ZSSK CARGO

ANNUAL REPORT 2011

Železničná spoločnosť Cargo Slovakia, a. s.

CONTENTS

APPENDIX TO THE AUDITOR'S REPORT

ERNST & YOUNG

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

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

I. We have audited the financial statements of Železničná spoločnosť Cargo Slovakia, a.s. ("the Company") as at 31 December 2011 presented in the annual report. We issued the following audit report dated 17 May 2012 on the financial statements:

Independent Auditors' Report

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

We have audited the accompanying separate financial statements of Železničná spoločnosť Cargo Slovakia, a.s. ('the Company'), which consist of the statement of financial position as at 31 December 2011 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2011, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU.

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.

Ernst & Young

Emphasis of Matter

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

i. As set out in Note 2.1 to the financial statements, the Company reported a loss for the year of EUR 331 thousand and total accumulated losses from previous years of EUR 259,559 thousand. The future of the Company depends on the implementation of new measures directly linked to the new revitalization program for the railways sector passed by the Slovak government. This situation indicates the existence of a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern.

ii. As set out in Note 22 to the financial statements, the Company recorded provisions of EUR 24,450 thousand for potential environmental remediation. Estimates of the future costs relating to environmental remediation are not necessarily accurate, due to uncertainties concerning the constant development of laws and regulatory requirements on the environment and the methods, timing and extent of corrective action, and so cannot be precisely specified. These costs could have a significant impact on the Company's financial results in future accounting periods.

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

17 May 2012
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.	*Ing. Peter Uram-Hrišo*
SKAU Licence No. 257	*UDVA Licence No. 996*

We issued the following audit report dated 17 May 2012 on the consolidated financial statements:

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Železničná spoločnosť Cargo Slovakia, a.s. and its joint venture ('the Group'), which consist of the statement of financial position as at 31 December 2011 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the 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.

ERNST & YOUNG

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter

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

i. As set out in Note 2.1 to the financial statements, the Company reported a profit for the year of EUR 96 thousand and total accumulated losses from previous years of EUR 258,016 thousand. The future of the Company depends on the implementation of new measures directly linked to the new revitalization program for the railways sector passed by the Slovak government. This situation indicates the existence of a material uncertainty which casts significant doubt on the Company's ability to continue as a going concern.

ii. As set out in Note 22 to the financial statements, the Company recorded provisions of EUR 24,450 thousand for potential environmental remediation. Estimates of the future costs relating to environmental remediation are not necessarily accurate due to uncertainties involving the constant development of laws and regulatory requirements on the environment and the methods, timing and extent of corrective action, and so cannot be precisely specified. These costs could have a significant impact on the Company's financial results in future accounting periods.

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

17 May 2012
Bratislava, Slovak Republic

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

Ing. Peter Uram-Hrišo
UDVA Licence No. 996

ERNST & YOUNG

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

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accounting information presented in the annual report and derived from the financial statements is consistent, in all material respects, with the financial statements. We have checked that the information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2011. We have not audited information that has not been derived from audited financial statements or Company accounting records. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements of the Company as at 31 December 2011 and is in accordance with the Act on Accounting No 431/2002 Z.z., as amended by later legislation.

30 May 2012
Bratislava, Slovak Republic

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

Ing. Peter Uram-Hrišo
UDVA Licence No. 996

FOREWORD FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO

The program of revitalization of railway companies approved by the cabinet of the Slovak Republic had a decisive impact on the operation of the railway sector in 2011. The referred document aimed at revitalization and financial stabilization was of strategic importance for Železničná spoločnosť Cargo Slovakia, a.s. Another important milestone for the railway business in Slovakia was the date of January 1, 2011 when Decree No 3/2010 of the Railway Regulatory Authority on the determination of track access charges came into effect. This document governs the charges for the use of railway infrastructure in Slovakia and after long years of the unbeatable highest prices of access to the traffic routes we came closer to the price levels of the neighbouring countries.

These positive trends and decisions which are clearly reflected in better economy of the company and especially its financial stabilisation would not be possible without substantial changes in the organization of work on railroad. During the year each activity of the company was reviewed with a clear goal – to streamline the processes and utilize our own capacities. The analysis of running processes and performed activities revealed both the reserves and new opportunities. The adopted and implemented decisions affected all areas – the operating ones in terms of the optimal utilization of handling trains on route legs, operational management of the fleet and its staff, procurement through the public procurement process and e-auctions; and the field of rolling stocks maintenance in terms of introduction of the new regulation and utilization of our own sources. The above-mentioned measures improved the cash-flow of the company covering the current activities. The measures have also had a positive impact on the overall economy of the company. In 2011 ZSSK CARGO reported loss of EUR 331,000. This economic result is over EUR 122.3 million better compared to year 2010. Operating economic result was positive at EUR 77,5 milion and almost EUR 95 milion higher compared to 2010.

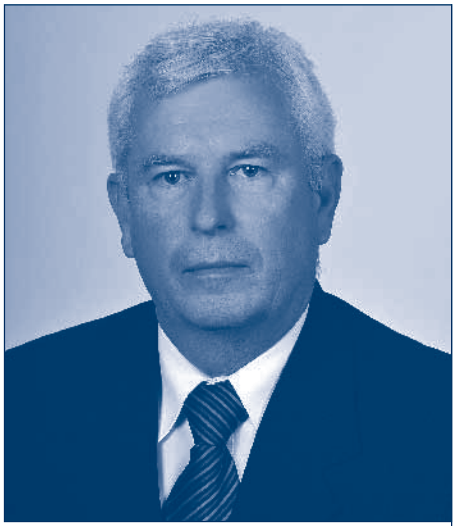
No significant changes occurred in the carriage of goods in year-on-year comparison. This is a clear signal that the volume of transportation at 38 million ton represents an actual performance considering the current needs of the market and thus both technology and work organization have to be adjusted to this performance for the following years. Taking into account the needs of its customers, in 2011 the company continued with its investment activities aimed mainly at enlargement of its fleet by purchasing new or refurbishing existing freight vehicles. Modernization also affected one of the main driving vehicle series. Computer processing of customer service has also reported development.

ZSSK CARGO recognizes its social responsibility towards the environment. Through the monitoring of freight train routes and measuring of traction media we seek to reduce consumption and energy intensity of transport and thus eliminate negative impact of transport on nature. For the second time we joined the companies, which promote socially responsible business.

The results achieved in year 2011 are the outcomes of effort, cooperation and commitment of all employees and managers of ZSSK CARGO. Their expertise, acceptance of changes, creativity, motivation and loyalty are the values that need to be built over time and therefore I appreciate them even more. I am also thankful and I appreciate long-term trust showed by our customers, business partners and shareholder.

Ing. Vladimír Ľupták
Chairman of the Board of Directors
and Chief Executive Officer

FOREWORD FROM THE CHAIRMAN OF THE SUPERVISORY BOARD



The approval of a program for revitalization of railway companies approved by the cabinet of the Slovak Republic in mid-March 2011 resulted in the launch of a process, which initiated recovery of these companies. The loss of EUR 331,000 reported by ZSSK CARGO last year is an incomparably better result than the loss of EUR 122.6 million showed in 2010. Despite this relatively good economic result it should be noted that the company is still not able to pay its older debts to the state and Železnice Slovenskej Republiky.

Recovery of ZSSK CARGO consisted in the concurrence of several factors – a number of measures were taken in addition to the planned optimization of the workforce, revision of contracts on goods and services and introduction of e-auctions. For instance examination of costs of the investment projects completed in 2010 resulted in savings of more than EUR 241,000. Revision of the contract on services related to the corporate information system SAP helped CARGO to save almost EUR 15,000 every month. Partial steps of this kind were the ones which ultimately led to significant savings of costs of the indebted company.

Of course, a substantial portion of CARGO´s savings has been achieved through the workforce optimization and reduction of track access charges as of January 1, 2011, when the costs of using railway infrastructure incurred by rail carriers finally became more realistic. Until then the rail freight transport in Slovakia had been charged with the highest traffic route prices in Europe – almost double compared to the neighbouring countries. However, the reduction of ŽSR charges has not reflected in a growth of the rail transport so far, which mostly stagnated last year due to the ongoing economic downturn.

The program for revitalization of railway companies has one advantage that is not mentioned very often, namely the effort to address the poor economic situation of the railway system as a whole, not each company separately. Improving the economic results of one company to the detriment of the others would make no sense for the country. Therefore separation of the repair activities of CARGO aimed at passenger transportation and their assignment to Železničná spoločnosť Slovensko, a.s. was planned throughout 2011 and implemented in early 2012. Together with these activities the state-run passenger carrier received almost 1,000 employees of CARGO with the total workforce of the carrier being thus 7,000 at the beginning of 2012.

The market share of ZSSK CARGO in terms of transported tones was around ninety percent by the end of 2011. But competition in the market keeps growing not only on the part of so-called third carriers – private companies, but also on the part of the national carriers from the neighbouring countries. The Poles, who are interested in profitable bloc train transport, are very active in this respect. Therefore CARGO did not remain inactive. The Sales Division of ZSSK CARGO examined in 2011 new business opportunities to penetrate the markets of the neighbouring countries and utilize its own driving vehicles to arrange transport on the rails in Poland, the Czech Republic and Hungary. Market liberalization was launched some time ago and the above-mentioned national carriers are aware of the need for active trade policy. All the more, in 2012 one cannot expect any increase in traffic due to uncertain development of economies of the European countries. With intensifying competition this will only bring about efforts of the competitors to share the same market pie and hence also pressure on CARGO to make its services related to carrier services more efficient.

Ing. Karol Jasenovský
Chairman of the Supervisory Board

LIST OF USED ABBREVIATIONS

APP	Act on public procurement
BOZP	Occupational Safety and Health and Fire Protection
BTS	BULK TRANSSHIPMENT SLOVAKIA, a.s.
DRV	Driving Railway Vehicle
ESTY	Eastern Slovak Transshipment Yards
EU	European Union
GCU	General Contract of Use for Wagons
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IT	Information Technologies
MTCRD	Ministry of Transport, Construction and Regional Development of the Slovak Republic
MTPT	Ministry of Transport, Posts and Telecommunications of the Slovak Republic
RIV	Agreement Governing the Exchange and Use of Wagons between Railway Undertakings
PGV	Regulations on Use of Wagons in International Rail Transport of Passengers and Goods
SR	Slovak Republic
SRT	Traction Control Centre
VAT	Value Added Tax
ZSSK	Železničná spoločnosť Slovensko, a.s.
ZSSK CARGO	Železničná spoločnosť Cargo Slovakia, a.s.
ŽS	Železničná spoločnosť, a.s.
ŽSR	Železnice Slovenskej republiky

MILESTONES OF 2011

During 2011, the economic activity and operation of ZSSK CARGO was influenced by the following significant events:

- Year-on-year decline in performances of ZSSK CARGO in consequence of the impacts of the debt crisis on the economy of the Slovak Republic and surrounding countries.
- Computer processing of services provided to customers (invoicing, transport order, consignment registration...).
- First entry of foreign “national” operator to the tracks of ŽSR (PKP Cargo) and the beginning of the test operation of the run of trains of ZSSK CARGO abroad (operator on the foreign lines solved by supply).
- Since 1.4.2011, ZSSK CARGO became, on the basis of the amendment of the Act No. 25/2006 Coll. on public procurement and on the amendment of certain laws (hereinafter referred to as „APP“) a public provider for the purposes of APP. Since then ZSSK CARGO is obliged by the award of contracts – contracts for pecuniary interest, of which the object will be the delivery of goods, realization of building operations or provision of services – to follow the Act on public procurement. APP obliges to use the electronic auctions by the award of above limit contracts (since 1.1.2012 also under limit).
- Strengthening of rolling stock by purchasing new and reconstructing of existing freight wagons:
  - Purchasing of 221 wagons of Shimmns line,
  - Purchasing of 55 wagons of Falns line for transport of bulk substrates,
  - Renewal of 40 wagons of Eas line,
  - Renewal of 25 wagons of Lgs line.
- Modernization of one of DRV bearing lines of independent traction – 9 DRV of 742 series to 746 series.
- Optimization of Mn trains on chosen track lines.
- Finalization of construction of the Social – operation building for the ore district and mechanization division in ESTY Čierna nad Tisou, which brought significant improvement of operation-sanitary conditions for operating employees of ZSSK CARGO and decrease of operating costs.
- Implementation of new regulation System of maintenance of freight wagons.
- Taking over of shunting performance from ŽSR during the year 2011 (May – December).
- Realization of significant organizational changes in Operation division:
  - Optimization of number of control workplaces (SRT) from 6 to 4 with the aim to increase the complex servicing in the area of effective handling with driving railway vehicles and train stuff in the area of operative management. At the same time the change will bring increase in effectiveness and harmonization of controlled processes by individual SRT.
  - Centralization of engine dispatching (into two centers), which will increase the performance efficiency and improve the quality of dispatching decision-making, eliminate regional control and maximize the focus on operative management and direct transfer of imperatives to workplaces during morning analyses of operative work.
  - Increase of involvement and possibility of evaluation of concrete employees and setting of qualitative indicators.

FREIGHT TRANSPORT

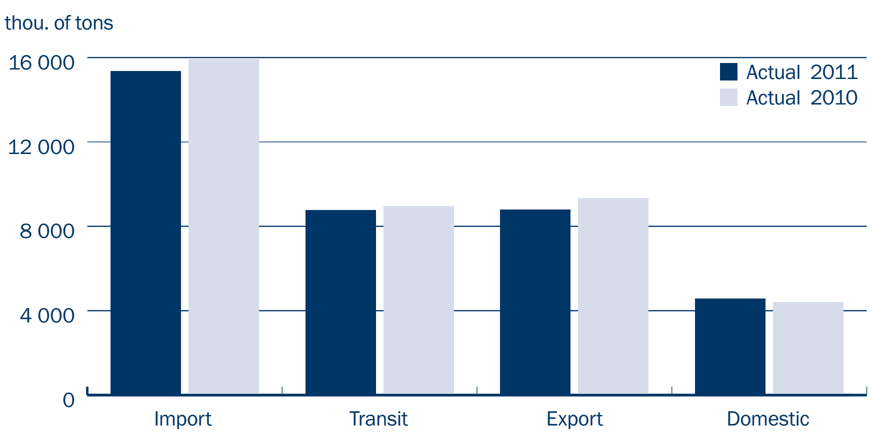
In 2011, ZSSK CARGO transported almost 37,5 mil. of tons of goods. This transport volume represents year-on--year decrease by more than 1,1 mil. of tons (- 2,9%). While in the first half-year ZSSK CARGO transported volumes at the level of the last year, since the beginning of the second half-year some negative facts deepened, which stand behind the progressive decrease of total transport volume.

Globally unfavorable situation in metallurgy and wood industry (high prices of inputs) contributed in a considerable extent to the transport cut-off in the export of metals and woods and at the same time the volumes in import of iron ore as an input raw material decreased. Decrease in the segment of transit was in a large degree caused by the competition of private railway operators. In the year-on-year comparison, the increase in domestic transport, mainly in commodities of wood and building materials, was gratifying.

Development of freight transport according to segments:

In thousand of tons	2011	2010	2009	2008	2007	2006	2005	2011/10
Import	15 364	15 924	13 929	16 790	19 015	18 454	17 825	0,96
Transit	8 785	8 947	7 547	11 996	12 116	13 013	11 330	0,98
Export	8 768	9 325	8 428	10 280	11 639	12 204	11 686	0,94
Domestic	4 566	4 413	3 886	5 459	6 384	6 384	6 904	1,03
	37 483	**38 610**	**33 789**	**44 525**	**49 154**	**50 055**	**47 745**	**0,97**

Development of freight transport in 2010 and 2011



In comparison with last year, the volume of transportation decreased especially in commodities such as intermodal transport, coal, metals and wood. On the contrary, increase was recorded mainly in commodities such as unspecified, foodstuffs and building materials.

The facts that contributed to a largest extent to the year-on-year cut-off of the transport volume:

- Transportations for metallurgical industry in the Slovak Republic
- Beginning of realization of intermodal transportations by the operator under his own direction
- Transit of coal and coke in certain relations – competition of private railway operators
- Export of wood mainly to Austria – high price and commodity shortage

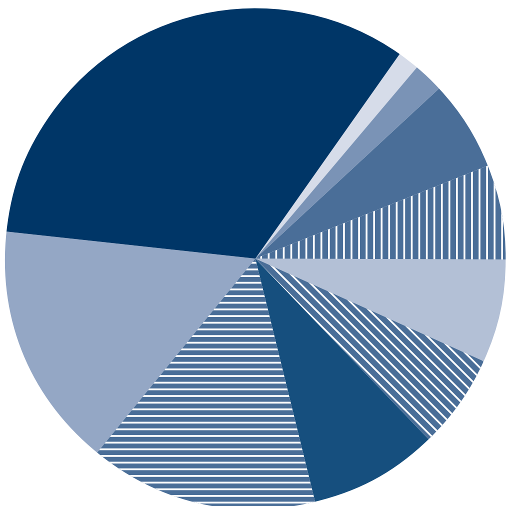
ZSSK CARGO achieved year-on-year increase and gained new transportations:

- Domestic transport and import of wood for paper industry in the Slovak Republic
- Domestic transport of dolomites and limestone
- Domestic transport and import of coal for electric power plants and heating plants in the Slovak Republic
- International transport of foodstuffs
- Transit of iron ore in certain relations
- Transit of coal and coke in certain relations
- Transportations for automotive industry

Development of freight transport according to commodities:

In thousand of tons	2011	2010	2009	2008	2007	2006	2005	2011/10
Iron ore	12 253	12 268	9 717	12 380	13 742	15 235	12 904	1,00
Coal	5 950	6 422	6 498	7 372	8 490	8 297	8 652	0,93
Metals	5 543	5 769	4 554	7 407	8 374	7 757	6 893	0,96
Building materials	3 223	3 118	2 827	4 609	5 027	5 160	5 121	1,03
Chemical products	2 578	2 730	2 329	3 257	3 598	3 643	3 759	0,94
Wood	2 308	2 448	1 929	2 248	2 471	2 588	3 517	0,94
Intermodal transport	2 243	2 779	1 985	2 280	1 809	1 334	1 179	0,81
Petroleum products	2 195	2 154	2 854	3 340	3 515	3 375	3 483	1,02
Nonspecified	768	623	687	1 092	1 328	1 577	949	1,23
Foodstuffs	421	298	410	540	800	1 090	1 288	1,41
	37 483	**38 610**	**33 789**	**44 525**	**49 154**	**50 055**	**47 745**	**0,97**

Classification according to commodities



STRUCTURE OF DRV

Development of DRV number

	2011	2010	2009	2008	2007	2006	2005
Electric locomotives	323	324	330	331	333	333	338
Diesel locomotives	373	372	387	405	464	469	476
Motor coaches	1	1	2	2	2	2	2
	697	**697**	**719**	**738**	**799**	**804**	**816**

Age structure of DRV

Years	Up to 15	Up to 30	Over 30	Total
Electric locomotives	10	79	234	323
Diesel locomotives	53	74	246	373
Motor coaches	-	1	-	1
	63	**154**	**480**	**697**

STRUCTURE OF FREIGHT WAGONS FLEET

Development of number of wagons

	2011	2010	2009	2008	2007	2006	2005
Covered wagons	2 141	2 190	2 327	2 725	3 227	3 427	3 962
Open wagons	6 860	7 125	7 215	7 121	7 244	7 202	7 265
Platform wagons	2 973	2 891	2 952	2 973	3 058	3 059	3 154
Other freight wagons	1 474	1 482	1 522	1 691	1 790	1 933	1 989
	13 448	**13 688**	**14 016**	**14 510**	**15 319**	**15 621**	**16 370**

Number of wagons according to international specifications and their age structure

Years	Up to 5	6-10	11 -15	16-20	21 -25	26-30	Over 30	Total
E – open (high-sided) wagon of regular construction	398	50	239	53	2 134	1 929	935	5 738
F – open wagon of special construction	-	-	-	-	-	312	810	1 122
G – covered wagon of regular construction	-	-	-	-	212	164	97	473
H – covered wagon of special construction	-	678	106	-	1	38	478	1 301
K – flat wagon of regular construction	-	15	-	-	18	-	213	246
L – flat wagon of special construction	26	-	-	-	40	21	3	90
R – flat bogie wagon of regular construction	-	300	-	-	31	503	890	1 724
S – flat bogie wagon of special construction	51	-	347	79	-	-	436	913
T – wagon with opening roof	-	-	28	93	116	35	95	367
U – wagon of special construction	-	-	-	-	117	7	90	214
Z – tank wagon	-	-	-	-	-	710	550	1 260
	475	**1 043**	**720**	**225**	**2 669**	**3 719**	**4 597**	**13 448**

CAPITAL INVESTMENTS OF ZSSK CARGO

(Accounting balance as at December 31, 2011 in EUR)

Company	Number of equities (pcs)	Share (%)	Value of Capital Investments
Intercontainer - Interfrigo s. c. Brussels, Belgium	385	0,03	7 610,33
Bureau Central de Clearing s. c. r. l. Brussels, Belgium	4	2,96	2 974,72
BULK TRANSSHIPMENT SLOVAKIA, a.s.	41 964	40	1 530 903,54
			1 541 488,59

INTEGRATED MANAGEMENT SYSTEM

Following the decision of the company management, the requirements of the standard OHSAS 18001 were applied in 2011 under conditions of our company. The aim of their application is to achieve the satisfaction of our customers in the area of quality and to minimize the risk of damage to health of employees and damages caused by occupational disease. The management system in the area of occupational health and safety (BOZP) was also implemented.
The principles of integrated management system were successfully applied under the conditions of our company.
Certification, recertification and control audits performed by the certification company TÜV SÜD Slovakia confirmed that the integrated management system is functional, maintained and continuously improved in accordance with the requirements of the international standards ISO 9001 and OHSAS 18001.

ZSSK CARGO holds these certificates:

- According to ISO 9001 for the following products:
  - Freight rail transport (Logistic trains)
  - Maintenance and repair of rolling stock
  - Group of processes in procurement and logistics
  - Eastern Slovak Transshipment Yards
- According to OHSAS 18001 for the product:
  - Activities at the workplace EVO Vojany.

HUMAN RESOURCES

In 2011, Železničná spoločnosť Cargo Slovakia, a.s. implemented, in the framework of the revitalization and restructuring measures approved by the government and with regard to operational performances, organizational changes, which considerably influenced also the company employment.
As at 31.12.2011 the company employed 8 054 employees (22% of women, 67% of operational employees), what represents in comparison with last year decrease by 15,6 %. To eliminate the negative impacts and create socially acceptable conditions for employees involved in the optimization process, social programs focused on provision of social benefits by termination of employment were accepted and agreed with representatives of employees. The company maintained the social dialogue with the representatives of employees (11 labor unions) in accordance with the collective agreement during the whole year. In the framework of projects, the central attendance system and the project Optimization of processes of attendance processing were successfully completed and implemented.

Organizational changes in the area of employment had an influence on the structure of employees from the point of view of age and education.

- From the point of view of the structure of employees according to age, the highest decrease of the employees number was registered in the employees category at the age from 50-62 years (41,15% from the total number of the employees decrease). The average age of employees was 46,75, in comparison with the year 2010 the average age of employees increased by 0,15 (what means that older employees terminated employment).
- From the point of view of the structure of employees according to education, the highest decrease of the employees number was registered in the category Completed vocational (50,27% from the total number of the employees decrease).

Education structure

Education	2011	2010	2009	2008	2007	2006	2005	2011-10
Elementary	171	235	265	288	304	336	381	(64)
Apprentice school	3 000	3 603	3 814	4 126	3 890	4 724	4 830	(603)
Completed vocational	4 169	4 919	5 046	5 314	5 918	5 631	6 022	(750)
University	714	789	701	720	701	684	623	(75)
	8 054	**9 546**	**9 826**	**10 448**	**10 813**	**11 375**	**11 856**	**(1 492)**

Age structure

Age	2011	2010	2009	2008	2007	2006	2005	2011-10
18 - 29	378	516	532	640	713	832	1 101	(138)
30 - 39	1 509	1 852	2 044	2 311	2 549	2 797	3 067	(343)
40 - 49	2 814	3 191	3 356	3 549	3 670	3 942	4 214	(377)
50 - 62	3 341	3 955	3 887	3 935	3 872	3 801	3 474	(614)
Over 62	12	32	7	13	9	3	-	(20)
	8 054	**9 546**	**9 826**	**10 448**	**10 813**	**11 375**	**11 856**	**(1 492)**

RISKS

From view of ZSSK CARGO performances, the year 2011 may be characterized as a year of stagnation, which was caused by the continuous recession especially in the metallurgical industry, what also had a negative impact on the total economic indicators of the company as a result.

Persisting high indebtedness of the company and high rate of costs led to the adoption of rationalization measures in the area of human resources, operation, supporting activities, investment and cost items. The impacts of the adopted rationalization measures also influenced the extent of services that were provided in the past, what led to partial outflow of customers.

The expected benefits resulted from the implemented rationalization measures were also negatively influenced by the suspension of the process of strategic partner entry into the company.

High indebtedness of the company also considerably reduced the investment activity of the company, which was realized only in inevitable extent, what may have a negative impact on the extent of the services provided to customers and increase of operating costs in the next years.

The development of economic indicators of the company was also marked negatively by the liberalization of the railway transport market, what indicates the possibility of gradual weakening of the position at the transport market, mainly in the area of transport of unit trains.

SELECTED ECONOMIC INDICATORS

Calculated from individual financial statements data

In thousands of EUR	2011	2010
Total assets	774 488	779 458
Long-term tangible property	641 380	684 118
Assets held for sale	45 360	-
Equity	143 315	143 646
Loans (short-term + long-term)	272 959	290 677
Revenues	371 029	378 205
Costs	354 141	482 686
Profit/(Loss) out of financial operations	(17 220)	(18 158)
Economic result	**(331)**	**(122 639)**

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 2011

INDEPENDENT AUDITOR'S REPORT

ERNST & YOUNG

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

Tel: +421 2 3333 9111
Fax: +421 2 3333 9222
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Independent Auditor's Report

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

We have audited the accompanying separate financial statements of Železničná spoločnosť Cargo Slovakia, a.s. ('the Company'), which consist of the statement of financial position as at 31 December 2011 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2011, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU.

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.

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Independent Auditors' Report

Emphasis of Matter

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

i. As set out in Note 2.1 to the financial statements, the Company reported a loss for the year of EUR 331 thousand and total accumulated losses from previous years of EUR 259,559 thousand. The future of the Company depends on the implementation of new measures directly linked to the new revitalization program for the railways sector passed by the Slovak government. This situation indicates the existence of a material uncertainty that casts significant doubt on the Company's ability to continue as a going concern.

ii. As set out in Note 22 to the financial statements, the Company recorded provisions of EUR 24,450 thousand for potential environmental remediation. Estimates of the future costs relating to environmental remediation are not necessarily accurate, due to uncertainties concerning the constant development of laws and regulatory requirements on the environment and the methods, timing and extent of corrective action, and so cannot be precisely specified. These costs could have a significant impact on the Company's financial results in future accounting periods.

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

17 May 2012
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.	*Ing. Peter Uram-Hrišo*
SKAU Licence No. 257	*UDVA Licence No. 996*

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.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

(In thousands of EUR)	Note	31 December 2011	31 December 2010
Revenues			
Transport and related revenues	3	320,894	327,533
Other revenues	4	50,135	50,672
		371,029	**378,205**
Costs and expenses			
Consumables and services	5	(188,769)	(261,449)
Staff costs	6	(104,389)	(131,856)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	12, 13	(59.846)	(73,173)
Other operating expenses net	7	(1,136)	(16,208)
		(354,141)	**(482,686)**
Finance costs			
Finance costs	8	(17,071)	(17,691)
Other finance costs	9	(149)	(467)
		(17,220)	**(18,158)**
Loss for the period		**(331)**	**(122,639)**
Other comprehensive income: Net movement on cash flow hedges		-	-
Other comprehensive income for the period		-	-
Total comprehensive income for the period		**(331)**	**(122,639)**

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

(In thousands of EUR)	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	13	641,380	684,118
Intangible assets	12	16,815	17,220
Investment in joint ventures	14	1,541	1,541
Other non-current assets	10	615	1,015
		660,351	**703,894**
Current assets			
Inventories	15	13,211	14,854
Trade and other receivables	16	55,495	60,317
Cash and cash equivalents	17	71	393
		68,777	**75,564**
Assets held for sale	**25**	**45,360**	**-**
		114,137	**75,564**
TOTAL ASSETS		**774,488**	**779,458**
EQUITY AND LIABILITIES			
Shareholder's equity			
Registered capital	18	401,646	401,646
Other funds	18	1,228	1,228
Accumulated losses	18	(259,559)	(259,228)
Total equity		**143,315**	**143,646**
Non-current liabilities			
Subordinated debt	19	146,470	146,470
Interest-bearing loans and borrowings	20	-	1,497
Employee benefits	21	13,590	13,991
Provisions	22	30,186	49,920
Trade and other payables	23	56,092	-
Obligations under finance leases	24	75,385	71,247
Other non-current liabilities	23	134	126
		321,857	**283,251**
Current liabilities			
Subordinated debt	19	19,500	19,500
Interest-bearing loans and borrowings	20	106,989	123,210
Employee benefits	21	732	661
Provisions	22	1,361	13,869
Trade and other payables	23	154,320	183,052
Obligations under finance leases	24	14,602	12,269
		297,504	**352,561**
Liabilities directly associated with assets classified as held for sale	25	**11,812**	**-**
Total liabilities		**631,173**	**635,812**
TOTAL EQUITY AND LIABILITIES		**774,488**	**779,458**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

(In thousands of EUR)	Registered capital	Legal reserve fund	Other funds	Accu-mulated losses	Total
At 1 January 2010	**401,646**	**38,448**	**1,228**	**(175,037)**	**266,285**
Profit for the period	-	-	-	(122,639)	(122,639)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	(122,639)	(122,639)
Creation of legal reserve fund	-	(38,448)	-	38,448	-
At 31 December 2010	**401,646**	**-**	**1,228**	**(259,228)**	**143,646**
Loss for the period	-	-	-	(331)	(331)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	(331)	(331)
At 31 December 2011	**401,646**	**-**	**1,228**	**(259,559)**	**143,315**

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

(In thousands of EUR)	Note	31 December 2011	31 December 2010
Operating activities			
Net loss		(331)	(122,639)
Adjustments to reconcile net loss to net cash flows:			
Non-cash items			
■ Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	12, 13	59,689	73,173
■ Loss (gain) on sale of property, plant and equipment	7	0	(30)
■ Interest expense	8	23,044	17,691
■ Interest income		(21)	(20)
■ Movements in provisions and employee benefits		(22,171)	18,900
		60,210	**(12,925)**
Working capital adjustments			
■ Decrease in inventories		1,021	2,755
■ Decrease in trade and other receivables		4,818	14,831
■ Decrease in net receivables from derivatives		-	-
■ Increase in trade and other payables		50,900	122,541
Net cash flows from operating activities		**116,948**	**127,202**
Investing activities			
Purchase of property, plant and equipment	12, 13	(62,506)	(82,571)
Proceeds from sale of property, plant and equipment		601	1,773
Net cash flows used in investing activities		**(61,905)**	**(80,798)**
Financing activities			
Proceeds from loans and borrowings		2,509,264	3,824,439
Repayment of loans and borrowings		(2,586,017)	(3,819,296)
Interest paid		(20,608)	(12,647)
Interest received		21	20
Principal payments under finance lease obligations		(17,061)	(16,585)
Net cash flows used in financing activities		**(114,401)**	**(24,069)**
Net (decrease) increase in cash and cash equivalents		**(59,358)**	**22,335**
Cash and cash equivalents at 1 January	**17**	**(5,106)**	**(27,441)**
Cash and cash equivalents at 31 December	**17**	**(64,464)**	**(5,106)**

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

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Corporate information

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

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

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

Principal activities

ZSSK CARGO's main business is the provision of freight transportation and related services. Additionally, the Company rents properties and provides repair and maintenance, cleaning and other support services to ZSSK. The Company is organized and managed as a single business segment and is viewed as a single operating segment 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

These separate financial statements were approved and authorized for issue by the Board of Directors on 17 May 2012. The General Meeting held on 27 June 2011 approved the Company's financial statements for the previous accounting period.

The financial statements have been prepared on a historical cost basis, except for certain derivative financial instruments that have been measured at fair value. 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, 2011 to 31 December, 2011.

The financial statements were prepared using the going concern assumption that the Company will continue its operations for the foreseeable future. The Company reported a loss for the year of EUR 331 thousand. In 2011, the Company has implemented corrective measures approved by the Government for the revitalization of the railway sector. Reduction of rail transportation fees and the optimization of employment and operating costs were a precondition for achieving a balanced result.

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 accounting policies adopted have been consistently applied to all the years presented, except where disclosed otherwise in the Notes to the financial statements.

In the current year, the Company has adopted all of the new and revised standards and interpretations issued by the IASB and IFRIC. Adoption of these standards and interpretations did not have any significant impact on financial statements of the Company.

The following new standards, amendments to standards and interpretations are not yet effective for the financial year ended 31 December 2011, and have not been applied in preparing the financial statements:

- Revised IAS 24 Related Party Disclosure exempts government-related entities from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. Revised IAS 24 which becomes effective for annual periods beginning on or after 1 January 2011 is not expected to result in new relations requiring disclosure in the financial statements.
- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is not relevant for the Company as it does not issue such financial instruments.
- Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction addresses the accounting treatment for prepayments made when there is also a minimum funding requirement (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendments to IFRIC 14 which become effective for annual periods beginning on or after 1 January 2011 are not relevant to the Company's financial statements as the Company does not have any defined benefit plans with minimum funding requirements.
- Amendments to IFRS 7 Disclosures – Transfer of Financial Assets require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. The Amendments define "continuing involvement" for the purpose of applying the disclosure requirements. The Amendments are effective for annual periods beginning on or after 1 July 2011; to be applied prospectively. Early application is permitted. The Company does not expect the amendments to IFRS 7 to have material impact on the financial statements, because of the nature of the Company's operations and the types of financial assets that it holds.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard. The Company does not expect these amendments to have any significant impact on the financial statements.

Standards, interpretations and amendments to published standards effective in 2011 and not applicable to the Company:

- IFRS1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosure for First-time Adopters

Improvements to the International Financial Reporting Standards

In May 2010, the IASB issued an omnibus of amendments to IAS standards and IFRIC interpretations, primarily with a view to removing inconsistencies and clarifying wording. The following standards and interpretations were amended:

- IFRS 3 Business Combinations, effective for annual periods beginning on or after 1 July 2010
- IAS 34 Interim Financial Reporting, effective for annual periods beginning on or after 1 January 2011
- IFRIC 13 Customer Loyalty Programmes, effective for annual periods beginning on or after 1 January 2011
- IAS 27 Consolidated and Separate Financial Statements, effective for annual periods beginning on or after 1 July 2010

Standards, interpretations and amendments to published standards that have been published, are not effective for accounting periods starting on 1 January 2011, and for which the Company has not opted for early adoption:

- IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Effective for annual periods beginning on or after 1 July 2011.)
- IFRS 7 Financial Instruments: Disclosures (Amendment) (Effective for annual periods beginning on or after 1 July 2011.)
- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets (Effective for annual periods beginning on or after 1 January 2012.)
- IFRS 9 Financial Instruments – Classification and Measurement (Effective for annual periods beginning on or after 1 January 2013.)
- IFRS 10 Consolidate Financial Statements, IAS 27 Separate Financial Statements (Effective for annual periods beginning on or after 1 January 2013.)
- IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures (Effective for annual periods beginning on or after 1 January 2013.)
- IFRS 12 Disclosure of Interests in Other Entities (Effective for annual periods beginning on or after 1 January 2013.)
- IFRS 13 Fair Value Measurement (Effective for annual periods beginning on or after 1 January 2013.)
- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 (Effective for annual periods beginning on or after 1 July 2012.)
- IAS 19 Employees Benefits (Revised) (Effective for annual periods beginning on or after 1 January 2013.)

The Company plans to adopt all standards from their effective date.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgments in applying the accounting policies

In the process of applying the 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 defer 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

Foreign currency translation

The Company’s functional and presentation currency is the Euro which became the official currency of the Slovak Republic on 1 January 2009, replacing the Slovak Crown, which had previously been the Company’s functional and presentation currency. The change in functional currency was implemented prospectively as of 1 January 2009 and all the Company’s assets, liabilities and equity were converted into Euro based on the official conversion rate EUR1 = SKK30.1260. Comparative financial statements for the previous year were also converted to Euro based on the official conversion rate.

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 taken to the statement of comprehensive income. Non-monetary items that are measured in terms of 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 stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred, if the recognition criteria are met. Also general repairs are stated at cost, if criteria are met.

Maintenance, repairs and minor renewals are charged to the statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis over the useful life of the assets (8-50 years for buildings, 3-40 years for machines, equipment and other assets).

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 included in the statement of comprehensive income in the year the asset is derecognised.

When property, plant and equipment meet the criteria to be classified as held for sale, they are stated at whichever is 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 carried 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 included in the statement of comprehensive income 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 valued 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

Securities and interests in joint ventures that are not classified as held for sale are reported at book value (cost less of 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. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company's financial assets comprise cash at bank and on hand and cash equivalents, trade and other receivables and derivative financial instruments.

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. Derivates 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. After initial measurement loans and receivables are subsequently carried at amortized cost using the effective interest rate method (EIR) less any allowance for impairment. 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 2010 and 2009, no financial assets have been designated as held-to-maturity investments.

Available-for-sale financial assets

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

After initial recognition available-for-sale financial assets are evaluated 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.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment 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 and in the case of loans and borrowings, plus directly attributable transaction costs.

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

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 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. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

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

Loans and borrowings & subordinated debt

After initial recognition, interest bearing loans and borrowings are subsequently 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 carried at amortized cost, being 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 recorded within 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 vale 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 carried on 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, 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 or cancelled or expires.

Derivative financial instruments and hedging activities

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

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

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

- The economic characteristics and the risks of the embedded derivative are not closely related to the economic characteristics of the host contract.
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.
- A hybrid (combined) instrument is not measured at fair value with changes in fair value reported in current period net profit.

Hedging

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

- Fair value hedge,
- Cash flow hedge

At the inception of the hedge the Company formally designates and documents the hedging relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction,

the nature of the risk being hedged and the method how 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.

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 payment 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 when 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.

Taxes

Current income tax

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

Deferred income tax

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

Deferred tax liabilities are recognised for all taxable temporary differences.

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

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

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

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

3. TRANSPORT AND RELATED REVENUES

(In thousands of EUR)	31 December 2011	31 December 2010
Inland transport:		
■ Transport of goods	34,561	35,193
■ Wagon deposition	11,101	15,692
■ Haulage fees	788	739
	46,450	**51,624**
International transport:		
■ Import	118,709	126,802
■ Export	113,670	112,012
■ Transit	20,715	21,919
	253,095	**260,733**
Other transport related revenues:		
■ Usage of wagons under RIV, PPV and AVV regimes	7,759	730
■ Wagon rentals	6,535	7,964
■ Border services	3,892	3,781
■ Other	3,163	2,701
	21,349	**15,176**
	320,894	**327,533**

Included in transport and related revenues are amounts invoiced to US Steel Košice of EUR 73,233 thousand (2010: EUR 88,916 thousand) and to Budamar Logistics of EUR 69,682 thousand (2010: EUR 59,018 thousand).

4. OTHER REVENUES

(In thousands of EUR)	31 December 2011	31 December 2010
Repairs and maintenance	32,468	34,011
Operational performance	9,527	8,327
Property rentals	3,978	3,807
Other	4,162	4,527
	50,135	**50,672**

Included in other revenues are amounts charged to ZSSK of EUR 35,431 thousand (2010: EUR 47,494 thousand) for repair and maintenance, operational performance, property rental and other support services.

5. CONSUMABLES AND SERVICES

(In thousands of EUR)	31 December 2011	31 December 2010
Network fees	(53,393)	(123,206)
Traction electricity	(35,336)	(32,939)
Materials	(25,227)	(26,352)
Traction diesel oil	(18,709)	(14,574)
Wagon rentals	(13,816)	(17,304)
IT services and telecommunication charges	(8,622)	(10,361)
Other energy costs	(8,064)	(8,152)
Third party loading services	(4,957)	(5,475)
Border services	(4,342)	(4,317)
Rentals	(3,663)	(3,517)
Repair and maintenance	(2,495)	(1,871)
Security services	(2,110)	(3,497)
Advisory and consultancy fees	(1,824)	(1,938)
Travelling and entertainment	(1,404)	(1,595)
Cleaning	(1,013)	(1,355)
Medical care	(450)	(759)
Training	(459)	(515)
Other	(2,885)	(3,722)
	(188,769)	**(261,449)**

Included in consumables and services are amounts charged by ŽSR of EUR 96,677 thousand (2010: EUR 169,679 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 26).

6. STAFF COSTS

(In thousands of EUR)	31 December 2011	31 December 2010
Wages and salaries	(74,922)	(82,094)
Social security costs	(33,687)	(35,159)
Employee benefits (Note 21)	(1,918)	(2,656)
Termination payments (Note 22)	6,138	(11,947)
	(104,389)	**(131,856)**

Average employee numbers were 8,701 (2010: 9,614), of whom six were members of management (as members of the Board of Directors or directors of individual departments).
The average salary amounted to EUR 733 (2010: EUR 740).

7. OTHER OPERATING EXPENSES NET

(In thousands of EUR)	31 December 2011	31 December 2010
Provision for environmental matters (Note 22)	(21)	1,065
Gains on sale of property, plant and equipment	1,251	1,522
Provision for legal cases and onerous contracts (Note 22)	2,746	(14,245)
Allowance for doubtful debts	(404)	44
Insurance of assets	(2,574)	(2,711)
Other	(2,134)	(1,883)
	(1,136)	**(16,208)**

8. FINANCE COSTS

(In thousands of EUR)	31 December 2011	31. December 2010
Interest on loans and borrowings	(4,781)	(5,660)
Interest on subordinated debt	(7,841)	(7,139)
Finance charges payable under finance leases	(3,537)	(2,685)
Unwinding of discount on provisions and employee benefits	(912)	(2,207)
	(17,071)	**(17,691)**

9. OTHER FINANCE COSTS

(In thousand of EUR)	31 December 2011	31 December 2010
Foreign exchange losses, net	(4)	(303)
Other	(145)	(164)
	(149)	**(467)**

10. OTHER NON-CURRENT ASSETS

(In thousand of EUR)	31 December 2011	31 December 2010
Prepaid expenses	615	1,015
	615	**1,015**

11. INCOME TAX

The tax charge for the year was nil (2010 – nil). 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 2011	31 December 2010
Loss before tax	(331)	(122,639)
Tax charge at statutory tax rate of 19%	(66)	(23,301)
Forfeit tax loss carry forwards	2,269	6,746
Change in valuation allowance	(2,211)	16,970
Non-deductible expenses	9	(414)
Total income tax	-	-

Deferred tax assets and liabilities at 31 December related to the following:

(In thousands of EUR)	31 December 2011	31 December 2010
Deferred tax assets		
Tax loss carry forwards	54,727	58,538
Provision for environmental matters	6,515	6,593
Provision for employee benefits	3,096	2,784
Allowance for trade and other receivables	1,080	1,003
Allowance for inventories	370	252
Provision for legal cases and onerous contracts	1,207	2,674
Termination payments	142	2,151
Other	2,378	2,199
	69,515	**76,194**
Deferred tax liabilities		
Accelerated depreciation for tax purposes	(23,628)	(28,108)
Other	(125)	(112)
	(23,753)	**(28,220)**
Valuation allowance	**(45,762)**	**(47,974)**
Net deferred tax assets (liabilities)	-	-

A valuation allowance of EUR 45,762 thousand (EUR 47,494 thousand at 31 December 2010) has been recognised for temporary deductible differences due to uncertainty as to the realization of tax benefits in future years. The Company will continue to assess the valuation allowance and, to the extent it is determined that such allowance is no longer required, the tax benefits of the remaining deferred tax assets will be recognised at that time.

The Company's income tax loss carry forwards arose in the fiscal years 2006-2011 and amount to EUR 288,039 thousand. Under Slovak tax legislation a Company is entitled to carry forward tax losses to incurred prior to 31 December 2009 for five years against future taxable income and tax losses incurred thereafter forto 31 December 2010 and seven years later. The carry forwards expire as follows:

(In thousands of EUR)	31 December 2011	31 December 2010
2011	-	11,940
2012	28,485	28,485
2013	50,823	50,823
2014	140,460	140,460
2017	66,553	76,387
2018	1,738	-
Total tax loss carry forwards	**288,039**	**308,095**

12. INTANGIBLE ASSETS

(In thousands of EUR)	Software	Assets under development	Total
Acquisition cost			
At 1 January 2011	25,002	1,181	26,183
Additions	-	2,611	2,611
Disposals	(1,085)	-	(1,085)
Transfers	3,301	(3,301)	-
At 31 December 2011	**27,218**	**491**	**27,709**
Accumulated amortisation			
At 1 January 2011	(8,821)	(142)	(8,963)
Charge for the period	(3,007)	-	(3,007)
Disposals	1,076	-	1,076
At 31 December 2011	**(10,752)**	**(142)**	**(10,894)**
Net book value at 31 December 2011	**16,466**	**349**	**16,815**

(In thousands of EUR)	Software	Assets under development	Total
Acquisition cost			
At 1 January 2010	22,873	792	23,665
Additions	-	2,538	2,538
Disposals	(20)	-	(20)
Transfers	2,149	(2,149)	-
At 31 December 2010	**25,002**	**1,181**	**26,183**
Accumulated amortisation			
At 1 January 2010	(6,048)	(142)	(6,190)
Charge for the period	(2,786)	-	(2,786)
Disposals	13	-	13
At 31 December 2010	**(8,821)**	**(142)**	**(8,963)**
Net book value at 31 December 2010	**16,181**	**1,039**	**17,220**

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 2011	135,583	864,647	11,849	1 012 080
Additions	-	-	59,906	59,906
Disposals	(44)	(14,550)	-	(14,594)
Transfers – Assets held for sale	(46,985)	(7,131)	(645)	(54,761)
Transfers	3,868	63,928	(67,796)	-
At 31 December 2011	**92,422**	**906,894**	**3,314**	**1,002,631**
Accumulated depreciation				
At 1 January 2011	(36,680)	(290,745)	(538)	(327,963)
Additions	(2,929)	(62,153)	-	(65,082)
Disposals	14	13,979	-	13,993
Transfers – Assets held for sale	5,580	3,822	-	9,401
Impairment loss	6,834	1,566	-	8,400
At 31 December 2011	**(27,182)**	**(333,531)**	**(538)**	**(361,250)**
Net book value at 31 December 2011	**65,240**	**573,363**	**2,776**	**641,380**

(In thousands of EUR)	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
Acquisition cost				
At 1 January 2010	133,500	816,344	9,720	959,564
Additions	-	-	80,061	80,061
Disposals	(18)	(27,455)	(71)	(27,544)
Transfers	2,101	75,759	(77,860)	-
At 31 December 2010	**135,583**	**864,648**	**11,849**	**1,012,080**
Accumulated depreciation				
At 1 January 2010	(32,285)	(251,070)	-	(283,355)
Charge for the period	(2,409)	(59,144)	-	(61,553)
Disposals	7	25,061	-	25,068
Impairment loss	(1,993)	(5,592)	(538)	(8,123)
At 31 December 2010	**(36,680)**	**(290,745)**	**(538)**	**(327,963)**
Net book value at 31 December 2010	**98,903**	**573,903**	**11,312**	**684,118**

Included within land and buildings are halls used in the repair of locomotives and wagons, depots, stores, workshops and administrative buildings; and included within machines, equipment and other assets are 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 booked impairment losses on assets individually assessed as damaged or not capable for further use. The impairment losses were recorded in to reflect the amount of actual damage and/or in carrying amount as at 31 December 2011 respectively.

The impairment test of assets as required by IAS 36 was performed by the management of the Company at the year end. The recoverable amount of an assets is the a 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 a 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 were identified based on the impairment test by when comparing the recoverable amounts of the assets and its book carrying values. The relevant cash flows were estimated based on approved 2012 business plan updated for available information as 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 14 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. The calculation model incorporates expected increase in revenues, the decrease of the rail infrastructure fees, decrease of personal costs as result of employment termination program and cost cutting measures in accordance with railway revitalization project approved by the government. The discount rate in amount of 8.54 % 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 test, the Company decreased impairment lossess in amount EUR 8,400 thousand on assets as a result of higher usage of assets and the increase of cash flows from the revitalization program implemented in 2011.

Within property, plant and equipment are wagons acquired by means of finance lease with an aggregate value of EUR 140,510 thousand and computer technology with an aggregate value of EUR 2,772 thousand.

Property, plant and equipment in the ownership of the Company with a value of EUR 17,991 thousand (EUR 17,991 thousand at 31 December 2010) is registered by the State as protected for cultural purposes.

Property, plant and equipment are insured against (i) natural disaster, (ii) theft and vandalism and (iii) machinery (all risk cover). Risks (i) and (ii) are covered to a maximum of 300,841 EUR thousand (EUR 332,935 thousand in 2010) and (iii) to a maximum of EUR 560,145 thousand (EUR 560,145 thousand in 2010). In addition, motor vehicles have third party and accident insurance cover, the cost of which is immaterial.

The Company has reclassified certain assets as reported assets classified as held for sale (Note 25).

14. INVESTMENT IN JOINT VENTURE

The Company has a 40% interest in BULK TRANSSHIPMENT SLOVAKIA, a. s. (formerly DURBAN a.s.) which is involved in the loading of iron ore in Cierna 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.

	Equity		Profit (loss)	
(In thousands of EUR)	31 December 2011	31 December 2010	31 December 2011	31 December 2010
BULK TRANSSHIPMENT SLOVAKIA, a. s.	7,710	6,640	1,145	2,444

15. INVENTORIES

(In thousands of EUR)	At cost 2011	At lower of cost or net realizable value 2011	At cost 2010	At lower of cost or net realizable value 2010
Electrical materials	6,082	5,329	6,425	5,984
Machine and metal-working materials	5,849	4,832	6,576	5,858
Diesel fuel	2,164	2,112	2,109	2,075
Chemicals and rubber	488	488	485	485
Protective tools	330	279	298	222
Other	244	157	285	230
	15,157	**13,211**	**16,178**	**14,854**

16. TRADE AND OTHER RECEIVABLES

(In thousands of EUR)	31 December 2011	31 December 2010
Domestic trade receivables	35,813	38,156
Foreign trade receivables	16,486	16,105
VAT receivables	3,812	5,208
Other receivables	5,066	6,127
Allowance for impaired trade and other receivables	(5,682)	(5,279)
	55,495	**60,317**

At 31 December 2011 overdue receivables amounted to EUR 10,246 thousand (EUR 10,905 thousand at 31 December 2010). Trade receivables are non-interest bearing and are generally on 30-90 days' terms. For details of related party receivables, refer to Note 26. As at 31 December, the ageing analysis of trade receivables is as follows:

Year	Total	Neither past due nor impairedy	Past due but not impaired			
			< 180 days	180 – 270 days	270 – 365 days	> 365 days
2011	55,495	54,802	53	103	166	371
2010	60,317	59,892	99	74	57	225

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 2011	31 December 2010
Cash at banks and on hand and cash equivalents	71	393
Bank overdrafts	(64,535)	(5,499)
	(64,464)	**(5,106)**

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 2011		31 December 2010	
(In thousands of EUR)	Overdraft limit	Drawn down	Overdraft limit	Drawn down
Tatra banka, a.s.	29,875	21,430	29,875	2,732
Všeobecná úverová banka, a.s	23,500	16,667	-	-
UniCredit Bank Slovakia a.s.	17,593	11,058	17,593	402
Citibank (Slovakia) a.s.	13,278	7,614	13,278	860
Slovenská sporiteľňa, a.s.	10,000	1,750	10,000	395
Dexia banka Slovensko a.s.	-	-	13,278	-
Československá obchodná banka, a.s.	8,300	6,016	8,298	1,110
Calyon S.A., pobočka zahr. banky	16,597	-	3,319	-
	119,142	**64,535**	**95,641**	**5,499**

18. SHAREHOLDER'S EQUITY

Registered capital

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

Legal reserve fund

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

Based on the decision of the sole shareholder of the Company was dissolved on 9th November 2010, approved the use of the statutory reserve fund was utilized at its current level 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 MTPT, 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, and this is disclosed within finance income in the statement of comprehensive income comparatives as at 31 December 2009.

Distribution of loss from previous accounting period

The distribution of the 2010 statutory profit result was approved by the Company's General Meeting on 27 June 2011 and was booked to accumulated losses.

19. SUBORDINATED DEBT

Subordinated debt of EUR 165,970 thousand represents funding from the Ministry of Finance, approved by the Government on 4 March 2009 and received on 6 April 2009, to support the Company's operations. Under the terms of the agreement, the first principal repayment is was due in February 2011 and the loan has to be repaid in full by February 2019. Under Supplement No. 4 to the subordinated debt agreement dated 28 February 2012, the first payment is payable in May 2012 and whole subordinated debt is dueentire balance is due by within February 2019.

The loan bears interests of 6M EURIBOR + interest margin of 3.2%.

20. INTEREST-BEARING LOANS AND BORROWINGS

(In thousands of EUR)	Maturity date	31 December 2011	31 December 2010
Long-term loans			
Secured			
Express Slovakia	21 February 2012	1,497	9,846
Total		**1,497**	**9,846**
Short-term portion of loans		(1,497)	(8,349)
Long-term portion of loans		-	1,497
Short-term loans			
Secured			
Calyon S.A., pobočka zahr. banky (EUR)	29 February 2012	16,597	16,597
HSBC	31 August 2012	20,000	-
Citibank (Slovakia) a.s.	22 July 2011	-	8,000
Tatra banka, a.s.	30 April 2011	-	21,000
UniCredit Bank Slovakia a.s.	30 September 2011	-	15,000
Všeobecná úverová banka, a.s.	26 February 2012	-	23,500
Unsecured			
Československá obchodná banka, a.s.	29 February 2012	4,360	8,721
Dexia banka Slovensko, a.s.	31 August 2011	-	16,544
Short-term loans		**40,957**	**109,362**
Short-term portion of loans (see above)		**1,497**	**8,349**
Overdrafts (Note 17)		**64,535**	**5,499**
Total		**106,989**	**123,210**

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

All loans described as secured in the table above, other than the Express Slovakia loan, are secured by promissory notes with a value of EUR 87,337 thousand (EUR 90,043 thousand at 31 December 2010), and with a nominal value of EUR 139,830 thousand (EUR 137,683 thousand as of 31 December 2010). The Express Slovakia loan is secured on various wagons, each assigned a value of EUR 79 thousand in the respective guarantee agreement.

Under the terms of certain loan agreements the Company is required to meet a number of financial and non-financial covenants. All loan covenants are based on the Company's management accounts (as the Company no longer prepares Slovak GAAP financial statements). The Company complies with the debt service ratio but does not comply with the financial debt ratio at 31 December 2011.

The fair value of interest-bearing loans and borrowings amounts to EUR 106,989 thousand (EUR 125,337 thousand at 31 December 2010).

All interest-bearing loans and borrowings bear interest at floating rates which range from 2.933% to 5.096% (2.507% to 4.341% in 2010), except for the loan provided by Express Slovakia which bears interest at a fixed rate of 12.75%.

21. EMPLOYEE BENEFITS

(In thousands of EUR)	Retirement benefits	Jubilee payments	Disability benefits	Total
At 1 January 2011	10,562	3,578	512	14,652
Current service cost	414	129	-	543
Interest cost	528	179	26	733
Actuarial losses on obligation	1,105	514	(244)	1,375
Utilization	(517)	(431)	(61)	(1,009)
Transfers (Note 25)	(1,458)	(464)	(49)	(1,971)
At 31 December 2011	**10,633**	**3,505**	**184**	**14,322**
Current 31 December 2011	266	415	51	732
Non-current 31 December 2011	10,367	3,090	133	13,590
At 31 December 2011	**10,633**	**3,505**	**184**	**14,322**

(In thousands of EUR)	Retirement benefits	Jubilee payments	Disability benefits	Total
At 1 January 2010	8,933	2,893	475	12,301
Current service cost	343	105	-	448
Interest cost	447	145	24	616
Actuarial losses on obligation	(972)	(91)	(48)	(1,111)
Utilization	(454)	(395)	(71)	(921)
Past service cost	2,265	921	132	(3,318)
At 31 December 2010	**10,562**	**3,578**	**512**	**14,652**
Current 31 December 2010	140	433	88	661
Non-current 31 December 2010	10,422	3,145	424	13,991
At 31 December 2010	**10,562**	**3,578**	**512**	**14,652**

The principal actuarial assumptions used were as follows:	2011	2010
Discount rate (% p.a.)	5,0	5,0
Future salary increases (%)	2	3
Mortality probability (male) (%)	0,04 – 2,43	0,04 – 2,43
Mortality probability (female) (%)	0,02 – 0,91	0,02 – 0,91

The Company reported certain liabilities as liabilities directly associated with assets classified as held for sale (Note 25).

22. PROVISIONS

(In thousands of EUR)	Environ-mental	Onerous contracts	Legal	Terminations	Total
At 1 January 2011	34,700	1,901	15,869	11,319	63,789
Additions	40	-	2,990	745	3,775
Unwinding of discount	1,703	-	-	-	1,703
Reversals	(1,542)	(1,901)	(5,913)	(5,715)	(15,071)
Utilization	(610)	-	(6,594)	(5,604)	(12,807)
Transfers (Note 25)	(9,841)	-	-	-	(9,841)
At 31 December 2011	**24,450**	**-**	**6,352**	**745**	**31,547**
Current 31 December 2011	616	-	-	745	1,361
Non-current 31 December 2011	23,834		6,352	-	30,186
At 31 December 2011	**24,450**	**-**	**6,352**	**745**	**31,547**

(In thousands of EUR)	Environ-mental	Onerous contracts	Legal	Terminations	Total
At 1 January 2010	35,463	-	5,187	1,367	42,017
Additions	1,849	1,901	13,263	10,035	27,982
Unwinding of discount	1,524	-	-	68	1,592
Reversals	(2,940)	-	(908)	-	(3,848)
Utilization	(1,196)	-	(2,607)	(2,063)	(5,866)
Transfers	-	-	934	-	-
Past service cost	-	-	-	1,912	1,912
At 31 December 2010	**34,700**	**1,901**	**15,869**	**11,319**	**63,789**
Current 31 December 2010	649	1,901	-	11,319	13,869
Non-current 31 December 2010	34,051	-	15,869	-	49,920
At 31 December 2010	**34,700**	**1,901**	**15,869**	**11,319**	**63,789**

Environmental matters

During 2011, the Company updated its analysis of potential breaches of environmental regulations at its various sites, with the support of a specialist organisation, Centrum environmentalnych sluzieb, s.r.o. (previously operating under the name, Life & Waste, s.r.o.). As a result of this analysis, and based on the findings of Centrum environmentalnych sluzieb, s.r.o., the Company estimates that further operating expenditures of EUR 34,290 thousand (EUR 34,700 thousand at 31 December 2010) will be required to remedy the significant issues relating to water, oil and fuel management identified previously. Expenses will be incurred gradually between 2012 – 2014, and a discount. The discount rate of 5% p.a. was used during calculating.

Legal claims

Provisions for legal claims relate to a number of claims. The most significant amount represents cases with REFIN B.A., Ltd. of EUR 3,423 thousand and I4NEXT, Ltd. of EUR 2,301 thousand.

The Company has reclassified certain liabilities as liabilities directly associated with assets classified as held for sale.

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

(In thousands of EUR)	31 December 2011	31 December 2010
Domestic trade payables	178,529	148,278
Foreign trade payables	6,653	11,009
Payables due to employees	6,746	7,606
Payables due to social institutions	4,006	4,124
Other payables	14,478	12,035
	210,412	**183,052**

At 31 December 2011 overdue trade payables amounted to EUR 20,159 thousand (EUR 101,270 thousand at 31 December 2010). For details of related party payables, refer to Note 26.
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 2011	31 December 2010
At 1 January	**126**	**99**
Additions	710	769
Utilization	(702)	(742)
At 31 December	**134**	**126**

24. COMMITMENTS AND CONTINGENCIES

Finance lease commitments

At 31 December 2011 the Company has finance lease commitments relating to the acquisition of 1,274 wagons, 8 of powered vehicles and hardware equipment (1,034 at 31 December 2010). All leases are on a fixed repayment basis with interest rates variable dependentd on EURIBOR, except for leasing from AAE. Future minimum lease payments under finance leases, together with the present value of net minimum lease payments are as follows:

(In thousands of EUR)	31 December 2011		31 December 2010	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Within one year	17,996	14,602	15,079	12,269
After one year but not more than five years	69,361	62,143	65,946	59,512
More than five years	13,961	13,242	12,153	11,735
Total minimum lease payments	101,318	89,987	93,178	83,516
Less: future finance charges	(11,331)	-	(9,662)	-
Present value of minimum lease payments	**89,987**	**-**	**83,516**	**-**

Capital commitments

The Company's capital expenditure plans for the period 1 January 2012 to 31 December 2013 are as follows:

(In thousands of EUR)	31 December 2011	31 December 2010
Land and buildings	585	2,330
Machines, equipment and other assets	23,587	74,846
Intangible assets	-	2,315
	24,172	**79,491**

Of the total balance above, capital expenditures of EUR 24,172 thousand (EUR 79,491 thousand at 31 December 2010) are committed under contractual arrangements.

Contingencies

A former supplier of the Company's legal predecessors, ŽSR and ŽS, has commenced an action against the Company in respect of unpaid advance invoices and related penalty interest. Similar actions are being taken by several other parties to whom the original receivables were ceded. The total value of the claims (principal) against the Company is estimated at EUR 10,695 thousand. Management believe that these actions are unfounded as the supplier failed to meet the contractual conditions and, supported by their legal advisors, have determined that the likelihood of these actions succeeding is remote: accordingly, no provision for any liability has been made in these financial statements.

ČD CARGO, a.s. filed a lawsuit against the Company claiming an amount of EUR 1,475 thousand (including interest) in respect of unpaid VAT related to the Company's usage of their wagons for international transportation during the period 24 May 2007 through 3 May 2008. A payment order for the amount claimed was issued on 14 May 2009 by District Court Bratislava II and delivered to the Company on 30 June 2009. The Company appealed this payment order in the period stipulated by law and the

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

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

(In thousands of EUR)	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
Assets classified as held for sale as at 31 December 2011	**41,405**	**3,309**	**645**	**45,360**

(In thousands of EUR)	Employee benefits	Provisions		Total
Liabilities directly associated with assets classified as held for sale as at 31 December 2011	**1,971**	**9,841**		**11,812**

Based on the decision of the sole company shareholder, the Company began negotiations for the sale of immovable property tangible fixed assets which serve to perform maintenance and repair of machines and wagons. These property assets include land and buildings, machines and equipment and assets under construction. The Company valued the assets less at lower of the book value and fair value less by cost to sell. The assets held for sale are directly associated with environmental provisions created to eliminate contamination of the environment and employee benefits. The Company concluded this sales transaction as at 1 February 2012.

26. RELATED PARTY DISCLOSURES

Related parties of the Company comprise all companies under common ownership (meaning under the control of the State), the Company's joint venture and the Board of Directors.
The following tables provide the total amount of transactions which have been entered into with related parties for the years ended 31 December 2011 and 2010:

(In thousands of EUR)	31 December 2011			
Related party	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
ŽSR	1,720	96,677	1,002	113,905
ZSSK	57,450	1,049	12,206	278
Ministerstvo financií SR	-	7,841	-	165,970
Slovenský plynárenský priemysel	-	2,872	-	95
BTS (joint venture)	278	5,374	86	1,314
Other related parties	80	739	3	71

(In thousands of EUR)	31 December 2010			
Related party	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
ŽSR	2,656	169,679	1,305	111,184
ZSSK	69,910	1,940	7,995	206
Ministerstvo financií SR	-	7,139	-	168,430
Slovenský plynárenský priemysel	-	2,363	-	136
DURBAN a.s. (joint venture)	481	5,824	527	1,643
Other related parties	96	3,167	1	201

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

Statutory bodies

Members of the Company's statutory bodies as registered in the Commercial Register at the District Court Bratislava I at 31 December 2011 are as follows:

Board of Directors:

Ing. Vladimír Ľupták, chairman (since 26 April 2012)
Ing. Jaroslav Daniška, vice-chairman (since 26 April 2012)
Ing. Peter Fejfar, member (since 26 April 2012)
Ing. Pavol Ďuriník, PhD., chairman (to 25 April 2012)
Ing. Mgr. Martin Štochmaľ,PhD., vice-chairman (to 25 April 2012)
Ing. Jozef Virba, member (to 25 April 2012)
Ing. Jozef Melník (to 8 February 2011)
Ing. Peter Pavlík (to 17 March 2011)
Ing. Pavol Mišík (to 17 March 2011)

Supervisory Board:

Ing. Karol Jasenovský, chairman
Bc. Anton Andel
Ján Baláž
Michal Bróska
Ing. Ľudovít Kulcsár
JUDr. Ivo Nesrovnal

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

The Board of Directors' total remuneration approximated EUR 28 thousand (EUR 37 thousand in 2010). The total remuneration of members of the Supervisory Board amounted to EUR 28 thousand (EUR 25 thousand in 2010).

Loans granted

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

27. FINANCIAL RISK MANAGEMENT

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

In the past the Company has entered into derivative transactions, including forwards, options and swaps, to manage the currency risks arising from its operations.

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

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates to the Company's long-term and short-term borrowing obligations 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 thousand of EUR)	31 December 2011	31 December 2010
EURIBOR (+0.5%)	517	517
EURIBOR (-0.5%)	(517)	(517)

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 2011 and 2010 consist of the following:

(In thousand of EUR)	31 December 2011	31 December 2010
Long-term loan facilities available	9,629	33,155
Short-term loan facilities available	36,151	27,687
Total loan facilities available	**45,780**	**60,842**

As at 31 December 2011 the Company did not have use any banks guarantees (EUR 0 thousand at 31 December 2010).

Interest rate risk (continued)

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2011 based on contractual undiscounted payments.

(In thousand of EUR)	On demand	Less then 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Subordinated debt	-	-	19,500	78,000	68,470	165,970
Long-term loans	-	1,497	-	-	-	1,497
Trade and other payables	20,159	39,636	7,110	1,394	86,021	154,320
Obligations under finance leases	-	476	14,126	62,143	13,242	89,987
Short-term loans	-	22,683	82,809	-	-	105,492
	20,159	**64,292**	**123,545**	**141,537**	**167,733**	**517,266**

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2010 based on contractual undiscounted payments.

(In thousand of EUR)	On demand	Less then 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Subordinated debt	-	-	19,500	78,000	68,470	165,970
Long-term loans	-	1,992	6,357	1,497	-	9,846
Trade and other payables	140,178	42,874	-	-	-	183,052
Obligations under finance leases	-	480	11,789	59,520	11,727	83,516
Short-term loans	-	3,684	82,206	28,971	-	114,861
	140,178	**49,030**	**119,852**	**167,988**	**80,197**	**557,247**

Credit risk

The Company provides a variety of customers with products and services, none of whom, based on volume and creditworthiness, present a significant credit risk, individually or in aggregate. The Company has three major customers, US Steel Košice, Budamar Logistics and Express Slovakia, sales to which represent 51% of transport and related revenues (65% in 2010), 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 book value of financial assets, including derivative financial instruments, recognised in the balance sheet reduced by impairment provisions 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 2011 and 31 December 2010.

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 2011 the ratio has deteriorated in comparison with previous period, where the debt to equity ratio was considered by the Company as reasonable.

(In thousands of EUR)	31 December 2011	31 December 2010
Long-term debt, net of current portion (excluding subordinated debt and finance lease obligations)	-	1,497
Short-term debt, including current portion of long-term debt (excluding finance lease obligations)	106,989	123,210
Debt	**106,989**	**124,707**
Equity	**143,315**	**143,646**
Debt to equity ratio (%)	**75%**	**87%**

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 2011

ZSSK CARGO

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Železničná spoločnosť Cargo Slovakia, a.s. and its joint venture ('the Group'), which consist of the statement of financial position as at 31 December 2011 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU.

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.

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Emphasis of Matter

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

i.. As set out in Note 2.1 to the financial statements, the Company reported a profit for the year of EUR 96 thousand and total accumulated losses from previous years of EUR 258,016 thousand. The future of the Company depends on the implementation of new measures directly linked to the new revitalization program for the railways sector passed by the Slovak government. This situation indicates the existence of a material uncertainty which casts significant doubt on the Company's ability to continue as a going concern.

ii. As set out in Note 22 to the financial statements, the Company recorded provisions of EUR 24,450 thousand for potential environmental remediation. Estimates of the future costs relating to environmental remediation are not necessarily accurate due to uncertainties involving the constant development of laws and regulatory requirements on the environment and the methods, timing and extent of corrective action, and so cannot be precisely specified. These costs could have a significant impact on the Company's financial results in future accounting periods.

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

17 May 2012
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.	*Ing. Peter Uram-Hrišo*
SKAU Licence No. 257	*UDVA Licence No. 996*

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a v zozname audítorov vedenom Slovenskou komorou audítorov pod č. 257.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

(In thousands of EUR)	Note	31 December 2011	31 December 2010
Revenues			
Transport and related revenues	3	320,894	327,533
Other revenues	4	50,135	50,672
		371,029	**378,205**
Costs and expenses			
Consumables and services	5	(188,769)	(261,449)
Staff costs	6	(104,389)	(131,856)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	12, 13	(59,846)	(73,173)
Other operating expenses, net	7	(1,136)	(16,208)
		(354,141)	**(482,686)**
Finance (costs) income			
Finance costs	8	(17,071)	(17,691)
Other finance costs	9	(149)	(467)
Share of the profit of the joint venture		428	1,115
		(16,792)	**(17,043)**
Profit (loss) for the period		**96**	**(121,524)**
Other comprehensive income: Net movement on cash flow hedges		-	-
Other comprehensive income for the period		**-**	**-**
Total comprehensive income for the period		**96**	**(121,524)**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

(In thousands of EUR)	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	13	641,380	684,118
Intangible assets	12	16,815	17,220
Investment in joint ventures	14	3,084	2,656
Other non-current assets	10	615	1,015
		661,894	**705,009**
Current assets			
Inventories	15	13,211	14,854
Trade and other receivables	16	55,495	60,317
Cash and cash equivalents	17	71	393
		68,777	**75,564**
Assets held for sale	**25**	**45,360**	**-**
		114,137	**75,564**
TOTAL ASSETS		**776,031**	**780,573**
EQUITY AND LIABILITIES			
Shareholder's equity			
Registered capital	18	401,646	401,646
Other funds	18	1,228	1,228
Accumulated losses	18	(258,016)	(258,113)
Total equity		**144,858**	**144,761**
Non-current liabilities			
Subordinated debt	19	146,470	146,470
Interest-bearing loans and borrowings	20	-	1,497
Employee benefits	21	13,590	13,991
Provisions	22	30,186	49,920
Trade and other payables	23	56,092	-
Obligations under finance leases	24	75,385	71,247
Other non-current liabilities	23	134	126
		321,857	**283,251**
Current liabilities			
Subordinated debt	19	19,500	19,500
Interest-bearing loans and borrowings	20	106,989	123,210
Employee benefits	21	732	661
Provisions	22	1,361	13,869
Trade and other payables	23	154,320	183,052
Obligations under finance leases	24	14,602	12,269
		297,504	**352,561**
Liabilities directly associated with assets classified as held for sale	25	11,812	-
Total liabilities		**631,173**	**635,812**
TOTAL EQUITY AND LIABILITIES		**776,031**	**780,573**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

(In thousands of EUR)	Registered capital	Legal reserve fund	Other funds	Accu-mulated losses	Total
At 1 January 2010	**401,646**	**38,448**	**1,228**	**(175,037)**	**266,285**
Profit for the period	-	-	-	(121,524)	(121,524)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	(121,524)	(121,524)
Creation of legal reserve fund	-	(38,448)	-	38,448	-
At 31 December 2010	**401,646**	**-**	**1,228**	**(258,113)**	**144,761**
Loss for the period	-	-	-	96	96
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	96	96
At 31 December 2011	**401,646**	**-**	**1,228**	**(258,016)**	**144,858**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

(In thousands of EUR)	Note	31 December 2011	31 December 2010
Operating activities			
Net loss		96	(121,524)
Adjustments to reconcile net profit (loss) to net cash flows:			
Non-cash items			
■ Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	12, 13	59,689	73,173
■ Loss (gain) on sale of property, plant and equipment	7	0	(30)
■ Interest expense	8	23,044	17,691
■ Interest income		(21)	(20)
■ Movements in provisions and employee benefits		(22,171)	18,900
		60,637	**(11,810)**
Working capital adjustments			
■ Decrease in inventories		1,021	2,755
■ Decrease in trade and other receivables		4,818	14,831
■ Increase in trade and other payables		50,900	122,541
Net cash flows from operating activities		**117,376**	**128,317**
Investing activities			
Purchase of property, plant and equipment	12, 13	(62,506)	(82,571)
Proceeds from sale of property, plant and equipment		601	1,773
Share of the profit of the joint venture		(428)	(1,115)
Net cash flows used in investing activities		**(62,333)**	**(81,913)**
Financing activities			
Proceeds from loans and borrowings		2,509,264	3,824,439
Repayment of loans and borrowings		(2,586,017)	(3,819,296)
Interest paid		(20,608)	(12,647)
Interest received		21	20
Principal payments under finance lease obligations		(17,061)	(16,585)
Net cash flows used in financing activities		**(114,401)**	**(24,069)**
Net (decrease) increase in cash and cash equivalents		**(59,358)**	**22,335**
Cash and cash equivalents at 1 January	**17**	**(5,106)**	**(27,441)**
Cash and cash equivalents at 31 December	**17**	**(64,464)**	**(5,106)**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Corporate information

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

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

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

Principal activities

ZSSK CARGO's main business is the provision of freight transportation and related services. Additionally, the Company rents properties and provides repair and maintenance, cleaning and other support services to ZSSK. The Company is organized and managed as a single business segment and is viewed as a single operating segment 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 consolidated financial statements are placed 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

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 17 May 2012. The General Meeting held on 27 June 2011 approved the Group's financial statements for the previous accounting period.

The financial statements have been prepared on a historical cost basis, except for certain derivative financial instruments that have been measured at fair value. These financial statements constitute the statutory accounts of ZSSK CARGO and its joint venture ("the Group"), prepared in accordance with Article 22 (1) of Slovak Act No. 431/2002 Coll. on Accounting for the accounting period from 1 January, 2011 to 31 December, 2011.

The financial statements were prepared using the going concern assumption that the Group will continue its operations for the foreseeable future. Group reported a profit for the year of EUR 96 thousand. In 2011, the Group has implemented corrective measures approved by the Government for the revitalization of the railway sector. Reduction of rail transportation fees and the optimization of employment and operating costs were a precondition for achieving a balanced result.

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 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 accounting policies adopted have been consistently applied to all the years presented, except where disclosed otherwise in the Notes to the financial statements.

In the current year, the Group has adopted all of the new and revised standards and interpretations issued by the IASB and IFRIC. Adoption of these standards and interpretations did not have any significant impact on the financial statements of the Group.

The following new standards, amendments to standards and interpretations are not yet effective for the financial year ended 31 December 2011, and have not been applied in preparing the financial statements:

- Revised IAS 24 Related Party Disclosure exempts government-related entities from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. Revised IAS 24 which becomes effective for annual periods beginning on or after 1 January 2011 is not expected to result in new relations requiring disclosure in the financial statements.
- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment is not relevant for the Group as it does not issue such financial instruments.
- Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction addresses the accounting treatment for prepayments made when there is also a minimum funding requirement (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendments to IFRIC 14 which become effective for annual periods beginning on or after 1 January 2011 are not relevant to the Group's financial statements as the Group does not have any defined benefit plans with minimum funding requirements.
- Amendments to IFRS 7 Disclosures – Transfer of Financial Assets require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. The Amendments define "continuing involvement" for the purpose of applying the disclosure requirements. The Amendments are effective for annual periods beginning on or after 1 July 2011; to be applied prospectively. Early application is permitted. The Group does not expect the amendments to IFRS 7 to have material impact on the financial statements, because of the nature of the Group's operations and the types of financial assets that it holds.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments

vary by standard. The Group does not expect these amendments to have any significant impact on the financial statements.

Standards, interpretations and amendments to published standards effective in 2011 and not applicable to the Group:

- IFRS1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosure for First-time Adopters

Improvements to the International Financial Reporting Standards

In May 2010, the IASB issued an omnibus of amendments to IAS standards and IFRIC interpretations, primarily with a view to removing inconsistencies and clarifying wording. The following standards and interpretations were amended:

- IFRS 3 Business Combinations, effective for annual periods beginning on or after 1 July 2010
- IAS 34 Interim Financial Reporting, effective for annual periods beginning on or after 1 January 2011
- IFRIC 13 Customer Loyalty Programmes, effective for annual periods beginning on or after 1 January 2011
- IAS 27 Consolidated and Separate Financial Statements, effective for annual periods beginning on or after 1 July 2010

Standards, interpretations and amendments to published standards that have been published, are not effective for accounting periods starting on 1 January 2011, and for which the Group has not opted for early adoption:

- IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Effective for annual periods beginning on or after 1 July 2011.)
- IFRS 7 Financial Instruments: Disclosures (Amendment) (Effective for annual periods beginning on or after 1 July 2011.)
- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets (Effective for annual periods beginning on or after 1 January 2012.)
- IFRS 9 Financial Instruments – Classification and Measurement (Effective for annual periods beginning on or after 1 January 2013.)
- IFRS 10 Consolidate Financial Statements, IAS 27 Separate Financial Statements (Effective for annual periods beginning on or after 1 January 2013.)
- IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures (Effective for annual periods beginning on or after 1 January 2013.)
- IFRS 12 Disclosure of Interests in Other Entities (Effective for annual periods beginning on or after 1 January 2013.)
- IFRS 13 Fair Value Measurement (Effective for annual periods beginning on or after 1 January 2013.)
- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 (Effective for annual periods beginning on or after 1 July 2012.)
- IAS 19 Employees Benefits (Revised) (Effective for annual periods beginning on or after 1 January 2013.)

The Group plans to adopt all standards from their effective date.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgments in applying the accounting policies

In the process of applying the 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 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 defer 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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

The Group’s functional and presentation currency is the Euro which became the official currency of the Slovak Republic on 1 January 2009, replacing the Slovak Crown, which had previously been the Group’s functional and presentation currency. The change in functional currency was implemented prospectively as of 1 January 2009 and all the Group’s assets, liabilities and equity were converted into Euro based on the official conversion rate EUR1 = SKK30.1260. Comparative financial statements for the previous year were also converted to Euro based on the official conversion rate.

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 taken to the statement of comprehensive income. Non-monetary items that are measured in terms of 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 stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred, if the recognition criteria are met. Also general repairs are stated at cost, if criteria are met.

Maintenance, repairs and minor renewals are charged to the statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis over the useful life of the assets (8-50 years for buildings, 3-40 years for machines, equipment and other assets).

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 included in the statement of comprehensive income in the year the asset is derecognised.

When property, plant and equipment meet the criteria to be classified as held for sale, they are stated at whichever is 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 carried 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 included in the statement of comprehensive income 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 valued 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

Securities and interests in joint ventures that are not classified as held for sale are reported 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. The Group determines the classification of its financial assets at initial recognition. Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group's financial assets comprise cash at bank and on hand and cash equivalents, trade and other receivables and derivative financial instruments.

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. Derivates 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. After initial measurement loans and receivables are subsequently carried at amortized cost using the effective interest rate method (EIR) less any allowance for impairment. 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 the 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 2011 and 2010, no financial assets have been designated as held-to-maturity investments.

Available-for-sale financial assets

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

After initial recognition available-for--sale financial assets are evaluated 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.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment 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 and in the case of loans and borrowings, plus directly attributable transaction costs.

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

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 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. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

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

Loans and borrowings & subordinated debt

After initial recognition, interest bearing loans and borrowings are subsequently 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 carried at amortized cost, being 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 recorded within 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 vale 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 carried on 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, 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 or cancelled or expires.

Derivative financial instruments and hedging activities

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 how 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 attribu-

table 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 its 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.

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 payment 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 when 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.

Taxes

Current income tax

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

Deferred income tax

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

Deferred tax liabilities are recognised for all taxable temporary differences.

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

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

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

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

3. TRANSPORT AND RELATED REVENUES

(In thousands of EUR)	31 December 2011	31 December 2010
Inland transport:		
■ Transport of goods	34,561	35,193
■ Wagon deposition	11,101	15,692
■ Haulage fees	788	739
	46,450	**51,624**
International transport:		
■ Import	118,709	126,802
■ Export	113,670	112,012
■ Transit	20,715	21,919
	253,095	**260,733**
Other transport related revenues:		
■ Usage of wagons under RIV, PPV and GCU regimes	7,759	730
■ Wagon rentals	6,535	7,964
■ Border services	3,892	3,781
■ Other	3,163	2,701
	21,349	**15,176**
	320,894	**327,533**

Included in transport and related revenues are amounts invoiced to US Steel Košice of EUR 73,233 thousand (2010: EUR 88,916 thousand) and to Budamar Logistics of EUR 69,682 thousand (2010: EUR 59,018 thousand).

4. OTHER REVENUES

(In thousands of EUR)	31 December 2011	31 December 2010
Repairs and maintenance	32,468	34,011
Operational performance	9,527	8,327
Property rentals	3,978	3,807
Other	4,162	4,527
	50,135	**50,672**

Included in other revenues are amounts charged to ZSSK of EUR 35,431 thousand (2010: EUR 47,494 thousand) for repair and maintenance, operational performance, property rental and other support services.

5. CONSUMABLES AND SERVICES

(In thousands of EUR)	31 December 2011	31 December 2010
Network fees	(53,393)	(123,206)
Traction electricity	(35,336)	(32,939)
Materials	(25,227)	(26,352)
Traction diesel oil	(18,709)	(14,574)
Wagon rentals	(13,816)	(17,304)
IT services and telecommunication charges	(8,622)	(10,361)
Other energy costs	(8,064)	(8,152)
Third party loading services	(4,957)	(5,475)
Border services	(4,342)	(4,317)
Rentals	(3,663)	(3,517)
Repair and maintenance	(2,495)	(1,871)
Security services	(2,110)	(3,497)
Advisory and consultancy fees	(1,824)	(1,938)
Travelling and entertainment	(1,404)	(1,595)
Cleaning	(1,013)	(1,355)
Medical care	(450)	(759)
Training	(459)	(515)
Other	(2,885)	(3,722)
	(188,769)	**(261,449)**

Included in consumables and services are amounts charged by ŽSR of EUR 96,677 thousand (2010: EUR 169,679 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 26).

6. STAFF COSTS

(In thousands of EUR)	31 December 2011	31 December 2010
Wages and salaries	(74,922)	(82,094)
Social security costs	(33,687)	(35,159)
Employee benefits (Note 21)	(1,918)	(2,656)
Termination payments (Note 22)	6,138	(11,947)
	(104,389)	**(131,856)**

Average employee numbers were 8,701 (2010: 9,614), of whom six were members of management (as members of the Board of Directors or directors of individual departments).
The average salary amounted to EUR 733 (2010: EUR 740).

7. . OTHER OPERATING EXPENSES, NET

(In thousands of EUR)	31 December 2011	31 December 2010
Provision for environmental matters (Note 22)	(21)	1,065
Gains on sale of property, plant and equipment	1,251	1,522
Provision for legal cases and onerous contracts (Note 22)	2,746	(14,245)
Allowance for doubtful debts	(404)	44
Insurance of assets	(2,574)	(2,711)
Other	(2,134)	(1,883)
	(1,136)	**(16,208)**

8. FINANCE COSTS

(In thousands of EUR)	31 December 2011	31 December 2010
Interest on loans and borrowings	(4,781)	(5,660)
Interest on subordinated debt	(7,841)	(7,139)
Finance charges payable under finance leases	(3,537)	(2,685)
Unwinding of discount on provisions and employee benefits	(912)	(2,207)
	(17,071)	**(17,691)**

9. FINANCE COSTS

(In thousand of EUR)	31 December 2011	31 December 2010
Foreign exchange losses, net	(4)	(303)
Other	(145)	(164)
	(149)	**(467)**

10. OTHER NON-CURRENT ASSETS

(In thousand of EUR)	31 December 2011	31 December 2010
Prepaid expenses	615	1,015
	615	**1,015**

11. INCOME TAX

The tax charge for the year was nil (2010 – nil). 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 2011	31 December 2010
(Loss) profit before tax	96	(121,524)
Tax credit (charge) at statutory tax rate of 19%	19	(23,090)
Forfeit tax loss carry forwards	2,269	6,746
Change in valuation allowance	(2,297)	16,758
Non-deductible expenses	9	(414)
Total income tax	**-**	**-**

Deferred tax assets and liabilities at 31 December related to the following:

(In thousands of EUR)	31 December 2011	31 December 2010
Deferred tax assets		
Tax loss carry forwards	54,727	58,538
Provision for environmental matters	6,515	6,593
Provision for employee benefits	3,096	2,784
Allowance for trade and other receivables	1,080	1,003
Allowance for inventories	370	252
Provision for legal cases and onerous contracts	1,207	2,674
Termination payments	142	2,151
Other	2,378	2,199
	69,515	**76,194**
Deferred tax liabilities		
Accelerated depreciation for tax purposes	(23,628)	(28,108)
Deferred tax on revaluation of joint venture	(298)	(212)
Other	(125)	(112)
	(24,051)	**(28,432)**
Valuation allowance	**(45,464)**	**(47,762)**
Net deferred tax assets (liabilities)	**-**	**-**

A valuation allowance of EUR 45,46 thousand (EUR 47,762 thousand at 31 December 2010) 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.

The Group's income tax loss carry forwards arose in the fiscal years 2006-2011 and amount to EUR 288,039 thousand. Under Slovak tax legislation a Group is entitled to carry forward tax losses incurred prior to 31 December 2009 for five years and tax losses incurred thereafter for seven years. The carry forwards expire as follows:

(In thousands of EUR)	31 December 2011	31 December 2010
2011	-	11,940
2012	28,485	28,485
2013	50,823	50,823
2014	140,460	140,460
2017	66,553	76,387
2018	1,738	-
Total tax loss carry forwards	**288,039**	**308,095**

12. INTANGIBLE ASSETS

(In thousands of EUR)	Software	Assets under development	Total
Acquisition cost			
At 1 January 2011	25,002	1,181	26,183
Additions	-	2,611	2,611
Disposals	(1,085)	-	(1,085)
Transfers	3,301	(3,301)	-
At 31 December 2011	**27,218**	**491**	**27,709**
Accumulated amortisation			
At 1 January 2011	(8,821)	(142)	(8,963)
Charge for the period	(3,007)	-	(3,007)
Disposals	1,076	-	1,076
At 31 December 2011	(10,752)	(142)	(10,894)
Net book value at 31 December 2011	**16,466**	**349**	**16,815**

(In thousands of EUR)	Software	Assets under development	Total
Acquisition cost			
At 1 January 2010	22,873	792	23,665
Additions	-	2,538	2,538
Disposals	(20)	-	(20)
Transfers	2,149	(2,149)	-
At 31 December 2010	**25,002**	**1,181**	**26,183**
Accumulated amortisation			
At 1 January 2010	(6,048)	(142)	(6,190)
Charge for the period	(2,786)	-	(2,786)
Disposals	13	-	13
At 31 December 2010	**(8,821)**	**(142)**	**(8,963)**
Net book value at 31 December 2010	**16,181**	**1,039**	**17,220**

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 2011	135,583	864,647	11,849	1 012 080
Additions	-	-	59,906	59,906
Disposals	(44)	(14,550)	-	(14,594)
Transfers – Assets held for sale	(46,985)	(7,131)	(645)	(54,761)
Transfers	3,868	63,928	(67,796)	-
At 31 December 2011	**92,422**	**906,894**	**3,314**	**1,002,631**
Accumulated depreciation				
At 1 January 2011	(36,680)	(290,745)	(538)	(327,963)
Additions	(2,929)	(62,153)	-	(65,082)
Disposals	14	13,979	-	13,993
Transfers – Assets held for sale	5,580	3,822	-	9,401
Impairment loss	6,834	1,566	-	8,400
At 31 December 2011	**(27,182)**	**(333,531)**	**(538)**	**(361,250)**
Net book value at 31 December 2011	**65,240**	**573,363**	**2,776**	**641,380**

(In thousands of EUR)	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
Acquisition cost				
At 1 January 2010	133,500	816,344	9,720	959,564
Additions	-	-	80,061	80,061
Disposals	(18)	(27,455)	(71)	(27,544)
Transfers	2,101	75,759	(77,860)	-
At 31 December 2010	**135,583**	**864,648**	**11,849**	**1,012,080**
Accumulated depreciation				
At 1 January 2010	(32,285)	(251,070)	-	(283,355)
Charge for the period	(2,409)	(59,144)	-	(61,553)
Disposals	7	25,061	-	25,068
Impairment loss	(1,993)	(5,592)	(538)	(8,123)
At 31 December 2010	**(36,680)**	**(290,745)**	**(538)**	**(327,963)**
Net book value at 31 December 2010	**98,903**	**573,903**	**11,312**	**684,118**

Included within land and buildings are halls used in the repair of locomotives and wagons, depots, stores, workshops and administrative buildings; and included within machines, equipment and other assets are 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 booked 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.

The impairment test required by IAS 36 was performed by management of the Group at the year end. 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 were identified based on the impairment test when comparing the recoverable amounts of the assets and carrying values. The relevant cash flows were estimated based on approved 2012 business plan updated for available information as 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 14 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 8.54% 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 test, the Group decreased impairment losses by EUR 8,400 thousand due to higher usage of assets and the increase of cash flows from the revitalization program implemented in 2011.

Within property, plant and equipment are wagons acquired by means of finance lease with an aggregate value of EUR 140,510 thousand (EUR 117,036 thousand at 31 December 2010).

Property, plant and equipment in the ownership of the Group with a value of EUR 17,991 thousand (EUR 17,991 thousand at 31 December 2010) is registered by the State as protected for cultural purposes.

Property, plant and equipment are insured against (i) natural disaster, (ii) theft and vandalism and (iii) machinery (all risk cover). Risks (i) and (ii) are covered to a maximum of 300,841 EUR thousand (EUR 332,935 thousand in 2010) and (iii) to a maximum of EUR 560,145 thousand (EUR 560,145 thousand in 2010). In addition, motor vehicles have third party and accident insurance cover, the cost of which is immaterial.

The Group has reclassified certain assets as held for sale (Note 25).

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The Group has a 40% interest in BULK TRANSSHIPMENT SLOVAKIA, a. s. (formerly DURBAN a.s.), which is involved in the loading of iron ore in Cierna na 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 joint venture.

The Group's share of the assets and liabilities as at 31 December 2010 and 2009 and income and expenses for the years then ended of the jointly controlled entity are as follows:

(In thousands of EUR)	31 December 2011	31 December 2010
Current assets	1,239	1,918
Non-current assets	5,289	5,382
Total assets	**6,528**	**7,300**
Current liabilities	710	338
Non-current liabilities	2,734	4,306
Total liabilities	**3,444**	**4,644**
Net assets	**3,084**	**2,656**

(In thousands of EUR)	31 December 2011	31 December 2010
Revenues	2,569	2,432
Cost of sales	(715)	(464)
Other expenses (net)	(1,266)	(788)
Profit before income tax	**587**	**1,180**
Income tax expense	(130)	(202)
Net profit (loss)	**458**	**978**

15. INVENTORIES

(In thousands of EUR)	At cost 2011	At lower of cost or net realizable value 2011	At cost 2010	At lower of cost or net realizable value 2010
Electrical materials	6,082	5,329	6,425	5,984
Machine and metal-working materials	5,849	4,832	6,576	5,858
Diesel fuel	2,164	2,112	2,109	2,075
Chemicals and rubber	488	488	485	485
Protective tools	330	279	298	222
Other	244	157	285	230
	15,157	**13,211**	**16,178**	**14,854**

16. TRADE AND OTHER RECEIVABLES

(In thousands of EUR)	31 December 2011	31 December 2010
Domestic trade receivables	35,813	38,156
Foreign trade receivables	16,486	16,105
VAT receivables	3,812	5,208
Other receivables	5,066	6,127
Allowance for impaired trade and other receivables	(5,682)	(5,279)
	55,495	**60,317**

At 31 December 2011 overdue receivables amounted to EUR 10,246 thousand (EUR 10,905 thousand at 31 December 2010).
Trade receivables are non-interest bearing and are generally on 30-90 days' terms.
For details of related party receivables, refer to Note 26.
As at 31 December, the ageing analysis of trade receivables is as follows:

Year	Total	Neither past due nor impairedy	Past due but not impaired			
			< 180 days	180 – 270 days	270 – 365 days	> 365 days
2011	55,495	54,802	53	103	166	371
2010	60,317	59,892	99	74	57	225

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 2011	31 December 2010
Cash at banks and on hand and cash equivalents	71	393
Bank overdrafts	(64,535)	(5,499)
	(64,464)	**(5,106)**

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 2011		31 December 2010	
(In thousands of EUR)	**Overdraft limit**	**Drawn down**	**Overdraft limit**	**Drawn down**
Tatra banka, a.s.	29,875	21,430	29,875	2,732
Všeobecná úverová banka, a.s	23,500	16,667	-	-
UniCredit Bank Slovakia a.s.	17,593	11,058	17,593	402
Citibank (Slovakia) a.s.	13,278	7,614	13,278	860
Slovenská sporiteľňa, a.s.	10,000	1,750	10,000	395
Dexia banka Slovensko a.s.	-	-	13,278	-
Československá obchodná banka, a.s.	8,300	6,016	8,298	1,110
Calyon S.A., pobočka zahr. banky	16,597	-	3,319	-
	119,142	**64,535**	**95,641**	**5,499**

18. SHAREHOLDER'S EQUITY

Registered capital

Registered capital represents the State's investment in the Group, held through MTPT, made through the contribution of certain assets and liabilities of the Group's predecessor, ŽS, and comprises 121 registered ordinary shares, each with a face 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 be increased by amounts 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 MTPT, 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 loss from previous accounting period

The distribution of the 2010 statutory profit was approved by the Group's General Meeting on 27 June 2011 and was booked to accumulated losses.

19. SUBORDINATED DEBT

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

Under Supplement No. 4 to the subordinated debt agreement dated 28 February 2012, the first payment is payable in May 2012 and entire balance is due by February 2019.

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

20. INTEREST-BEARING LOANS AND BORROWINGS

(In thousands of EUR)	Maturity date	31 December 2011	31 December 2010
Long-term loans			
Secured			
Express Slovakia	21 February 2012	1,497	9,846
Total		**1,497**	**9,846**
Short-term portion of loans		(1,497)	(8,349)
Long-term portion of loans		-	1,497
Short-term loans			
Secured			
Calyon S.A., pobočka zahr. banky (EUR)	29 February 2012	16,597	16,597
HSBC	31 August 2012	20,000	-
Citibank (Slovakia) a.s.	22 July 2011	-	8,000
Tatra banka, a.s.	30 April 2011	-	21,000
UniCredit Bank Slovakia a.s.	30 September 2011	-	15,000
Všeobecná úverová banka, a.s.	26 February 2012	-	23,500
Unsecured			
Československá obchodná banka, a.s.	29 February 2012	4,360	8,721
Dexia banka Slovensko, a.s.	31 August 2011	-	16,544
Short-term loans		**40,957**	**109,362**
Short-term portion of loans (see above)		**1,497**	**8,349**
Overdrafts (Note 17)		**64,535**	**5,499**
Total		**106,989**	**123,210**

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

All loans described as secured in the table above, other than the Express Slovakia loan, are secured by promissory notes with a value of EUR 87,337 thousand (EUR 90,043 thousand at 31 December 2010), and with a nominal value of EUR 139,830 thousand (EUR 137,683 thousand as of 31 December 2010). The Express Slovakia loan is secured on various wagons, each assigned a value of EUR 79 thousand in the respective guarantee agreement.

Under the terms of certain loan agreements the Group is required to meet a number of financial and non-financial covenants. All loan covenants are based on the Group's management accounts (as the Group no longer prepares Slovak GAAP financial statements). The Group complies with the debt service ratio but not with the financial debt ratio at 31 December 2011.

The fair value of interest-bearing loans and borrowings amounts to EUR 106,989 thousand (EUR 125,337 thousand at 31 December 2010).

All interest-bearing loans and borrowings bear interest at floating rates which range from 2.933% to 5.096% (2.507% to 4.341% in 2010), except for the loan provided by Express Slovakia which bears interest at a fixed rate of 12.75%.

21. EMPLOYEE BENEFITS

(In thousands of EUR)	Retirement benefits	Jubilee payments	Disability benefits	Total
At 1 January 2011	10,562	3,578	512	14,652
Current service cost	414	129	-	543
Interest cost	528	179	26	733
Actuarial losses on obligation	1,105	514	(244)	1,375
Utilization	(517)	(431)	(61)	(1,009)
Transfers	(1,458)	(464)	(49)	(1,971)
At 31 December 2011	**10,633**	**3,505**	**184**	**14,322**
Current 31 December 2011	266	415	51	732
Non-current 31 December 2011	10,367	3,090	133	13,590
At 31 December 2011	**10,633**	**3,505**	**184**	**14,322**

(In thousands of EUR)	Retirement benefits	Jubilee payments	Disability benefits	Total
At 1 January 2010	8,933	2,893	475	12,301
Current service cost	343	105	-	448
Interest cost	447	145	24	616
Actuarial losses on obligation	(972)	(91)	(48)	(1,111)
Utilization	(454)	(395)	(71)	(921)
Past service cost	2,265	921	132	(3,318)
At 31 December 2010	**10,562**	**3,578**	**512**	**14,652**
Current 31 December 2010	140	433	88	661
Non-current 31 December 2010	10,422	3,145	424	13,991
At 31 December 2010	**10,562**	**3,578**	**512**	**14,652**

The principal actuarial assumptions used were as follows:	2011	2010
Discount rate (% p.a.)	5,0	5,0
Future salary increases (%)	2	3
Mortality probability (male) (%)	0,04 – 2,43	0,04 – 2,43
Mortality probability (female) (%)	0,02 – 0,91	0,02 – 0,91

The Company has reclassified certain liabilities as liabilities directly associated with assets classified as held for sale (Note 25).

22. PROVISIONS

(In thousands of EUR)	Environ-mental	Onerous contracts	Legal	Terminations	Total
At 1 January 2011	34,700	1,901	15,869	11,319	63,789
Additions	40	-	2,990	745	3,775
Unwinding of discount	1,703	-	-	-	1,703
Reversals	(1,542)	(1,901)	(5,913)	(5,715)	(15,071)
Utilization	(610)	-	(6,594)	(5,604)	(12,807)
Transfers	(9,841)	-	-	-	(9,841)
At 31 December 2011	**24,450**	**-**	**6,352**	**745**	**31,547**
Current 31 December 2011	616	-	-	745	1,361
Non-current 31 December 2011	23,834		6,352	-	30,186
At 31 December 2011	**24,450**	**-**	**6,352**	**745**	**31,547**

(In thousands of EUR)	Environ-mental	Onerous contracts	Legal	Terminations	Total
At 1 January 2010	35,463	-	5,187	1,367	42,017
Additions	1,849	1,901	13,263	10,035	27,982
Unwinding of discount	1,524	-	-	68	1,592
Reversals	(2,940)	-	(908)	-	(3,848)
Utilization	(1,196)	-	(2,607)	(2,063)	(5,866)
Transfers	-	-	934	-	-
Past service cost	-	-	-	1,912	1,912
At 31 December 2010	**34,700**	**1,901**	**15,869**	**11,319**	**63,789**
Current 31 December 2010	649	1,901	-	11,319	13,869
Non-current 31 December 2010	34,051	-	15,869	-	49,920
At 31 December 2010	**34,700**	**1,901**	**15,869**	**11,319**	**63,789**

Environmental matters

During 2011, the Group updated its analysis of potential breaches of environmental regulations at its various sites, with the support of a specialist organisation, Centrum environmentalnych sluzieb, s.r.o. (previously operating under the name, Life & Waste, s.r.o.). As a result of this analysis, and based on the findings of Centrum environmentalnych sluzieb, s.r.o., the Group estimates that further operating expenditures of EUR 34,290 thousand (EUR 34,700 thousand at 31 December 2010) will be required to remedy the significant issues relating to water, oil and fuel management identified previously.

Expenses will be incurred gradually between 2012 – 2014, and a discount rate of 5% p.a. was used in the calculation.

Legal claims

Provisions for legal claims relate to a number of claims, the most significant cases with REFIN B.A., Ltd.of EUR 3,423 thousand and I4NEXT, Ltd. of EUR 2,301 thousand.

The Group has reclassified certain liabilities as liabilities directly associated with assets classified as held for sale (Note 25).

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

(In thousands of EUR)	31 December 2011	31 December 2010
Domestic trade payables	178,529	148,278
Foreign trade payables	6,653	11,009
Payables due to employees	6,746	7,606
Payables due to social institutions	4,006	4,124
Other payables	14,478	12,035
	210,412	**183,052**

At 31 December 2011 overdue trade payables amounted to EUR 20,159 thousand (EUR 101,270 thousand at 31 December 2010). For details of related party payables, refer to Note 26.

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 2011	31 December 2010
At 1 January	**126**	**99**
Additions	710	769
Utilization	(702)	(742)
At 31 December	**134**	**126**

24. COMMITMENTS AND CONTINGENCIES

Finance lease commitments

At 31 December 2011 the Group has finance lease commitments relating to the acquisition of 1,274 wagons, 8 powered vehicles and hardware equipment. All leases are on a fixed repayment basis with interest rates variable dependent on EURIBOR, except for leasing from AAE. Future minimum lease payments under finance leases, together with the present value of net minimum lease payments are as follows:

	31 December 2011		31 December 2010	
(In thousands of EUR)	**Minimum lease payments**	**Present value of payments**	**Minimum lease payments**	**Present value of payments**
Within one year	17,996	14,602	15,079	12,269
After one year but not more than five years	69,361	62,143	65,946	59,512
More than five years	13,961	13,242	12,153	11,735
Total minimum lease payments	101,318	89,987	93,178	83,516
Less: future finance charges	(11,331)	-	(9,662)	-
Present value of minimum lease payments	**89,987**	**-**	**83,516**	**-**

Capital commitments

The Group's capital expenditure plans for the period 1 January 2012 to 31 December 2013 are as follows:

(In thousands of EUR)	**31 December 2011**	**31 December 2010**
Land and buildings	585	2,330
Machines, equipment and other assets	23,587	74,846
Intangible assets	-	2,315
	24,172	**79,491**

Of the total balance above, capital expenditures of EUR 24,172 thousand (EUR 79,491 thousand at 31 December 2010) are committed under contractual arrangements.

Contingencies

A former supplier of the Group's legal predecessors, ŽSR and ŽS, has commenced an action against the Group in respect of unpaid advance invoices and related penalty interest. Similar actions are being taken by several other parties to whom the original receivables were ceded. The total value of the claims (principal) against the Group is estimated at EUR 10,695 thousand. Management believe that these actions are unfounded as the supplier failed to meet the contractual conditions and, supported by their legal advisors, have determined that the likelihood of these actions succeeding is remote: accordingly, no provision for any liability has been made in these financial statements.

ČD CARGO, a.s. filed a lawsuit against the Group claiming an amount of EUR 1,475 thousand (including interest) in respect of unpaid VAT related to the Group's usage of their wagons for international transportation during the period 24 May 2007 through 3 May 2008. A payment order for the amount claimed was issued on 14 May 2009 by District Court Bratislava II and delivered to the Group on 30 June 2009. The Group

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

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

(In thousands of EUR)	Land and buildings	Machines, equipment,	Assets under construction	Total
Assets classified as held for sale as at 31 December 2011	**other assets**	**Assets under construction**	**Total**	**45.360**

(In thousands of EUR)	Employee benefits	Provisions	Total
Liabilities directly associated with assets classified as held for sale as at 31 December 2011	**1.971**	**9.841**	**11.812**

Based on the decision of the sole shareholder, the Group began negotiations for the sale of tangible fixed assets which serve to perform maintenance and repair of machines and wagons. These assets include land and buildings, machines and equipment and assets under construction. The Group valued the assets at lower of book value and fair value less costs to sell. In this connection the Group transferred directly associated environmental and employee benefits. The Group concluded this sales transaction as at 1 February 2012.

26. RELATED PARTY DISCLOSURES

Related parties of the Group comprise all companies under common ownership (meaning under the control of the State), the Group's joint venture and the Board of Directors.
The following tables provide the total amount of transactions which have been entered into with related parties for the years ended 31 December 2011 and 2010:

(In thousands of EUR)	31 December 2011			
Related party	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
ŽSR	1,720	96,677	1,002	113,905
ZSSK	57,450	1,049	12,206	278
Ministerstvo financií SR	-	7,841	-	165,970
Slovenský plynárenský priemysel	-	2,872	-	95
BTS (joint venture)	278	5,374	86	1,314
Other related parties	80	739	3	71

(In thousands of EUR)	31 December 2010			
Related party	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
ŽSR	2,656	169,679	1,305	111,184
ZSSK	69,910	1,940	7,995	206
Ministerstvo financií SR	-	7,139	-	168,430
Slovenský plynárenský priemysel	-	2,363	-	136
DURBAN a.s. (joint venture)	481	5,824	527	1,643
Other related parties	96	3,167	1	201

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 transport services, while sales to ZSSK include primarily the repair of passenger wagons and track vehicles and the sale of diesel oil.

Statutory bodies

Members of the Group's statutory bodies as registered in the Commercial Register at the District Court Bratislava I at 31 December 2011 are as follows:

Board of Directors:

Ing. Vladimír Ľupták, chairman
(since 26 April 2012)
Ing. Jaroslav Daniška, vice-chairman
(since 26 April 2012)
Ing. Peter Fejfar, member
(since 26 April 2012)
Ing. Pavol Ďuriník, PhD.,
chairman (to 25 April 2012)
Ing. Mgr. Martin Štochmaľ,PhD.,
vice-chairman (to 25 April 2012)
Ing. Jozef Virba, member
(to 25 April 2012)
Ing. Jozef Melník (to 8 February 2011)
Ing. Peter Pavlík (to 17 March 2011)
Ing. Pavol Mišík (to 17 March 2011)

Supervisory Board:

Ing. Karol Jasenovský, chairman
Bc. Anton Andel
Ján Baláž
Michal Bróska
Ing. Ľudovít Kulcsár
JUDr. Ivo Nesrovnal

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

The Board of Directors' total remuneration approximated EUR 28 thousand (EUR 37 thousand in 2010). The total remuneration of members of the Supervisory Board amounted to EUR 28 thousand (EUR 25 thousand in 2010).

Loans granted

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

27. FINANCIAL RISK MANAGEMENT

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing loans and borrowings, overdrafts and trade payables. The main purpose of these financial liabilities is to raise finance 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.

In the past the Group has entered into derivative transactions, including forwards, options and swaps, to manage the currency risks arising 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 reviews and agrees 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 borrowing obligations 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 thousand of EUR)	31 December 2011	31 December 2010
EURIBOR (+0.5%)	517	517
EURIBOR (-0.5%)	(517)	(517)

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 2011 and 2010 consist of the following:

(In thousand of EUR)	31 December 2011	31 December 2010
Long-term loan facilities available	9,629	33,155
Short-term loan facilities available	36,151	27,687
Total loan facilities available	**45,780**	**60,842**

As at 31 December 2011 the Group did not have any banks guarantees (EUR 0 thousand at 31 December 2010).

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2011 based on contractual undiscounted payments.

(In thousand of EUR)	On demand	Less then 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Subordinated debt	-	-	19,500	78,000	68,470	165,970
Long-term loans	-	1,497	-	-	-	1,497
Trade and other payables	20,159	39,636	7,110	1,394	86,021	154,320
Obligations under finance leases	-	476	14,126	62,143	13,242	89,987
Short-term loans	-	22,683	82,809	-	-	105,492
	20,159	**64,292**	**123,545**	**141,537**	**167,733**	**517,266**

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 based on contractual undiscounted payments.

(In thousand of EUR)	On demand	Less then 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Subordinated debt	-	-	19,500	78,000	68,470	165,970
Long-term loans	-	1,992	6,357	1,497	-	9,846
Trade and other payables	140,178	42,874	-	-	-	183,052
Obligations under finance leases	-	480	11,789	59,520	11,727	83,516
Short-term loans	-	3,684	82,206	28,971	-	114,861
	140,178	**49,030**	**119,852**	**167,988**	**80,197**	**557,247**

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, US Steel Košice, Budamar Logistics and Express Slovakia, sales to which represent 51% of transport and related revenues (65% in 2010), 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 book value of financial assets, including derivative financial instruments, recognised in the balance sheet reduced by impairment provisions 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 2011 and 31 December 2010.

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 2011 the ratio has deteriorated in comparison with previous period, where the debt to equity ratio was considered by the Group as reasonable.

(In thousands of EUR)	31 December 2011	31 December 2010
Long-term debt, net of current portion (excluding subordinated debt and finance lease obligations)	-	1,497
Short-term debt, including current portion of long-term debt (excluding finance lease obligations)	106,989	123,210
Debt	**106,989**	**124,707**
Equity	**144,858**	**144,761**
Debt to equity ratio (%)	**74%**	**86%**

ORGANIZATION STRUCTURE AS AT 31.12.2011

- General Assembly
  - Supervisory Board
    - Board of Directors
      - Internal Audit
      - Chief Executive Officer (CEO)
        - Legal services Department
        - Control, Inspection and Protection Department
          - Protection and Economic Mobilization Unit
          - Control Unit
          - Inspection Unit
        - Strategy Department
        - Economy Department
          - Project Management Office
          - Controlling Section
          - Accounting taxes and Reporting Section
            - Accounting 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
        - Human resources management Department
          - Board of Directors Office Unit
          - Management and Development of Human Resources Unit
          - Personal Controlling Unit
          - Security and health protection Unit
          - HR services Section
            - Personal Services Unit
            - Wages Centre Unit
        - Treasury Department
          - Cash-flow Administration Unit
        - Communication Department
          - Internal Communication Unit
          - External Communication and International Relations Unit
        - Trade Division
          - Marketing and Trade Support Section
            - Marketing Unit
            - Tariff Conditions Unit
            - Trade support Unit
          - Sales Section
        - Operations Division
          - Control, Guidelines and Education Unit
          - Section of technical and technological preparation of operations
            - Operations planning Unit
            - Operations efficiency analyses Unit
            - Diesel Dispatching Unit
          - Operations, Transportation and Wagon Service Section
            - Technology and Work Organization Unit
            - Wagon Service Unit
          - Operations and Traction Management Section
            - Transport Dispatching Unit
            - Freight Wagons Management Unit
            - Traction management Unit
        - Services Division
          - Facility management Section
            - Efficiency facility Unit
            - Facility Management and Operations Unit
          - Logistics Section
            - Management of logistic network Unit
            - Procurement and Purchase Unit
            - Stock Holding Unit
            - Fleet of vehicles Unit
          - ICT Section
            - IT Operation Unit
          - Energetics Section
            - Tractive energetics Unit
            - Non-tractive energetics Unit
        - Rolling stocks services Division
          - Maintenance and repairs trade Section
            - Maintenance and repairs Analysis and Price formation Unit
            - Maintenance and repairs Trade Unit
            - Maintenance and repairs Back office Unit
          - Rolling stocks maintenance and repairs Section
            - Maintenance and repairs Management and Planning Unit
            - Maintenance and repairs Technical provision Unit
            - Maintenance and repairs Technology and Standardization Unit
          - ZSSK CARGO Rolling stock management Section
            - Technical development Unit
            - Rolling stock database Unit
            - Supervison Unit
            - Technical control inspection Unit
          - Rolling stocks ZSSK maintenance and repairs Section
        - East Slovak transhipment Section
          - Transshipment and Operation Management Unit

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