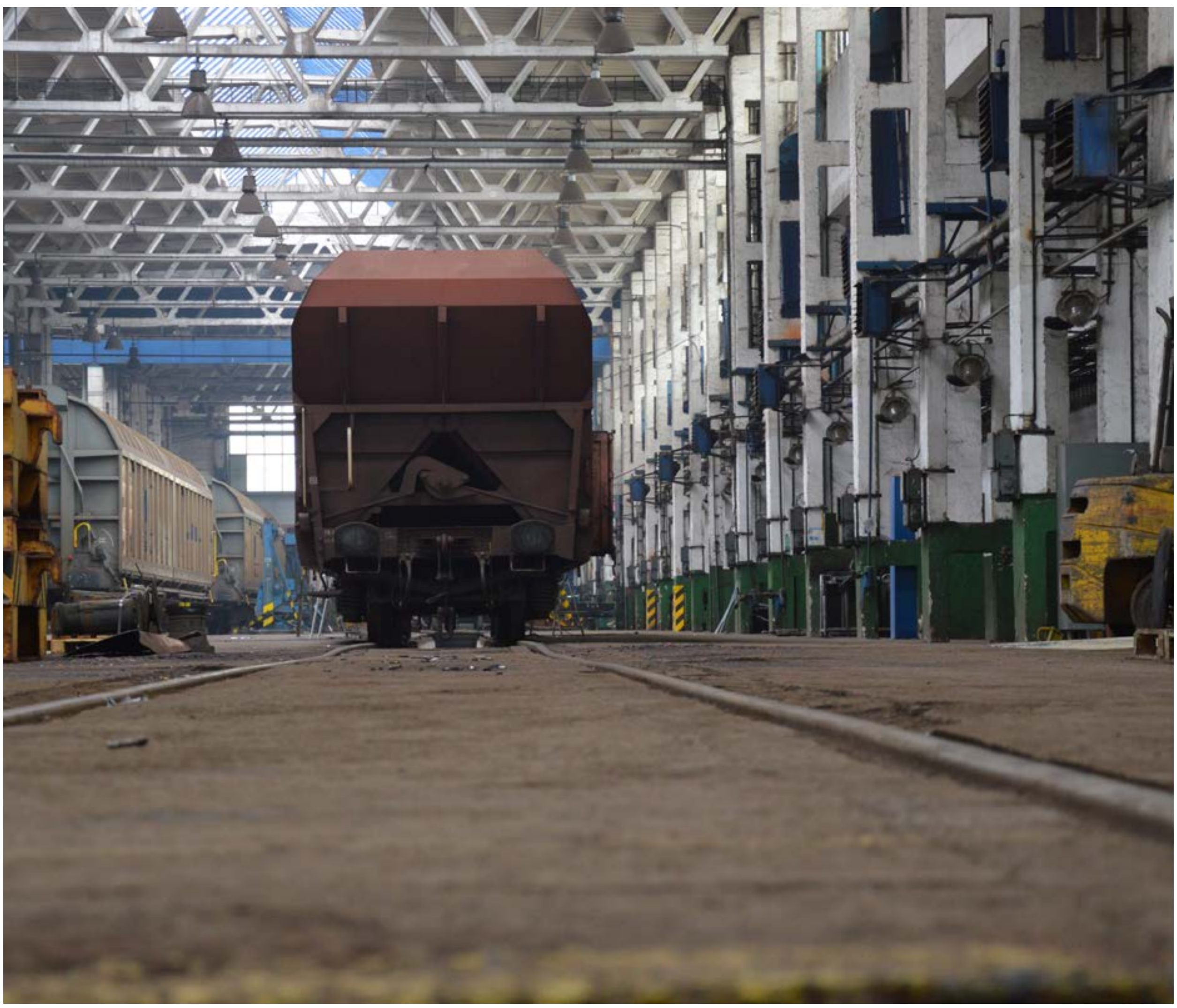
Deferred tax liabilities are recognised for all taxable temporary differences.

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 2017	31 December 2016
Inland transport:		
Transport of goods	31,282	33,150
Wagon deposition	8,493	6,450
Haulage fees	1,141	1,317
	40,916	**40,917**
International transport:		
Import	94,976	89,231
Export	102,733	100,767
Transit	12,526	15,597
	210,235	**205,595**
Other transport related revenues:		
Usage of wagons under RIV, PGV and AVV regimes	10,184	11,571
Wagon rentals	2,322	2,046
Cross-border services	3,072	3,357
Other	2,630	1,906
	18,208	**18,880**
	269,359	**265,392**

4. OTHER REVENUES

In thousands of EUR	31 December 2017	31 December 2016
Repairs and maintenance	6,187	5,599
Operational performance	2,115	2,206
Property rentals	2,320	2,322
Other	2,442	2,517
	13,064	**12,644**

Other revenues included revenues charged to ZSSK of EUR 6,369 thousand (2016: EUR 5,850 thousand) for repair and maintenance, operational performance, property rental and other support services.

5. CONSUMABLES AND SERVICES

In thousands of EUR	31 December 2017	31 December 2016
Wagon rentals	(41,500)	(41,372)
Traction electricity	(26,044)	(27,047)
Network fees	(25,322)	(27,194)
Traction crude oil	(10,858)	(10,126)
Third party transhipment services	(10,054)	(254)
Foreign segments	(8,122)	(7,287)
Materials	(7,693)	(8,580)
Repair and maintenance	(6,817)	(7,553)
IT services and telecommunication charges	(6,684)	(6,878)
Other energy costs	(4,060)	(4,140)
Rentals	(3,657)	(3,433)
Cross-border services	(3,579)	(4,029)
Travelling and entertainment	(1,272)	(1,186)
Security services	(1,240)	(1,221)
Cleaning of cars, property, waste disposal	(692)	(862)
Advisory and consultancy fees	(662)	(359)
Training	(374)	(428)
Medical care	(305)	(337)
Other	(2,474)	(3,089)
	(161,409)	**(155,375)**

Consumables and services include amounts charged by ŽSR of EUR 57,183 thousand (2016: EUR 60,197 thousand), primarily relating to the usage of ŽSR's network (the Group 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 24).

6. STAFF COSTS

In thousands of EUR	31 December 2017	31 December 2016
Wages and salaries	(63,567)	(62,622)
Social security costs	(26,973)	(26,980)
Employee benefits (Note 20)	(293)	(2,738)
Termination payments (Note 21)	(684)	1,193
	(91,517)	**(91,147)**

Employee numbers at 31 December 2017 were 5,632 (2016: 5,794), thereof seven were members of management (as members of the Board of Directors or directors of individual departments). Average employee numbers at 31 December 2017 were 5,738 (2016: 5,932).

The average salary in 2017 amounted to EUR 954 (2016: EUR 913).

7. OTHER OPERATING REVENUES (EXPENSES), NET

In thousands of EUR	31 December 2017	31 December 2016
Profit on sale of property, plant, equipment and inventories	2,713	1,686
Provision for legal cases and other provisions (Note 21)	(2,338)	(1,063)
Allowance for doubtful debts	82	(146)
Insurance of assets	(1,017)	(1,140)
Other	82	(707)
	(478)	**(1,370)**

8. INTEREST EXPENSE

In thousands of EUR	31 December 2017	31 December 2016
Interest on loans and borrowings	(960)	(974)
Interest charges on finance lease liabilities	(349)	(693)
Unwinding of discount on provisions and employee benefits	(379)	(497)
Other	(11)	-
	(1,699)	**(2,164)**

9. OTHER FINANCE REVENUES (COSTS), NET

In thousands of EUR	31 December 2017	31 December 2016
Foreign exchange losses, net	63	(5)
Other revenues (costs), net	563	575
	626	**570**

10. OTHER NON-CURRENT ASSETS

In thousands of EUR	31 December 2017	31 December 2016
Advanced payments	480	480
Accrued costs	14	12
	494	**492**

11. INCOME TAX

The reported income tax represents a withholding tax paid abroad in the amount of EUR 44 thousand and tax license in the amount of EUR 3 thousand. (2016: EUR 30 thousand and EUR 3 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 2017	31 December 2016
Profit (Loss) before tax	1,466	854
Tax charge at statutory tax rate of 21% (2016: 21%)	308	179
Tax paid abroad and tax license	(47)	(33)
Forfeit tax loss carry forwards	17	31
Unrecognized deferred tax asset (incl. impact of change in tax rate)	(2,112)	(1,935)
Non-deductible expenses	1,787	1,725
Total income tax	**(47)**	**(33)**

Deferred tax assets and liabilities at 31 December related to the following (for the year ended 31 December 2017 an income tax rate of 21% applicable in future accounting period was used, for the year ended 31 December 2016: 21%):

In thousands of EUR	31 December 2017	31 December 2016
Deferred tax assets		
Tax loss carried forward	982	1,963
Provision for environmental matters	4,597	4,652
Provision for employee benefits	3,036	3,323
Allowance for trade and other receivables	781	872
Allowance for inventories	349	262
Provision for legal cases	4,004	3,720
Termination payments	186	314
Other overdue liabilities (over 36 months)	2,260	3,796
Other	6,749	7,667
	22,944	**26,569**
Deferred tax liabilities		
Accelerated depreciation for tax purposes (net of value adjustments)	(449)	(2,207)
Deferred tax on revaluation of joint venture	(345)	(78)
Other	(30)	(52)
	(824)	**(2,337)**
Valuation allowance	**(22,120)**	**(24,232)**
Net deferred tax assets (liabilities)	**-**	**-**

A valuation allowance of EUR 22,120 thousand (2016: EUR 24,232 thousand) has been recognised for temporary deductible differences due to uncertainty as to the realization of tax benefits in future years. The Group 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.

Under Slovak tax legislation, the Group lost tax losses from 2009 of EUR 114,153 € in 2014.

Other tax liabilities as advances on employee income tax, property tax, etc. are reported under other liabilities in note 22.

12. INTANGIBLE ASSETS

In thousands of EUR	Software	Assets under construction	Total
Acquisition cost			
At 1 January 2017	**31,563**	**675**	**32,238**
Additions	-	1,670	1,670
Disposals	-	-	-
Transfers	2,059	(2,059)	-
At 31 December 2017	**33,622**	**286**	**33,908**
Accumulated amortization			
At 1 January 2017	**(22,589)**	**-**	**(22,589)**
Charge for the period	(1,473)	-	(1,473)
Disposals	-	-	-
At 31 December 2017	**(24,062)**	**-**	**(24,062)**
Net book value at 31 December 2017	**9,560**	**286**	**9,846**

In thousands of EUR	Software	Assets under construction	Total
Acquisition cost			
At 1 January 2016	**31,841**	**227**	**32,068**
Additions	-	1,000	1,000
Disposals	(830)	-	(830)
Transfers	552	(552)	-
At 31 December 2016	**31,563**	**675**	**32,238**
Accumulated amortization			
At 1 January 2016	**(21,938)**	**-**	**(21,938)**
Charge for the period	(1,481)	-	(1,481)
Disposals	830	-	830
At 31 December 2016	**(22,589)**	**-**	**(22,589)**
Net book value at 31 December 2016	**8,974**	**675**	**9,649**

13. PROPERTY, PLANT AND EQUIPMENT

In thousands of EUR	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
Acquisition cost				
At 1 January 2017	**73,899**	**468,464**	**5,134**	**547,497**
Additions	-	-	14,865	14,865
Disposals	(3,999)	(14,056)	(52)	(18,107)
Transfers	262	14,673	(14,935)	-
At 31 December 2017	**70,162**	**469,081**	**5,012**	**544,255**
Accumulated depreciation				
At 1 January 2017	**(30,260)**	**(256,055)**	**(534)**	**(286,849)**
Additions	(1,589)	(25,425)	-	(27,014)
Disposals	3,985	13,929	-	17,914
Impairment loss	(404)	1,212	-	808
At 31 December 2017	**(28,268)**	**(266,339)**	**(534)**	**(295,141)**
Net book value at 31 December 2017	**41,894**	**202,742**	**4,478**	**249,114**

In thousands of EUR	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
Acquisition cost				
At 1 January 2016	**72,659**	**468,056**	**5,364**	**546,079**
Additions	-	112	13,576	13,688
Disposals	(379)	(11,729)	(162)	(12,270)
Transfers	1,619	12,025	(13,644)	-
At 31 December 2016	**73,899**	**468,464**	**5,134**	**547,497**
Accumulated depreciation				
At 1 January 2016	**(28,294)**	**(242,665)**	**(534)**	**(271,493)**
Additions	(1,603)	(25,118)	-	(26,721)
Disposals	202	11,496	-	11,698
Impairment loss	(565)	232	-	(333)
At 31 December 2016	**(30,260)**	**(256,055)**	**(534)**	**(286,849)**
Net book value at 31 December 2016	**43,639**	**212,409**	**4,600**	**260,648**

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 Group 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 2017.

The impairment test required by IAS 36 was performed by management of the Group as at 31 December 2017. 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 Group 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 2018 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 5.90% used in the calculation was determined based on interest rates for incremental financing of fixed assets purchases by the Group 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 Group has decreased an impairment loss by EUR 808 thousand due to a lower usage of assets and a decrease of cash inflows mainly from a transport revenues' decrease in 2017 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 6,426 thousand (net book value EUR 4,025 thousand), wagons with an aggregate acquisition value of EUR 72,187 thousand (net book value EUR 51,669 thousand) and motor vehicles a total acquisition value of EUR 115 thousand (net book value EUR 107 thousand).

Property, plant and equipment in the ownership of the Company with a total acquisition value of EUR 709 thousand (EUR 709 thousand at 31 December 2016) and with a net book value of EUR 469 thousand (EUR 488 thousand at 31 December 2016) is registered by the State as protected for cultural purposes.

Since 1 January 2014 the Group´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 € thousand and (iii) to a maximum of EUR 306,148 thousand.

The gross carrying amount of any fully depreciated property, plant and equipment that is still in use, is EUR 26,609 thousand.

14. INVESTMENT IN JOINT VENTURES AND SUBSIDIARY

The Group 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 Group decided to consider this investment as a joint venture.

The Group has 34% share in Cargo Wagon, a. s. This investment is presented as a joint venture based on the agreed conditions of shareholder agreement.

Details of the Group's joint ventures and subsidiary as at 31 December 2017 are as follows:

Corporate name	Registration country	Ownership 2017	Carrying amount of investments 2017	Equity 2017	Profit / Loss 2017
Investment in joint ventures					
BULK TRANSSHIPMENT SLOVAKIA, a. s.	Slovak Republic	40%	2,829.5	23,023	2,307
Cargo Wagon, a. s.	Slovak Republic	34%	3,402.5	3,862	1,023
Total investments in joint ventures			**6,232**		
Investments in subsidiary					
ZSSK CARGO Intermodal, a. s.	Slovak Republic	100%	27.5	24	(1)

Details of the Group's joint ventures and subsidiarie at 31 December 2016 are as follows:

Corporate name	Registration country	Ownership 2016	Carrying amount of investment 2016	Equity 2016	Profit/ Loss 2016
Investment in joint ventures					
BULK TRANSSHIPMENT SLOVAKIA, a. s.	Slovak Republic	40%	2,829.5	20,726	2,285
Cargo Wagon, a. s.	Slovak Republic	34%	3,402.5	1,721	(1,381)
Total investment in joint ventures			**6,232**		
Investments in subsidiary					
ZSSK CARGO Intermodal, a. s.	Slovak Republic	100%	27.5	25	(1)

The Group 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. acquired 66% of share capital of Cargo Wagon, a. s. and the transaction was completed after the approval of Antimonopoly authorities in May 2015.

As of 31 December 2017 ZSSK CARGO Intermodal, a. s. is dormant with no operation.

The Group's share of assets and liabilities as at 31 December 2017 and 2016 and income and expenses for the years then ended of the BULK TRANSSHIPMENT SLOVAKIA, a. s. are as follows:

In thousands of EUR	31 December 2017	31 December 2016
Current assets	1,429	1,378
Non-current assets	14,908	14,641
Total assets	**16,337**	**16,019**
Current liabilities	1,762	2,505
Non-current liabilities	5,366	5,224
Total liabilities	**7,128**	**7,729**
Net assets	**9,209**	**8,290**

In thousands of EUR	31 December 2017	31 December 2016
Revenues	5,422	3,960
Costs	(4,239)	(2,783)
Profit before income tax	**1,183**	**1,177**
Income tax expense	(260)	(263)
Net profit (loss)	**923**	**914**

The Group's share of the assets and liabilities as at 31 December 2017 and 2016 and income and expenses for the years then ended of the Cargo Wagon, a. s. are as follows:

In thousands of EUR	31 December 2017	31 December 2016
Current assets	7,953	6,529
Non-current assets	45,788	50,736
Total assets	**53,741**	**57,265**
Current liabilities	7,199	1,989
Non-current liabilities	45,229	54,691
Total liabilities	**52,428**	**56,680**
Net assets	**1,313**	**585**

In thousands of EUR	31 December 2017	31 December 2016
Revenues	12,910	14,140
Costs	(12,472)	(14,607)
Profit before income tax	**438**	**(467)**
Income tax expense	(90)	(3)
Net profit (loss)	**348**	**(470)**

In 2013 ZSSK CARGO Intermodal, a. s. was founded with registered capital of EUR 25 thousand with 100% Company share and is recognized as a subsidiary and consolidated through the full consolidation.

As of 31 December 2017 the ZSSK CARGO Intermodal, a. s. is dormant with no operation.

15. INVENTORIES

In thousands of EUR	At cost 2017	At lower of cost or net realizable value 2017	At cost 2016	At lower of cost or net realizable value 2016
Machine and metal-working materials	3,587	2,927	3,143	2,700
Electrical materials	2,881	1,908	2,826	2,049
Chemicals and rubber	832	813	695	676
Diesel fuel	708	708	673	673
Protective tools	140	137	253	251
Other	157	150	146	138
	8,305	**6,643**	**7,736**	**6,487**

The Group expects to use up stocks amounted to EUR 20,532 thousand (2016: EUR 20,354 thousand) in a period of more than twelve months after the date of creation these financial statements.

16. TRADE AND OTHER RECEIVABLES

In thousands of EUR	31 December 2017	31 December 2016
Domestic trade receivables	34,260	29,718
Foreign trade receivables	15,351	15,381
VAT receivables	2,968	3,828
Other receivables	3,249	2,905
Allowance for impaired trade and other receivables	(3,717)	(4,151)
	52,111	**47,681**

At 31 December 2017 overdue receivables amounted to EUR 4,793 thousand (EUR 4,990 thousand at 31 December 2016).

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

For details of related party receivables, refer to Note 24.

The Group reported a long-term group loan in amount of 10,000 € to the joint venture Cargo Wagon, a. s. This loan is subordinate to long-term bank loans used for the purchase of freight wagons by the joint venture. Loan repayments and interest at 6% per annum subject to compliance with bank covenants under the terms of pari pass to the majority shareholder.

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
2017	**52,111**	48,264	3,847	-	-	-	-
2016	**47,681**	47,041	640	-	-	-	-

17. 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 2017	31 December 2016
Cash at banks and on hand and cash equivalents	292	149
Bank overdrafts	(51,941)	(49,583)
	(51,649)	**(49,434)**

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

Bank overdrafts as of 31 December are as follows:

	31 December 2017		31 December 2016	
In thousands of EUR	Overdraft limit	Drawn down	Overdraft limit	Drawn down
ING Bank N.V., pobočka z.b.	*20,000*	**12,980**	*20,000*	**12,166**
Všeobecná úverová banka, a. s.	*20,000*	**9,653**	*15,000*	**8,911**
Tatra banka, a. s.	*15,000*	**9,187**	*15,000*	**8,978**
Citibank Europe plc, poboč. zahr. banky.	*15,000*	**8,972**	*15,000*	**9,232**
Československá obchodná banka, a. s.	*10,000*	**5,812**	*10,000*	**5,319**
Slovenská sporiteľňa, a. s.	*10,000*	**5,337**	*10,000*	**4,977**
	90,000	**51,941**	**85,000**	**49,583**

18. SHAREHOLDER'S EQUITY

Share capital

Share capital represents the State's investment in the Group, held through MTC, made through the contribution of certain assets and liabilities of the Group'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 Group's incorporation, in accordance with Slovak legislation, a legal reserve fund was established at 10% of the Group's registered capital, again through an in-kind contribution. Slovak legislation requires that the legal reserve fund will be increased by amounts of at least equal to 10% of annual net profit up to an amount equal to 20% of the Group's registered capital. Under the Group'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 Group.

Other funds

Other funds represent the difference between the value of the assets and liabilities contributed by the State on the Group's incorporation and through an additional capital contribution made on 2 November 2005 and that of the Group'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 Group received an additional capital contribution of EUR 12,149 thousand from MTC, this being a previously unpaid part of the initial equity contribution made on the Group's incorporation. In addition, the Group 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 2016 statutory result was approved by the Company's General Meeting on 14 June 2017 and was booked in the amount of EUR 12 thousand to legal reserve fund and the amount of EUR 111 thousand was booked to accumulated losses.

19. INTEREST-BEARING LOANS AND BORROWINGS

In thousands of EUR	Maturity date	31 December 2017	31 December 2016
Long-term loans			
Secured			
ING Bank N.V., pobočka zahr. banky.	31 July 2019	8,798	10,980
Slovenská sporiteľňa, a. s.	30 June 2022	9,250	-
Total		**18,048**	**10,980**
of which			
Short-term portion of loans		**7,320**	**2,182**
Long-term portion of loans		**10,728**	**8,798**
Short-term loans			
Secured			
Privatbanka, a. s.	6 June 2018	10,000	10,000
Short-term loans		**10,000**	**10,000**
Short-term portion of loans (see above)		**7,320**	**2,182**
Overdrafts (Note 17)		**51,941**	**49,583**
Short-term portion of loans		**69,261**	**61,765**
Total		**79,989**	**70,563**

All loans are denominated in EUR, if not stated otherwise.

All loans presented in the table above are secured by promissory notes with a value of EUR 71,191 thousand (EUR 59,583 thousand at 31 December 2016), and with a nominal value of EUR 135,800 thousand (EUR 107,800 thousand as of 31 December 2016) 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” and represents reclassification of a finance lease contract which has been taken over by ING Group after the lessor ING Lease (C.R.) ceased its operation in Slovakia. A long-term loan provided by Slovenská sporiteľňa, a. s. is secured by a promissory note (principal) as well as by a lien on 6 locomotives (interest).

At 31 December 2017, the Group has no obligation to comply any covenants.

The fair value of interest-bearing loans and borrowings amounts to EUR 79,989 thousand (EUR 70,563 thousand at 31 December 2016).

All interest-bearing loans and borrowings bear floating interest which range from 0.950% to 2.700% (0.950% to 2.700% in 2016) except for the fixed interest loan from Privatbanka, a. s.

20. EMPLOYEE BENEFITS

In thousands of EUR	Retirement benefits	Jubilee payments	Disability benefits	Total
At 1 January 2017	**12,658**	**3,152**	**14**	**15,824**
Current service cost	470	115	-	585
Interest expense	203	50	-	253
Actuarial gains and losses	59	27	(1)	85
Utilization of benefits	(956)	(430)	(4)	(1,390)
Past service cost	(94)	5	2	(87)
At 31 December 2017	**12,340**	**2,919**	**11**	**15,270**
Current 31 December 2017	584	324	2	910
Non-current 31 December 2017	11,756	2,595	9	14,360
At 31 December 2017	**12,340**	**2,919**	**11**	**15,270**

In thousands of EUR	Retirement benefits	Jubilee payments	Disability benefits	Total
At 1 January 2016	**12,470**	**3,189**	**7**	**15,666**
Current service cost	462	115	-	577
Interest expense	299	76	-	375
Actuarial gains and losses	432	157	1	590
Utilization of benefits	(988)	(387)	(6)	(1,381)
Past service cost	(17)	2	12	(3)
At 31 December 2016	**12,658**	**3,152**	**14**	**15,824**
Current 31 December 2016	521	405	3	929
Non-current 31 December 2016	12,137	2,747	11	14,895
At 31 December 2016	**12,658**	**3,152**	**14**	**15,824**

The principal actuarial assumptions used were as follows:

	2017	2016
Discount rate (% p. a.)	1.75	1.60
Future salary increases (%)	3.00	3.00
Mortality probability (male) (%)	0.04 – 2.26	0.04 – 2.26
Mortality probability (female) (%)	0.02 – 0.88	0.02 – 0.88

Sensitivity analysis

A sensitivity analysis of the provision to changes in significant assumptions is shown in the table below:

In thousands of EUR	31 December 2017	Discount rate (1.00%)	Average income (1.00%)	Mortality (-10.00%)
Net liability from employee benefits	15,270	(1,225)	389	153

In thousands of EUR	31 December 2016	Discount rate (1.00%)	Average income (1.00%)	Mortality (-10.00%)
Net liability from employee benefits	15,824	(1,309)	404	160

21. PROVISIONS

In thousands of EUR	Environmental	Legal	Terminations	Other	Total
At 1 January 2017	**22,154**	**17,716**	**1,493**	**5,113**	**46,476**
Additions	-	1,351	885	1,014	3,250
Interest costs	-	-	24	102	126
Reversals	-	-	(490)	(27)	(517)
Utilization	(265)	-	(1,027)	(1,053)	(2,625)
Transfers	-	-	-	-	280
At 31 December 2017	**21,889**	**19,067**	**885**	**5,149**	**46,990**
Current 31 December 2017	280	-	885	1,080	2,245
Non-current 31 December 2017	21,609	19,067	-	4,069	44,745
At 31 December 2017	**21,889**	**19,067**	**885**	**5,149**	**46,990**

In thousands of EUR	Environmental	Legal	Terminations	Other	Total
At 1 January 2016	**22,242**	**16,636**	**981**	**6,073**	**45,932**
Additions	-	1,100	1,493	-	2,593
Interest costs	-	-	-	121	121
Reversals	-	-	(300)	(37)	(337)
Utilization	(88)	(20)	(681)	(1,044)	(1,833)
At 31 December 2016	**22,154**	**17,716**	**1,493**	**5,113**	**46,476**
Current 31 December 2016	-	-	1,493	1,081	2,574
Non-current 31 December 2016	22,154	17,716	-	4,032	43,902
At 31 December 2016	**22,154**	**17,716**	**1,493**	**5,113**	**46,476**

Environmental matters

In 2016, the Group 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. As a result of this analysis, and based on the findings of Centrum environmentalnych sluzieb, s. r. o., the Group has estimated that costs of EUR 21,889 thousand (EUR 22,154 thousand at 31 December 2016) are required to remedy the significant environmental issues relating to water, oil and fuel management identified in the past.

Their exact estimates are not necessarily accurate due to several uncertainties involving 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 Group in future periods.

Expenditures will be incurred in 2019 – 2020. A discount rate of 2.00 % p. a. was used in the calculation.

Legal claims

Provisions for legal claims relate to a number of claims, the most significant one is REFIN B.A., Ltd. in the amount of EUR 9,842 thousand.

Other

The provision relates to one long-term contract for leasing wagons which has been partially classified as an onerous contract.

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

In thousands of EUR	31 December 2017	31 December 2016
Domestic trade payables	48,762	53,891
Foreign trade payables	6,965	7,719
Payables due to employees	6,582	6,102
Payables due to social institutions	3,767	3,516
Other payables	4,808	5,187
	70,884	**76,415**

At 31 December 2017 overdue trade payables amounted to EUR 1,474 thousand (EUR 871 thousand at 31 December 2016). For details of related party payables, refer to Note 24.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 2017	31 December 2016
At 1 January	**79**	**100**
Additions	614	605
Utilization	597	(626)
At 31 December	**96**	**79**

23. COMMITMENTS AND CONTINGENCIES

Finance lease commitments

At 31 December 2017 the Group has finance lease commitments relating to the acquisition of 650 wagons, 4 motive power units and 2 freight road vehicles (753 wagons and 12 motive power units at 31 December 2016).

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

	31 December 2017		31 December 2016	
In thousands of EUR	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Within one year	4,542	4,414	13,371	13,069
After one year but not more than five years	4,215	4,134	5,642	5,496
More than five years	-	-	-	-
Total minimum lease payments	**8,757**	**8,548**	**19,013**	**18,565**
Less: future finance charges	(209)	-	(448)	-
Present value of minimum lease payments	**8,548**	**8,548**	**18,565**	**18,565**

Operating lease commitments

At 31 December 2017 the Group has operating lease for fixed period including mainly wagons, motor vehicles and other equipment.

In thousands of EUR	31 December 2017	31 December 2016
Operating lease of wagons	41,075	41,603
Operating lease of motor vehicles	355	486
Operating lease of other equipment	158	158
	41,588	**42,247**

Future minimum lease payments under operate leases, together with the present value of net minimum lease payments are as follows:

In thousands of EUR	31 December 2017	31 December 2016
Within one year	41,908	40,247
After one year but not more than five years	178,779	191,823
More than five years	-	15,814
	220,687	**247,884**

Investing commitments

The Group's investment expenditure for the period from 1 January 2018 to 31 December 2018 (1 January 2017 to 31 December 2017) is as follows:

In thousands of EUR	31 December 2017	31 December 2016
Land and buildings	2,847	-
Machines, equipment and other assets	202	2,124
Intangible assets	480	-
	3,529	**2,124**

Expenditures of EUR 3,529 thousand (EUR 2,124 thousand at 31 December 2016) are committed under contractual arrangements.

Contingent liabilities

ČD CARGO, a. s. filed a lawsuit against the Group claiming an amount of EUR 1,508 thousand (including interest) in respect of unpaid VAT related to the Group'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 8 November 2016 in which rejected the charge in its entirety. ČD CARGO, a. s. is obliged to pay lawsuit costs an amount of EUR 106 thousand. The lawsuit was definitively completed. ČD CARGO, a. s. has filed an extraordinary appeal against the final ruling with a legal period in 2017. The Supreme Court of the Slovak Republic issued a resolution which rejected the applicant´s appeal on 30 October 2017. The applicant filed a constitutional complaint, which has not been decided yet.

24. RELATED PARTY DISCLOSURES

Related parties of the Group comprise of all companies under same ownership (meaning under the control of the State), the Group's joint ventures 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 2017 and 2016:

In thousands of EUR	31 December 2017			
Related party	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
ŽSR	608	57,348	16	22,834
ZSSK	14,338	3,431	1,925	536
Slovenský plynárenský priemysel	-	1,341	-	199
Cargo Wagon, a. s. (joint venture)	978	35,309	11,617	4,594
BTS (joint venture)	853	10,338	130	2,288
Other related parties	571	589	18	4

In thousands of EUR	31 December 2016			
Related party	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
ŽSR	1,022	60,197	110	32,241
ZSSK	13,307	3,564	1,263	443
Slovenský plynárenský priemysel	-	1,326	-	226
Cargo Wagon, a. s. (joint venture)	744	35,422	10,928	4,442
BTS (joint venture)	1,305	523	144	368
Other related parties	667	2,353	22	4

The Group'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 of 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.

Statutory and supervisory bodies

Members of the Group's statutory and supervisory bodies as registered in the Commercial Register at the District Court Bratislava I at 31 December 2017 are as follows:

Board of Directors:
Ing. Martin Vozár, MBA, chairman (since 7 July 2016)
Ing. Miroslav Hopta, vice-chairman (since 30 May 2016)
Ing. Róbert Nemčík, PhD., member (since 8 July 2016)
Ing. Ľubomír Kuťka, member (since 28 July 2016)
Ing. Jaroslav Daniška, member (since 30 May 2016 till 20 October 2017)

Supervisory Board:
Ing. Ján Lupták (since 12 October 2017)
Ing. Jaroslav Mikla (since 25 October 2017)
Ing. Bartolomej Kun (since 1 January 2015)
Mgr. Zita Verčíková (since 1 January 2015)
Ing. Ivan Gránsky (since 13 July 2016)
Ing. Martin Čatloš, chairman (since 15 August 2012 till 15 August 2017)
Ing. Radovan Majerský, PhD. (since 15 August 2012 till 15 August 2017)
Ing. Štefan Hlinka (since 15 August 2012 till 15 August 2017)

ZSSK CARGO

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

The Board of Directors' total remuneration approximated EUR 50 thousand (EUR 38 thousand in 2016). The total remuneration of members of the Supervisory Board amounted to EUR 27 thousand (EUR 24 thousand in 2016).

Loans granted

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

25. FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities comprise of interest-bearing loans and borrowings, overdrafts and trade payables. The main purpose of these financial liabilities is to raise financing for the Group's operations. The Group 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 Group's financial instruments are interest rate risk, liquidity risk and credit risk. The Board of Directors reviewed and agreed policies for managing each of these risks which are summarised below.

Interest rate risk

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

The following table demonstrates the sensitivity of the Group'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 Group's equity.

In thousands of EUR	31 December 2017	31 December 2016
EURIBOR (+0.5%)	(315)	(460)
EURIBOR (-0.5%)	-	-

Liquidity risk

The Group'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 2017 and 2016 consist of the following:

In thousands of EUR	31 December 2017	31 December 2016
Long-term loan facilities available	20,750	-
Short-term loan facilities available	39,154	36,511
Total loan facilities available	**59,904**	**36,511**

As at 31 December 2017 the Group did not have any banks guarantees (EUR 0 thousand at 31 December 2016).

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2017 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
Long-term loans	-	-	-	10,728	-	**10,728**
Trade and other payables	1,474	50,358	8,054	10,998	-	**70,884**
Obligations under finance leases	-	286	4,128	4,134	-	**8,548**
Short-term loans	-	9,472	46,809	12,980	-	**69,261**
	1,474	60,116	58,991	38,840	-	**159,421**

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2016 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
Long-term loans	-	-	-	8,798	-	**8,798**
Trade and other payables	871	48,997	10,001	16,546	-	**76,415**
Obligations under finance leases	-	865	12,204	5,496	-	**18,565**
Short-term loans	-	-	54,606	7,159	-	**61,765**
	871	49,862	76,811	37,999	-	**165,543**

Credit risk

The Group 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 Group has three major customers, U. S. Steel Košice, s.r.o., BUDAMAR LOGISTICS, a.s. and ŠPED-TRANS (U. S. Steel Košice, s.r.o., BUDAMAR LOGISTICS, a.s., Express Slovakia in 2016), sales to which represent 58% of transport and related revenues (59% in 2016), but management is confident, based on historic experience, projections for the future and contracts in place, that the Group is not overly exposed to credit risk in respect of these three customers. The Group'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 Group's maximum exposure to credit risk.

Capital management

The primary objective of the Group'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 Group 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 2017 and 31 December 2016.

The Group 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 thousands of EUR	31 December 2017	31 December 2016
Long-term debt, net of current portion (excluding subordinated debt and finance lease obligations)	10,728	8,798
Short-term debt, including current portion of long-term debt (excluding finance lease obligations)	69,261	61,765
Debt	**79,989**	**70,563**
Equity	**119,685**	**118,266**
Debt to equity ratio (%)	**67%**	**60%**

26. EVENTS AFTER THE BALANCE SHEET DATE

No events occurred subsequent to 31 December 2017 that might have a material effect on the fair presentation of the matters disclosed in these consolidated financial statements.

Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 24 April 2018.

ORGANIZATION STRUCTURE

- General Assembly
- Supervisory Board
- Board of Directors
  - Project Office and Internal Audit
    - Projects and Processes Unit
    - Internal Audit Unit
- Chief Executive Officer (CEO)
  - CEO Office
    - Internal Relations Unit
    - International and External Relations Unit
  - Control, Inspection and Protection Department
    - Protection and Economic Mobilization Unit
    - Control Unit
    - Inspection Unit
  - Strategy and Controlling Department
    - Strategy and Investment Unit
    - Controlling Unit
  - Human Resources Management Department
    - Social and Health Care Unit
    - Management of Human Resources and Personal Controlling Unit
    - Education Unit
    - Security and Health Protection Unit
    - Personal Services Unit
    - Wages Centre Unit
  - Logistics and Purchase Management Department
    - Methodics and Analyses Unit
    - Procurement Section
    - Distributive Logistics Section
    - Storage and Distribution of Goods Unit
  - Trade Division
    - Marketing Section
    - Sales Section
    - Conventional Transportation Unit
    - Intermodal and Automotive Transportation Unit
    - Trade Support Section
    - Trade Conditions Unit
    - Trade Support Unit
  - Operations Division
    - Section of Technical and Technological Preparation of Operation
    - Operations Analyses and Guidelines Unit
    - Operations Planning Unit
    - Operations, Transportation and Wagon Service Section
    - Technology and Work Management Unit
    - Wagon Service Unit
    - Operations and Traction Control Section
    - Transport Dispatching Unit
    - Freight Wagons Control Unit
    - Traction Control Unit
    - East Slovak Transshipment Section
    - Transshipment Unit
    - Transport and Transportation Unit
    - Technical Unit
    - Matovce and EVO Transshipment Unit
    - Freight Wagons Operation Section
    - Freight Wagons Rental Unit
    - Freight Wagons Management Unit - AVV
  - Services Division
    - Energetics Unit
    - Facility Management Section
    - Facility Efficiency Unit
    - Facility Management and Operations Unit
    - Ecology Unit
    - ICT Section
  - Rolling Stocks Services Division
    - Maintenance and Repairs Trade Section
    - Rolling Stocks Maintenance and Repairs Sales Unit
    - Rolling Stocks Maintenance and Repairs Back Office Unit
    - Rolling Stocks Maintenance and Repairs Section
    - Maintenance and Repairs Management Unit
    - Maintenance and Repairs Technical Security Unit
    - Rolling Stock Management Section - ECM
    - Driving Railway Vehicles Management Unit
    - Freight Wagons Management Unit
    - Inspection of Technical Control Unit
  - Economy Division
    - Accounting Taxes and Reporting Section
    - Accounting Unit
    - Treasury Section
    - Cash-Flow Administration Unit
    - Rail Clearing Centre Section
    - Input Control and International Transportation Price Calculation Unit
    - International transportation Claiming Unit
    - Input Control and Domestic Transportation Price Calculation Unit
    - International Transportation Accounting Unit
    - Transportation Accounting and Clearing Unit

CONTACT

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