ZSSK CARGO

ANNUAL REPORT 2016

Železničná spoločnosť Cargo Slovakia, a. s.

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ZSSK CARGO

FOREWORD FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Almost two thirds of the ZSSK CARGO volume of transported goods represent transports for the metallurgical sector, whether these are transports of raw materials or of products. The year 2015 had already shown what significant fluctuations can happen to metallurgical transports when, after favourable first six months, the company experienced a dramatic decline in the transport demand of steel plants due to oversupplies of cheap Chinese steel in the European and global markets.

Likewise, the year 2016 saw huge fluctuations in transports for the metallurgical industry, but in reverse order. The unfavourable situation from the second half of 2015 also continued during the first months of 2016. After the domestic consumption of steel in China increased, European steelmaking companies could take a breath as well. The demand for their production increased again, thus the transport demand of many steel plants reverted to their normal level.

However, the uncertainty as to the performance of the steelmaking companies in Europe continued in the following months and years. Although the European Union introduced customs and trade restrictions on the sale of Chinese products in 2016, there has still been an oversupply of metallurgical products on the global markets. European producers point out the growing pressure on their prices owing to imports of steel from other countries, such as Brazil, Ukraine and Serbia, where the quality and environmental standards are not as stringent as those applicable within the EU.

Just for comparison, the ZSSK CARGO transport volumes related to the metallurgical industry reached 11.556 million tonnes in the first half of 2015 and 10.706 million tonnes in the second half of 2015. For the first half of 2016 it was 10.991 million tonnes, while the second half of 2016 saw a considerable increase to 12.392 million tonnes. If we compare the data for the second half of 2016 with the data for the same period in 2015, we can see an increase of nearly 1.7 million tonnes, which clearly demonstrates high fluctuations in transport demand in the given sector. It is difficult for ZSSK CARGO as a carrier to maintain capacities to cover such huge fluctuations, whether as to technical and technological capacities such as wagons, locomotives, transshipment facilities, etc. or as to personnel capacities. Anyway, it should be considered a positive that the company managed to cope with the situation that had arisen.

In 2016 ZSSK CARGO transported 909 thousand more tonnes of goods than in 2015, and recorded a profit of EUR 123 thousand. Nevertheless, the fulfilment of the core (transport) business revenue plan was unfavourable. Compared to 2015, a decline of EUR 7.9 million (3%) was recorded. Mainly thanks to the reduced costs, the company managed to reach better economic results, compared to the plan and the previous year.

In 2015, ZSSK CARGO underwent a process of debt relief by selling some of its assets - freight wagons which it subsequently leased back on a contractual basis. Within this process, however, it did not gain funds to undertake development activities and investment projects and, therefore, it still has to cope with a lack of investments in the modernisation of locomotives of strategic series, in the renewal of machinery, equipment, intangible property, buildings, as well as in the maintenance of locomotives and wagons.

On the other hand, through the subsidiary Bulk Transshipment Slovakia, in which ZSSK CARGO has a 40-percent shareholding, we managed to modernise the transshipment capacities in the largest railway transshipment centre at Čierna nad Tisou. This included the construction of the second transshipment centre for automated transshipment of bulk substrates, the reconstruction of the 2nd defrosting hall, and the installation of a high lifting capacity gantry crane on the eastern ramp. These investments are expected to make certain that goods transshipment operations at Slovakia‘s eastern border go smoothly, and to stabilise the flows of goods from Ukraine and Russia via the ŽSR infrastructure. Roughly 6 – 7 million tonnes of iron ore substrates and coal are annually transported from the Ukrainian state border to the Czech border and the Austrian border.

Although the metallurgical industry will have a crucial impact on rail freight transport for a long time, ZSSK CARGO strives to broaden its portfolio of services and to offer services of corresponding quality also in the transport of other commodities, or for other segments. These especially include the automotive segment, as Slovakia has been ranked as the number one producer of cars per 1,000 inhabitants for several years, and yet the fourth car factory near Nitra is to be opened and to start production by the end of 2018. ZSSK CARGO has, therefore, started to focus more intensively on this segment, which is expected to partly contribute towards reducing our dependence on the transport of bulk substrates.

ZSSK CARGO continues to support, as the only rail carrier in Slovakia, single wagonload transport. The company sees this service as having potential for moving new volumes of goods from road to rail. Although it is a rather technologically and cost demanding product, the company intends to continue developing it. However, it is true that the efficiency of single wagonload transport is still low. The objective reason is much higher demands on technological and personnel capacities in comparison with block trains. Nevertheless, the company has been adjusting to such determination not only its sales and pricing policy but also its technical and technological base with a view to becoming more competitive vis-a-vis road transport.

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

LIST OF USED ABBREVIATIONS

AVV	General Contract of Use for Wagons (GCU)
BTS	BULK TRANSSHIPMENT SLOVAKIA, a.s.
CEF	Connecting Europe Facility
COTIF	The Convention concerning International Carriage by Rail
ČD	Czech Railways (České dráhy)
EU	European Union
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISO	International Organization for Standardization
IT	Information Technologies
MPU	Motive Power Unit
MTC SR	Ministry of Transport, Construction of the Slovak Republic
OHSAS	Occupational Health and Safety Assessment Series
OIS	Operation Information System
ÖBB	Austrian Railways (Österreichische Bundesbahnen)
PGV	Regulation on Use of Wagons in International Rail Transport of Goods
RCA	Rail Cargo Austria
REPAS	Retraining, opportunity and co-operation – project of the Central Office of Labour, Social Affairs and Family to support the education of job applicants
RIV	Agreement Governing the Exchange and Use of Wagons between Railway Undertakings
STN EN	Slovak Technical Standard - European Standard
VAT	Value Added Tax
ZSSK	Železničná spoločnosť Slovensko, a.s.
ZSSK CARGO	Železničná spoločnosť Cargo Slovakia, a.s.
ŽSR	Železnice Slovenskej republiky
ŽS	Železničná spoločnosť, a.s.

MILESTONES OF THE YEAR 2016

- The company transported a total of 35.637 million tonnes of freight in 2016, maintaining growth in freight volumes from previous years.
- There was a significant decrease in freight transport for the metallurgy industry in Slovakia and neighbouring countries as a result of a surplus of cheap Chinese steel on the global market in the 1st half of 2016, but metallurgy rebounded in the 2nd half of 2016 (-5% year-on-year in 1st half of year, +13% year-on-year in 2nd half of year).
- Continued EU sanctions against the Russian Federation had an impact on exports of cars and components used in their manufacturing.
- Wood imports from Ukrainian Railways were stopped as a result of legislative changes in Ukraine.
- We gained a significant share in freight transports for MOL/Slovnaft.
- Collaboration between contractual parties developed within the implementation of rail freight conducted on the basis of a new sales/purchasing model where every party may be a buyer and seller.
- Collaboration between contractual parties continued in the implementation of partial wagon loads per COTIF, during which the carrier transfers the physical performance of transport to the executing carrier on the basis of separate, partial contracts.
- The acceptance of trains with confidence between ÖBB and RCA, i.e. the transfer of trains without individual train inspections at the Bratislava východ station involving selected block trains effective 5 September 2016, facilitated savings in travelled train kilometres, work savings for engine drivers and cost savings for train inspections conducted by ÖBB wagon examiner at the Bratislava východ station.
- Quality certification was retained for the next three years, until 26 November 2019, thanks to successful completion of a surveillance audit of the "East Slovak Transshipment Yards" product in October 2016 per the STN EN ISO 9001:2009 standard and an OHSAS 18001:2009 standard recertification audit.
- Property relations changed with the extensive refurbishment and expansion of capacity at the 2nd thawing hall, which was officially permitted for use on 2 December 2016.
- Construction of the 2nd rotary tipper at Čierna nad Tisou for subsidiary BULK TRANSSHIPMENT SLOVAKIA, a.s., which was officially permitted for use on 12 December 2016, led to a restructuring of transshipment capacities at the East Slovak Transshipment Yards.
- ZSSK CARGO assumed train formation activities in broad gauge tracks from ŽSR effective 31 December 2016. ZSSK CARGO employees are now responsible for train formation and marshalling activities.
- Implementation of the system support for single wagonloads project continued.
- Functionality of the Operations Information System (OIS) was expanded.
- ZSSK CARGO remains the largest entity in charge of maintenance (ECM) in Slovakia following successful completion of the ECM surveillance audit per Article 7 (6) of Commission Regulation (EU) No 445/2011.
- A quality recertification audit was successfully completed for welding on rolling stock per the STN EN 15085-2 technical standard.
- Technical equipment, specifically the wheel lathe used for refinishing wheel treads at the Štúrovo Rolling Stock Repair Works, was modernised.
- The procurement process was brought to a successful close for the refurbishment of electrical equipment and control systems in all 363-series motive power units and work continued on the refurbishment of the main switches, circuit breakers and static chargers on 240-series motive power units.
- A new strategic plan was completed, including a medium-term investment plan and financial model for ZSSK CARGO covering 2017 to 2019 with an outlook to 2021.
- ZSSK CARGO as a contracting authority was excluded from the obligations stipulated in Act No. 25/2006 Coll. on Public Procurement as amended.
- Reassessment of needs conducted by the ZSSK CARGO Steering Committee, which defines and assesses the need for rolling stock and locomotives in connection with planned business and operating needs, led to a reduction of 15 (3.2%) locomotives compared to the fleet size as of 31 December 2015.
- The project to increase motive power unit availability was expanded to include all ZSSK CARGO motive power units and is expected to deliver results in 2017.

- ZSSK CARGO received support from EU/CEF funds to implement a project with CEF co-financing for the implementation of the Technical Specifications for Interoperability for telematic support for ZSSK CARGO rail freight processes in domestic and international rail transport.
- ZSSK CARGO submitted its application for a grant towards the implementation of a research project in collaboration with the University of Žilina to reduce the noise produced by rolling stock.
- Work continued on implementing measures in the "Concept of human resources development in selected professions up to 2020".
- Funds from the Human Resources Operational Programme were used for partial co-financing of courses through REPAS which were aimed at engine drivers.
- Debt service consolidation began with the goal of replacing short-term, overdraft lines of credit with longer-term interest-bearing sources to cover the financing of fixed assets and investment activities.
- Work began on preparing a concept focused on more efficient use of analytical and reporting tools to improve the allocation and use of available sources of assets.

FREIGHT TRANSPORT

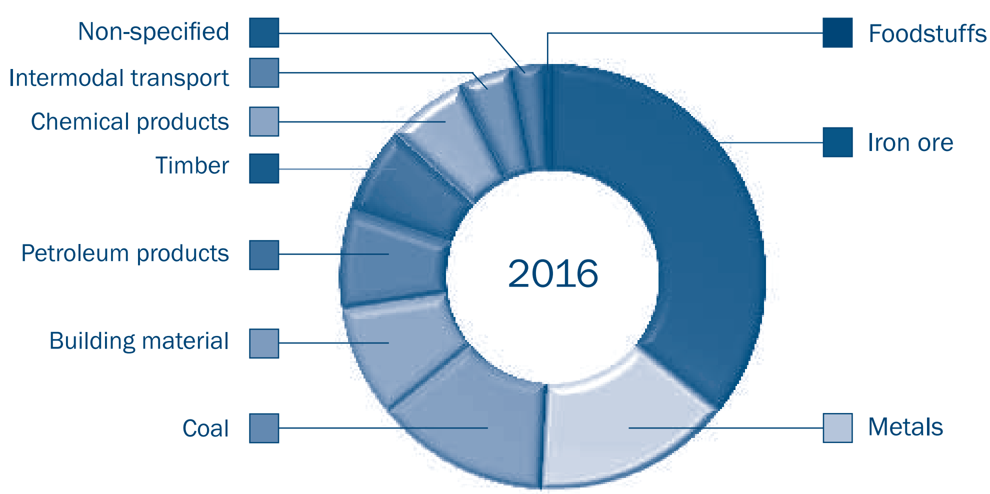
ZSSK CARGO transported a total of 35,637 thousand tonnes of freight in 2016, an increase of 909 thousand tonnes (+ 2.6%) over 2015. Freight traffic reached a value of 7,072 million net tonne-kilometres, a year-on-year increase of 233 million net tonne-kilometres (+3.4%). Average transport distance reached a value of 198.4 km, increasing by 1.5 km compared to 2015.

The increase in transport volumes compared to 2015 is largely the result of the revitalisation of the European metallurgy industry in the second half of 2016, which was reflected in more transport orders from ZSSK CARGO customers. Steel plants themselves accounted for an increase of nearly 850 thousand tonnes, primarily for iron ore and metal commodities, and, to a lesser extent, coal and construction material commodities. Major successes responsible for increases in the volume of freight transport included new transports of oil exports totalling 690 thousand tonnes and the return of nearly 200 thousand tonnes of coal transports in domestic transport. Less success was achieved in transporting chemicals, with international transport terminated and a decrease of nearly 390 thousand tonnes recorded. The nearly 270 thousand tonnes reduction in construction materials was primarily due to the completion of gravel transport for motorway construction projects, a decrease in exports to Ukraine and front loading of a major customer in this segment.

Freight transport by commodities

In thousand of tonnes	2016	2015	2014	2013	2012	2016/2015
Iron ore	12,764	12,497	12,918	12,589	11,924	1.02
Metals	5,377	4,906	5,450	5,537	5,906	1.10
Coal	4,674	4,279	4,772	5,028	5,516	1.09
Building material	3,040	3,307	3,022	3,015	2,936	0.92
Petroleum products	2,696	2,073	1,921	2,232	2,011	1.30
Timber	2,371	2,312	2,577	2,333	1,968	1.03
Chemical products	2,177	2,563	2,259	2,181	1,874	0.85
Intermodal transport	1,434	1,606	1,864	2,018	1,870	0.89
Non-specified	872	936	874	1,043	1,001	0.93
Foodstuffs	230	250	360	331	277	0.92
	35,637	**34,728**	**36,017**	**36,308**	**35,284**	**1.03**

Classification according to the commodities



Freight transport according to the transport modes

Domestic	2016	2015	2014	2013	2012	2016/2015
Transported goods (in thous. of tonnes)	4,279	4,303	4,245	4,473	4,206	0.99
Operation performance (in mil. net tkm)	812	820	796	787	690	0.99
Import	**2016**	**2015**	**2014**	**2013**	**2012**	**2016/2015**
Transported goods (in thous. of tonnes)	13,722	13,761	14,812	14,515	14,740	1.00
Operation performance (in mil. net tkm)	2,079	2,031	2,236	2,243	2,374	1.02
Export	**2016**	**2015**	**2014**	**2013**	**2012**	**2016/2015**
Transported goods (in thous. of tonnes)	9,358	8,486	8,282	8,661	8,057	1.10
Operation performance (in mil. net tkm)	1,419	1,276	1,167	1,108	1,110	1.11
Transit	**2016**	**2015**	**2014**	**2013**	**2012**	**2016/2015**
Transported goods (in thous. of tonnes)	8,278	8,179	8,678	8,659	8,281	1.01
Operation performance (in mil. net tkm)	2,762	2,712	2,690	2,673	2,680	1.02
Frieght transport in Total	**2016**	**2015**	**2014**	**2013**	**2012**	**2016/2015**
Transported goods (in thous. of tonnes)	35,637	34,728	36,017	36,308	35,284	1.03
Operation performance (in mil. net tkm)	7,072	6,839	6,888	6,810	6,854	1.03

STRUCTURE OF MPU

Development of MPU number

	2016	2015	2014	2013	2012
Electric locomotives	281	288	299	309	309
Diesel locomotives	292	298	338	338	338
Diesel coaches	1	1	1	1	1
	574	**587**	**638**	**648**	**648**

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

Age structure of MPU

Years	Up to 15	Up to 30	Over 30	Total
Electric locomotives	5	28	248	281
Diesel locomotives	49	13	230	292
Diesel coaches	-	-	1	1
	54	**41**	**479**	**574**

STRUCTURE OF FREIGHT WAGON FLEET

Development of number of wagons

	2016	2015	2014	2013	2012
Covered wagons	204	206	1,963	1,964	1,952
Open wagons	71	73	6,524	6,694	6,808
Flat wagons	1,075	727	3,306	3,311	3,076
Other freight wagons	11	11	1,473	1,473	1,473
	1,361	**1,017**	**13,266**	**13,442**	**13,309**

Besides above-mentioned wagons in personal possession, ZSSK CARGO rented 754 wagons through the financial leasing as at 31 December 2016. Financial leasing was used also in the previous years.

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

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

Years	Up to 15	Up to 30	Over 30	Total
E - ordinary open high-sided wagon	-	70	1	71
F - special open wagon	-	-	-	-
G - ordinary covered wagon	-	2	48	50
H - special covered wagon	-	4	68	72
K - ordinary flat wagon	-	-	17	17
L - special flat wagon	202	-	3	205
R - ordinary flat bogie wagon	297	1	25	323
S - special flat bogie wagon	303	226	1	530
T - wagon with opening roof	-	4	78	82
U - special wagon	-	-	-	-
Z - tank wagon	-	-	11	11
	802	**307**	**252**	**1,361**

CAPITAL INVESTMENTS OF ZSSK CARGO

(accounting balance as at 31.12.2016 in EUR)

Company	Number of equities (pcs)	Type	Share (%)	Value of Capital Investments
Intercontainer - Interfrigo s. c. Brussels, Belgium	385	paper	0.03	7,610.33
Bureau Central de Clearing s. c. r. l. Brussels, Belgium	4	paper	2.96	2,974.72
BULK TRANSSHIPMENT SLOVAKIA, a.s.	54,950	paper	40	2,829,503.54
Cargo Wagon, a.s.	101	paper	34	3,402,500.00
ZSSK CARGO Intermodal, a.s.	25	paper	100	27,500.00
				6,270,088.59

INTEGRATED MANAGEMENT SYSTEM

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

The ISO 9001 and OHSAS 18001-compliant integrated management system helps to fulfil this goal.

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

In October and November 2016, the independent certification company TÜV SÜD Slovakia checked the functionality of the integrated management system and confirmed that the management system certificates were rightfully awarded pursuant to ISO 9001 and OHSAS 18001 standards.

We successfully certified the “Railway freight transport (logistic trains)” product in 2016 per the updated STN EN ISO 9001:2016 standard.

We hold these certificates:

- According to the STN EN ISO 9001:2009 standards for the following products:
  - Maintenance and repair of rolling stock.
  - Procurement and Purchase Processes. Methods and Analysis Processes. Storage Processes and Services. Fleet of Vehicle Processes and Services.
  - East Slovak Transshipment Yards.
  - Ensuring professional qualification and education of employees.

- According to the STN EN ISO 9001:2016 standards for the following product:
  - Railway freight transport (logistic trains).

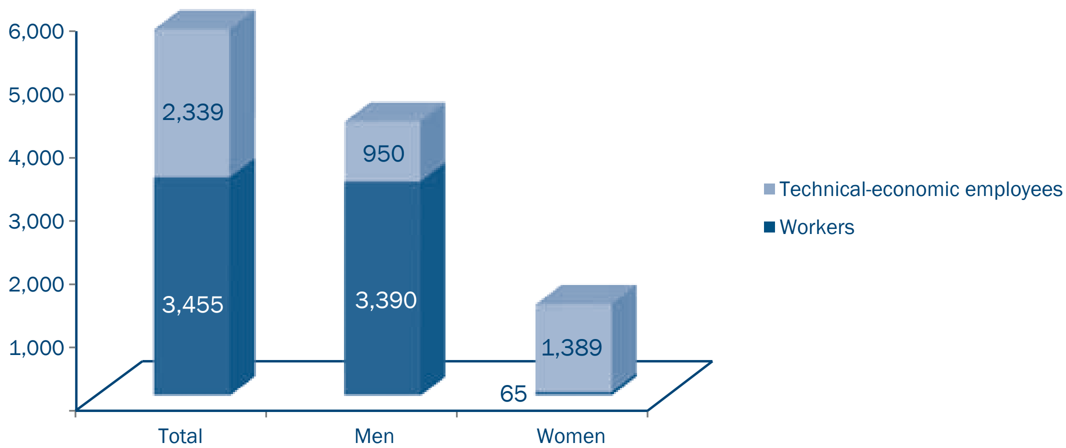
- According to the STN OHSAS 18001:2009 standards:
  - Managerial system of work safety and health protection at work in ZSSK CARGO.

HUMAN RESOURCES

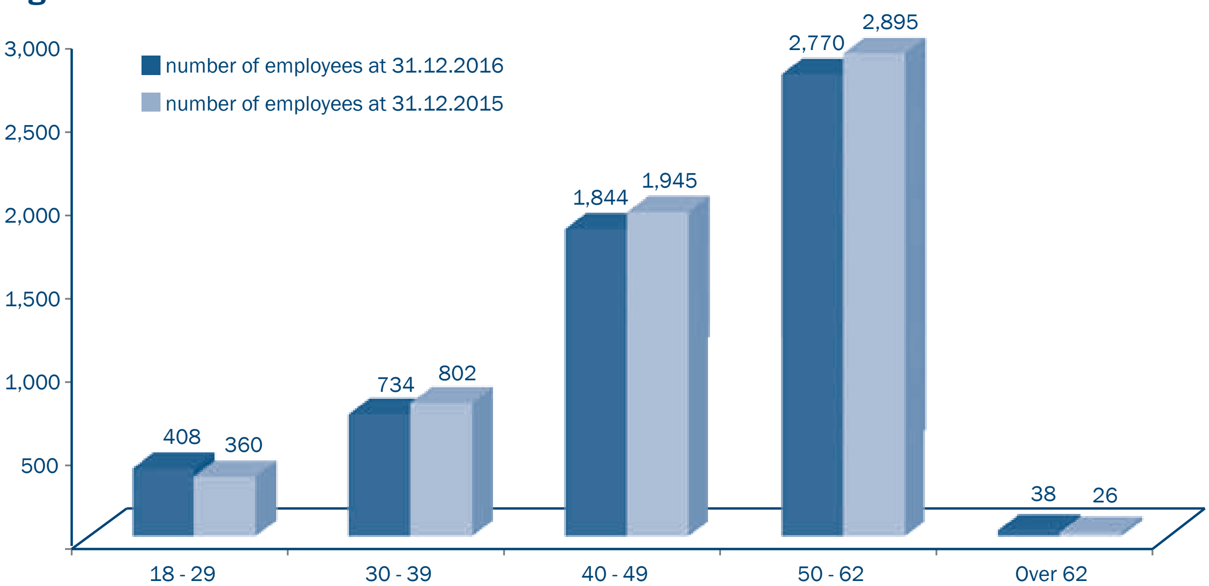
The company employed 6,028 employees at 31 December 2015. Within external mobility, 300 employees from available resources on the labour market were hired while employment was terminated with 538 employees. The company used mobility and optimisation to record 5,794 employees at 31 December 2016.

This represents a reduction of 234 employees (-3.9%) compared to 2015.

Comparison according to the sex and type of work



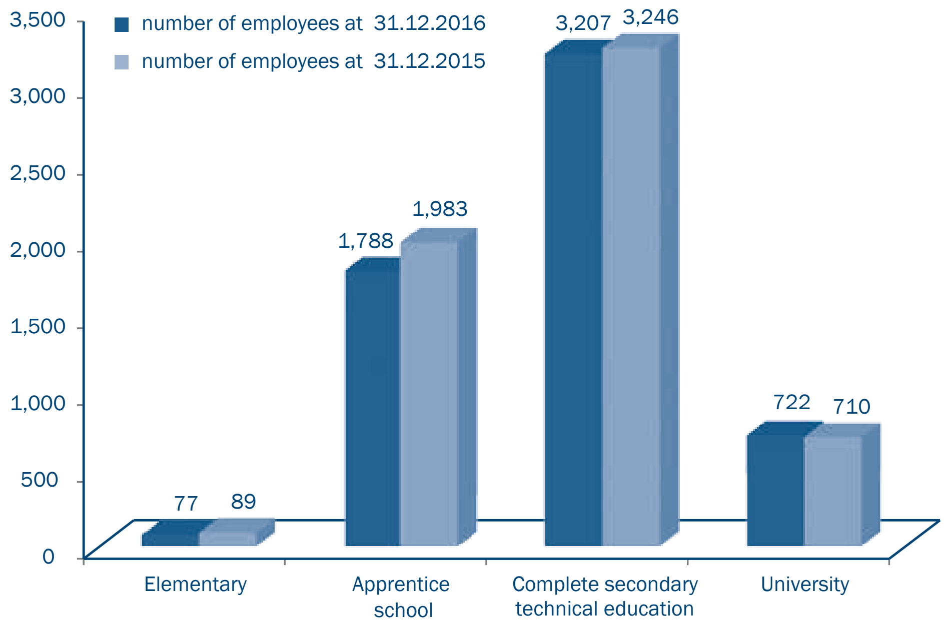
Age structure



With respect to the employees´ structure according to the age, the largest decrease in the number of employees was found in the age category 50 - 62 years (53.02%) of the total decrease in the number of employees.

The average age of employees as at December 31, 2016 was 47.78 years.

Structure of employees by education



With respect to the employees' structure according to education, the largest decrease in the number of employees was found in the category "employees with apprentice school" (-84.05%) as compared to the total decrease in the number of employees. The largest number of employees is registered in the category "Complete secondary technical education" (55.35%).

The average wage in 2016 was € 913.1 which represents a 1.95% increase compared to 2015.

As part of HR development in the area of training and education, an in-college training courses for engine drivers and an in-college wagon examiners training courses aimed at attaining vocational skills required under the Railways Act were held also in 2016. The company availed itself of the possibility to attract engine drivers in a particular region and wagon examiners registered with the Office of Labour within the operational programme (REPAS): preparation of job seekers for their use in the labour market with a view to gain theoretical and practical knowledge, competences and skills in a chosen training course. Financial means were sourced from the EU funds.

In 2016 the company successfully defended the certificate for the product education according to the ISO 9001 standards and certificate for the product safety and health protection at work according to the OHSAS 18001 standards.

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

RISKS

Many external and internal factors and risks affect carriage capacity and ZSSK CARGO activities, in particular:

- High dependence of ZSSK CARGO on the metallurgy industry in Slovakia and neighbouring countries, which manifested in the reduction of output in the 1st half of 2016 to which a significant part of the company's capacities are tied.
- The situation in Ukraine and EU sanctions imposed on the Russian Federation affecting transportation of goods to and from the aforementioned countries.
- Increasing competitiveness of road and rail carriers, while the increase in competition in block trains and transit in east-west and north-south directions and vice versa have an impact on per unit revenues for transportation.
- The arrival of other national carriers, either directly or via other carriers.
- Persistent low transport efficiency of single wagonloads, which place significantly higher demands on technical capacities and human resources than block train operations.
- The increase in the average age of company employees, mainly those in operational and technical positions, which may lead to a lack of qualified employees in the future.
- The company's high fixed costs, which have a significant impact on company earnings, performance and revenues.
- The risk of increasing costs for traction and non-traction electricity as a result of an increase in electricity rates.
- The continuing trend of deepening investment debt, in particular in the area of rolling stock.
- The average age of ordered motive power units is over 30.
- High failure rates and insufficient reliability of locomotives increase operating demands on locomotives and related operating costs.
- Financial demands from the implementation of EU legislation, mainly in the sector of locomotives, operations, information systems, noise and safety.
- ZSSK CARGO possesses obsolete, superfluous and energy inefficient property that burdens the company with high operating costs.
- The company also has unsettled property remaining from the project to divide ŽSR.
- Unsatisfactory technical condition of railway infrastructure in some sections (e.g. the broad gauge track, while long-term slow speeds reduce the profitability of freight transport).
- The ongoing modernisation and reconstruction of ŽSR railways and surrounding railways affects the smoothness and efficiency of train traffic and increases the need for rolling stock and operations employees.

EXPECTED FUTURE DEVELOPMENT

ZSSK CARGO plans to continue in the trend of maintaining its market share on the Slovak railway market and in the stabilisation of transport output given the development of the market situation. The company will take further actions related to Government Regulation No. 390/2013 towards economic stabilisation and the creation of conditions for its further development. In addition to measures to increase the efficiency of internal processes, focus is on measures to stabilise its market share, improve the efficient use of capacities and assets, to increase the availability of locomotives and other measures based on approved strategic materials. Given problems involving a lack of specialised personnel in some positions and the increasing average age of employees, efforts will continue to restore core operations and technical personnel.

The company plans to continue transporting single wagonloads while endeavouring to identify additional tools for improving the efficiency of their execution, including receiving more support from the state.

As a follow-up to new EU and Slovak legislation, it will be necessary to introduce measures to respond to new requirements, primarily involving noise and telematic applications.

In terms of investment activities, the company plans on making necessary investments into the maintenance of locomotives and rolling stock and investments into the modernisation of strategic series of motive power units, the refurbishment of machinery, equipment, facilities and intangible assets and buildings within the company's financial means and in accordance with adopted conceptual materials.

PARTICULAR INFORMATION FOR THE YEAR 2016

After completing the sale of a 66% interest in Cargo Wagon, a.s., ZSSK CARGO begin to lease of a large portion of its rolling stock back in 2015, while 2016 was the first year of lease cooperation and the quality of operations on both sides improved over the year. The funds generated in 2015 were primarily used to discharge the company's debt and were not used for development activities or investment projects. This trend continued in 2016 and the company focused on the implementation of further economic consolidation measures. The launch of progressive recovery activities and the development of assets and capacities is foreseen in 2016 in accordance with the medium-term investment plan.

In 2016, the company did not expend any research and development costs.

The company does not have any business unit abroad.

No events have occurred subsequent to the end of the financial year as of 31 December 2016 that would significantly affect the fair presentation of facts disclosed in the attached financial statements.

It will be proposed to the statutory body that 10% of the recognised accounting profit of €123 thousand in 2016 shall be assigned to the statutory reserve fund and the remainder transferred to cover accumulated losses from previous years.

SELECTED ECONOMIC INDICATORS

According to the data from consolidated financial statement.

in thousands of EUR	2016	2015
Total assets	346,188	357,424
Long-term tangible property	260,648	274,586
Assets held for sale	-	-
Equity	118,266	117,445
Loans (short-term + long-term)	70,563	63,614
Revenues	278,036	284,281
Costs	(276,287)	(277,929)
Profit / (loss) out of financial operations	(1,594)	(4,849)
Share of the profit of the joint venture and affiliated company	699	(313)
Income tax	(33)	(1,426)
Economic result	**821**	**(236)**

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 2016

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Železničná spoločnosť Cargo Slovakia, a.s. (the Company), which comprise the statement of financial position as at 31 December 2016, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS EU").

Basis for Opinion

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

Emphasis of Matters

We draw attention to the following matters:

i. As set out in Note 21 to the financial statements, the Company recorded provisions of EUR 22,154 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.

ii. 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.

Our opinion is not modified in respect of these matters.

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

Management is responsible for the preparation of the financial statements that give true and fair view in accordance with IFRS EU, and for such internal control as management determines is necessary to

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enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Report on Information Disclosed in the Annual Report

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

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

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

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

- Information disclosed in the annual report prepared for 2016 is consistent with the financial statements for the relevant year,
- The annual report contains information based on the Act on Accounting.

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

25 April 2017
Bratislava, Slovak Republic

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

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

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Statement of comprehensive income for the year ended 31 December 2016

In thousands of EUR	Note	31 December 2016	31 December 2015
Revenues			
Transportation and related revenues	3	265,392	268,810
Other revenues	4	12,644	15,471
		278,036	**284,281**
Costs and expenses			
Consumables and services	5	(155,374)	(143,093)
Staff costs	6	(91,147)	(88,978)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	12, 13	(28,395)	(40,894)
Other operating revenues (expenses), net	7	(1,370)	(4,964)
		(276,286)	**(277,929)**
Finance costs			
Interest expense	8	(2,164)	(5,329)
Other finance revenues (costs), net	9	570	480
		(1,594)	**(4,849)**
Income tax	11	(33)	(1,426)
Profit (Loss) for the period		123	77
Other comprehensive income for the period		-	-
Total comprehensive income for the period		123	77

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 25 April 2017.

Statement of financial position as at 31 December 2016

In thousands of EUR	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	13	260,648	274,586
Intangible assets	12	9,649	10,130
Group loans	16, 25	10,908	10,298
Investment in joint venture	14	6,243	6,243
Investment in subsidiaries	14	28	28
Other non-current assets	10	492	4
		287,968	**301,289**
Current assets			
Inventories	15	6,487	7,484
Trade and other receivables	16	47,680	42,052
Cash and cash equivalents	17	125	3,370
		54,292	**52,906**
Assets held for sale	24	-	-
		54,292	**52,906**
TOTAL ASSETS		342,260	354,195
EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital	18	401,646	401,646
Legal reserve fund	18	34	26
Other funds	18	1,228	1,228
Accumulated losses	18	(288,570)	(288,685)
Total equity		**114,338**	**114,215**
Non-current liabilities			
Interest-bearing loans and borrowings	19	8,798	10,980
Employee benefits	20	14,895	14,797
Provisions	21	43,902	34,872
Trade and other payables	22	16,546	18,046
Finance lease liabilities	23	5,496	18,563
Other non-current liabilities	22	79	100
		89,716	**97,358**
Current liabilities			
Interest-bearing loans and borrowings	19	61,765	52,634
Employee benefits	20	929	869
Provisions	21	2,574	11,060
Trade and other payables	22	59,869	64,702
Tax liabilities	11	-	1,394
Finance lease liabilities	23	13,069	11,963
		138,206	**142,622**
Liabilities directly associated with assets held for sale	24	-	-
Total liabilities		**227,922**	**239,980**
TOTAL EQUITY AND LIABILITIES		342,260	354,195

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 25 April 2017.

Statement of changes in equity as at 31 December 2016

In thousands of EUR	Share capital	Legal reserve fund	Other funds	Accumulated losses	Total
At 1 January 2015	**401,646**	**26**	**1,228**	**(288,762)**	**114,138**
Profit for the period	-	-	-	77	**77**
Other comprehensive income	-	-	-	-	**-**
Total comprehensive income	-	-	-	77	**77**
Legal reserve fund	-	-	-	-	**-**
At 31 December 2015	**401,646**	**26**	**1,228**	**(288,685)**	**114,215**
Profit for the period	-	-	-	123	**123**
Other comprehensive income	-	-	-	-	**-**
Total comprehensive income	-	-	-	123	**123**
Legal reserve fund	-	8	-	(8)	**-**
At 31 December 2016	**401,646**	**34**	**1,228**	**(288,570)**	**114,338**

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 25 April 2017.

Statement of cash flows
as at 31 December 2016

In thousands of EUR	Note	31 December 2016	31 December 2015
Cash flows from operating activities			
Profit / (Loss) before tax		156	1,503
Adjustments for:			
Non-cash items			
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	12, 13	28,395	40,893
Gain on sale of property, plant and equipment		(1,081)	(4,793)
Gain on sale of Cargo Wagon's shares	14	-	(400)
Allowance of receivables and inventories	15, 16	611	(589)
Interest expense	8	2,164	5,329
Interest income and shares of profits		(610)	(323)
Movements in provisions and employee benefits		703	5,158
Other non-cash items		2	42
		30,340	**46,820**
Working capital adjustments			
Decrease in inventories		452	195
Decrease (increase) in trade and other receivables		(6,182)	1,446
Increase (decrease) in trade and other payables		(6,451)	(14,190)
Cash flows from operating activities		**18,159**	**34,271**
Income tax paid	11	(1,420)	(32)
Net cash flows from operating activities		**(16,739)**	**34,239**
Investing activities			
Purchase of property, plant and equipment	12, 13	(14,688)	(18,541)
Group loans	16	-	(10,000)
Proceeds from sale of Cargo Wagon's shares	14	-	7,000
Dividends received		-	25
Proceeds from sale of property, plant and equipment		1,418	185,173
Net cash flows from (used in) investing activities		**(13,270)**	**163,657**
Financing activities			
Proceeds from loans and borrowings	19	3,000	-
Repayment of loans and borrowings	19	(2,118)	(20,030)
Repayment of subordinated debt		-	(117,220)
Interest paid		(1,701)	(6,660)
Payments of finance lease liabilities	23	(11,961)	(8,683)
Net cash flows used in financing activities		**(12,780)**	**(152,593)**
Net (decrease) increase in cash and cash equivalents		**(9,311)**	**45,303**
Cash and cash equivalents at 1 January	**17**	**(40,147)**	**(85,450)**
Cash and cash equivalents at 31 December	**17**	**(49,458)**	**(40,147)**

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 25 April 2017.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Information on Reporting entity

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

The Slovak Republic is the sole shareholder of the Company through the Ministry of Transport and Construction of the Slovak Republic ("MTC SR") with its registered office on Námestie slobody 6, 810 05 Bratislava. The Company does not belong to any group for consolidation purposes. The Company is not an unlimited liability partner in any other company.

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

Principal activities

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

The registered office of ZSSK CARGO
Drieňová 24
820 09 Bratislava
Slovak Republic

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

2.1 BASIS OF PREPARATION AND MEASUREMENT

These separate financial statements were approved and authorized for issue by the Board of Directors on 25 April 2017. The General Meeting held on 6 July 2016 approved the Company's financial statements for the previous accounting period.

The financial statements have been prepared on the historical cost basis. These financial statements constitute the statutory accounts of ZSSK CARGO, prepared in accordance with Article 17a (6) of Slovak Act No. 431/2002 Coll. on Accounting for the accounting period from 1 January 2016 to 31 December 2016.

The financial statements were prepared using the going concern assumption that the Company will continue its operations for the foreseeable future. The Company reported a profit of EUR 123 thousand for the year and total accumulated loss of EUR 288,570 thousand.

The Government of the Slovak republic approved the resolution No. 390/2013 on 10 July 2013 which sets measures to consolidate rail freight transport and its implementation should allow an economic consolidation and further development of the Company. The measures compensate a late introduction of a new regulatory framework for rail freight companies in the form of reduced fees for the use of railway infrastructure in the years 2014-2016 and also allow the Company to establish three subsidiaries in the sector of management of wagons, intermodal transport and repair and maintenance of machines and wagons and subsequently allow qualified and reputable partners to enter into those subsidiaries.

The Company established two subsidiaries Cargo Wagon, a.s. and ZSSK CARGO Intermodal, a.s. in 2013. The Company signed a sale and purchase of shares contract with AAE Wagon a.s. (member of VTG/AAE Group), the winner of the international tender on 5 March 2015. According to the contract AAE Wagon a.s. acquired 66% of share capital of Cargo Wagon, a.s. A shareholders agreement governing relations between both shareholders AAE and ZSSK CARGO has been also signed.

After an approval of the Antimonopoly authorities, registering transfer of shares and the fulfillment of other conditional clauses the final transaction documents were signed in May 2015– Agreement on transfer of movable assets for consideration and subsequent lease back of means of transport (Agreement on sale of 12,342 railway carriages and lease back of 8,216 railway carriages) and Bank loan agreement between financing banks and Cargo Wagon, a.s used to finance the purchase of railway carriages. The whole transaction was completed on 10 July 2015, when ZSSK CARGO received a payment for the sale of carriages in amount of EUR 216.6 million (incl. VAT) which was used to decrease the Company´s debt. The Company began to lease a significant part of its freight wagons. Regarding ZSSK Cargo Intermodal, a.s. the Company has closed an international tender without selecting a qualified partner in 2015. The Company will support activities of intermodal transportation within ZSSK CARGO.

The successful rail freight transport consolidation, with the goal being the achievement of balanced results in the mid-term while continuing to implement internal measures, which should increase the productivity and effectivity of internal processes, considering the decreasing transports and fiercer competition will depend on additional supporting measures and a new regulatory framework for rail freight transporters and the fee set for the usage of rail infrastructure after the year 2016. In 2017 with outlook for 2018-2019 the support for rail freight transport in Slovakia continues in form of reduced network fees.

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

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

Statement of compliance

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following new and amended IFRS and IFRIC interpretations as at 1 January 2016, all adopted by the European Union (hereinafter as the "EU"):

- IAS 19 Defined Benefit Plans: Employee Contributions - Amendments to IAS 19 - effective for annual periods beginning on or after 1 January 2016
- IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization - Amendments to IAS 16 and IAS 38 - effective for annual periods beginning on or after 1 January 2016
- IAS 1 Disclosure Initiative - Amendments to IAS 1 - effective for annual periods beginning on or after 1 January 2016
- the Annual Improvements to IFRSs 2010 – 2012 Cycle - effective for annual periods beginning on or after 1 February 2015
  - IFRS 2 Share-based Payment - Definitions of vesting conditions
  - IFRS 3 Business Combinations - Accounting for contingent consideration in a business combination
  - IFRS 8 Operating Segments - Aggregation of operating segments
  - IFRS 8 Operating Segments - Reconciliation of the total of the reportable segments' assets to the entity's assets
  - IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Revaluation method - proportionate restatement of accumulated depreciation/amortization
  - IAS 24 Related Party Disclosures - Key management personnel
  - IFRS 3 Business Combinations - Scope exceptions for joint ventures
  - IFRS 13 Fair Value Measurement - Scope of paragraph 52 (portfolio exception)

Standards, interpretations and amendments to the published standards effective in 2016, but not applicable to the Company:

- IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28 - effective for annual periods beginning on or after 1 January 2016
- IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11- effective

for annual periods beginning on or after 1 January 2016
- IAS 16 and IAS 41 Agriculture - Bearer Plants - Amendments to IAS 16 and IAS 41 - effective for annual periods beginning on or after 1 January 2016
- IAS 27 - Equity Method in Separate Financial Statements - Amendments to IAS 27 - effective for annual periods beginning on or after 1 January 2016
- the Annual Improvements to IFRSs 2012 – 2014 Cycle - effective for annual periods beginning on or after 1 January 2016
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal
  - IFRS 7 Financial Instruments: Disclosures - Servicing contracts
  - IFRS 7 Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements
  - IAS 19 Employee Benefits - Discount rate
  - IAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'

Standards issued but not yet effective

- IFRS 9 Financial Instruments - effective for annual periods beginning on or after 1 January 2018
- IFRS 15 Revenue from Contracts with Customers - effective for annual periods beginning on or after 1 January 2018
- IFRS 16 Leases - effective for annual periods beginning on or after 1 January 2019
- IAS 7 Disclosure Initiative – Amendments to IAS 7 - effective for annual periods beginning on or after 1 January 2017
- IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12 - effective for annual periods beginning on or after 1 January 2017
- IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2 - effective for annual periods beginning on or after 1 January 2018
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 - effective for annual periods beginning on or after 1 January 2018
- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - The amendments have not yet been endorsed by the EU
- IAS 40: Transfers to Investment Property (Amendments) - effective for annual periods beginning on or after 1 January 2018
- IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration - This Interpretation has not yet been endorsed by the EU
- the Annual Improvements to IFRSs 2014 – 2016 Cycle - effective for annual periods beginning on or after 1 January 2017 / 2018
  - IFRS 1 First-time Adoption of International Financial Reporting Standards
  - IAS 28 Investments in Associates and Joint Ventures
  - IFRS 12 Disclosure of Interests in Other Entities

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgments in applying accounting policies

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

Environmental matters

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

Lease arrangements

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

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

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

Sources of estimate uncertainty

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

Legal claims

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

Quantification and timing of environmental liabilities

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

Impairment of property, plant and equipment

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

Actuarial estimates applied for calculation of retirement benefit obligations

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

Depreciable lives and residual values of property, plant and equipment

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Functional and presentation currency

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

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

Property, plant and equipment

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

Ongoing repairs, maintenance and minor renewals are expensed as incurred. Depreciation is calculated on a straight-line basis over the useful life of an asset (8-50 years for buildings, 3-40 years for machines, equipment and other assets). Land is not depreciated.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit or loss in the year the asset is derecognised.

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

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

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

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

Intangible assets

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

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

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

Impairment of non-financial assets

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

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

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

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

Inventories

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

Joint venture and subsidiaries

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

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

Financial assets

Initial recognition

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

Financial assets

Loans and receivables

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

Held-to-maturity investments

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

As at 31 December 2016 and 2015, no financial assets have been designated as held-to-maturity investments.

Available-for-sale financial assets

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

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

As at 31 December 2016 and 2015, no financial assets have been designated as available-for-sale financial assets.

Amortised cost of financial instruments

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

Financial liabilities

Initial recognition

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings & subordinated debt

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

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

Trade and other payables

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

Fair value of financial instruments

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

Impairment of financial assets

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

Classification and derecognition of financial instruments

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

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

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

Derivative financial instruments and hedging activities

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

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

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

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

Hedging

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

- Fair value hedge,
- Cash flow hedge

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

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

Fair value hedge

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

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

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

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

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

Cash flow hedge

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

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

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

As at 31 December 2016 and 2015, no financial liabilities have been designated as derivative financial instruments

Cash and cash equivalents

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

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

Employee benefits

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

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

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

Termination payments

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

Provisions

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

Environmental matters

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

Legal claims

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

Leases

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

As Lessee

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

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

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

As Lessor

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

Revenue recognition

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

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

Borrowing costs

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

Income tax

Current income tax

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

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

Deferred income tax

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

Deferred tax liabilities are recognised for all taxable temporary differences.

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

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

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

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

3. TRANSPORTATION AND RELATED REVENUES

In thousands of EUR	31 December 2016	31 December 2015
Inland transport:		
Transport of goods	33,150	34,729
Wagon deposition	6,450	6,180
Haulage fees	1,317	1,252
	40,917	**42,161**
International transport:		
Import	89,231	92,383
Export	100,767	105,119
Transit	15,597	14,251
	205,595	**211,753**
Other transport related revenues:		
Usage of wagons under RIV, PGV and AVV regimes	11,571	6,996
Wagon rentals	2,046	2,067
Cross-border services	3,357	3,411
Other	1,906	2,422
	18,880	**14,896**
	265,392	**268,810**

4. OTHER REVENUES

In thousands of EUR	31 December 2016	31 December 2015
Repairs and maintenance	5,599	6,203
Operational performance	2,206	2,094
Property rentals	2,322	2,813
Other	2,517	4,361
	12,644	**15,471**

Other revenues included revenues charged to ZSSK of EUR 5,850 thousand (2015: EUR 6,104 thousand) for repair and maintenance, operational performance, property rental and other support services.

5. CONSUMABLES AND SERVICES

In thousands of EUR	31 December 2016	31 December 2015
Wagon rentals	(41,372)	(24,739)
Network fees	(27,194)	(27,340)
Traction electricity	(27,047)	(29,028)
Traction crude oil	(10,126)	(11,849)
Materials	(8,580)	(8,677)
Repair and maintenance	(7,553)	(3,407)
Foreign segments	(7,287)	(5,522)
IT services and telecommunication charges	(6,878)	(7,179)
Other energy costs	(4,140)	(4,972)
Cross-border services	(4,029)	(4,492)
Rentals	(3,433)	(3,005)
Security services	(1,221)	(1,252)
Travelling and entertainment	(1,186)	(1,235)
Cleaning of cars, property, waste disposal	(862)	(500)
Training	(428)	(301)
Advisory and consultancy fees	(359)	(1,520)
Medical care	(337)	(422)
Third party transhipment services	(254)	(5,599)
Other	(3,088)	(2,054)
	(155,374)	**(143,093)**

Consumables and services include amounts charged by ŽSR of EUR 60,197 thousand (2015: EUR 63,706 thousand), primarily relating to the usage of ŽSR's network (the Company has a one year contract with ŽSR which specifies planned kilometres and charge rates for different types of transport) and also to the purchase of traction energy (refer to Note 25).

The Company reported a decrease in third party transhipment services in the amount of EUR 254 thousand (2015: 5,599 thousand) due to the fact that the Company did not order the service from Bulk Transshipment Slovakia, a.s. but the customer ordered the service by its own in 2016.

6. STAFF COSTS

In thousands of EUR	31 December 2016	31 December 2015
Wages and salaries	(62,622)	(61,540)
Social security costs	(26,980)	(25,794)
Employee benefits (Note 20)	(2,738)	(2,625)
Termination payments (Note 21)	1,193	981
	(91,147)	**(88,978)**

Employee numbers at 31 December 2016 were 5,794 (2015: 6,027), thereof seven were members of management (as members of the Board of Directors or directors of individual departments). Average employee numbers at 31 December 2016 were 5,932 (2015: 6,056).

The average salary in 2016 amounted to EUR 913 (2015: EUR 896).

7. OTHER OPERATING REVENUES (EXPENSES), NET

In thousands of EUR	31 December 2016	31 December 2015
Reversal (creation) of provision for environmental matters, net (Note 21)	-	503
Profit on sale of property, plant, equipment and inventories	1,686	5,363
Provision for legal cases and other provisions (Note 21)	(1,063)	(7,589)
Allowance for doubtful debts	(146)	(733)
Insurance of assets	(1,140)	(1,138)
Other	(707)	(1,370)
	(1,370)	**(4,964)**

8. INTEREST EXPENSE

In thousands of EUR	31 December 2016	31 December 2015
Interest on loans and borrowings	(974)	(2,025)
Interest on subordinated debt	-	(2,322)
Interest charges on finance lease liabilities	(693)	(1,011)
Unwinding of discount on provisions and employee benefits	(497)	29
	(2,164)	**(5,329)**

9. OTHER FINANCE REVENUES (COSTS), NET

In thousands of EUR	31 December 2016	31 December 2015
Foreign exchange losses, net	(5)	(96)
Gains on sale of securities	-	400
Other revenues (costs), net	575	176
	570	**480**

10. OTHER NON-CURRENT ASSETS

In thousands of EUR	31 December 2016	31 December 2015
Advanced payments	480	-
Accrued costs	12	4
	492	**4**

11. INCOME TAX

The reported income tax represents special levy of EUR 0 thousand, a withholding tax paid abroad in the amount of EUR 30 thousand and tax license in the amount of EUR 3 thousand (2015: EUR 1,394 thousand, EUR 29 thousand and EUR 3 thousand).

A reconciliation between the reported income tax expense and the theoretical amount that would arise using the standard rates is as follows:

In thousands of EUR	31 December 2016	31 December 2015
Profit (Loss) before tax	156	1,503
Tax charge at statutory tax rate of 21% (2015: 22%)	33	331
Tax paid abroad and tax license	(33)	(32)
Forfeit tax loss carry forwards	31	355
Unrecognized deferred tax asset (incl. impact of change in tax rate)	(1,788)	(81)
Non-deductible expenses	1,724	(605)
Special levy	-	(1,394)
Total income tax	**(33)**	**(1,426)**

Deferred tax assets and liabilities at 31 December related to the following (for the year ended 31 December 2016 an income tax rate of 21% applicable in future accounting period was used, for the year ended 31 December 2015: 22%):

In thousands of EUR	31 December 2016	31 December 2015
Deferred tax assets		
Tax loss carried forward	1,963	3,085
Provision for environmental matters	4,652	4,893
Provision for employee benefits	3,323	3,446
Allowance for trade and other receivables	872	899
Allowance for inventories	262	155
Provision for legal cases	3,720	3,660
Termination payments	314	216
Other overdue liabilities (over 36 months)	3,796	6,029
Other	7,667	7,287
	26,569	**29,670**
Deferred tax liabilities		
Accelerated depreciation for tax purposes (net of value adjustments)	(2,207)	(3,480)
Other	(52)	(92)
	(2,259)	(3,572)
Valuation allowance	**(24,310)**	**(26,098)**
Net deferred tax assets (liabilities)	**-**	**-**

A valuation allowance of EUR 24,310 thousand (2015: EUR 26,098 thousand) has been recognised for temporary deductible differences due to uncertainty as to the realization of tax benefits in future years. The Company will continue to assess the valuation allowance and, to the extent it is determined that such allowance is no longer required, the tax benefits of the remaining deferred tax assets will be recognised at that time.

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

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

12. INTANGIBLE ASSETS

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

In thousands of EUR	Software	Assets under construction	Total
Acquisition cost			
At 1 January 2015	**30,070**	**475**	**30,545**
Additions	-	1,523	1,523
Transfers	1,771	(1,771)	-
At 31 December 2015	**31,841**	**227**	**32,068**
Accumulated amortization			
At 1 January 2015	**(20,405)**	**-**	**(20,405)**
Charge for the period	(1,533)	-	(1,533)
At 31 December 2015	**(21,938)**	**-**	**(21,938)**
Net book value at 31 December 2015	**9,903**	**227**	**10,130**

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

In thousands of EUR	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
Acquisition cost				
At 1 January 2015	**77,561**	**462,432**	**4,414**	**544,407**
Additions	-	-	17,018	17,018
Disposals	(5,220)	(9,162)	(964)	(15,346)
Transfers	318	14,786	(15,104)	-
At 31 December 2015	**72,659**	**468,056**	**5,364**	**546,079**
Accumulated depreciation				
At 1 January 2015	**(31,783)**	**(215,186)**	**(534)**	**(247,503)**
Additions	(1,645)	(24,950)	-	(26,595)
Disposals	5,220	7,093	-	12,313
Impairment loss	(86)	(9,622)	-	(9,708)
At 31 December 2015	**(28,294)**	**(242,665)**	**(534)**	**(271,493)**
Net book value at 31 December 2015	**44,365**	**225,391**	**4,830**	**274,586**

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

The Company recorded impairment losses on assets individually assessed as damaged or not capable for further use. The impairment losses were recorded to reflect the amount of actual damage, respectively, the net book value of an asset component at 31 December 2016.

The impairment test required by IAS 36 was performed by management of the Company as at 31 December 2016. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The fair value less cost to sell of an asset was determined as its selling price adjusted for costs associated with the sale of the asset. The value in use of the asset was determined by discounted cash flows method. The Company as a whole is considered as a single cash generating unit. No impairment losses have been identified based on the impairment test when comparing the recoverable amounts of the assets and carrying values after considering impairment losses of selected assets.

The relevant cash flows were estimated based on the 2017 business plan updated to the latest available information at the balance sheet date and on forecasts of future periods based on best estimates using all available information. The future cash flows were estimated for the next 15 years which is an average remaining useful life of the cash generating unit's assets. The cash flows include unavoidable investment expenditures required to maintain the ability of the cash generating unit to generate revenues and proceeds from scrap value at the end of the useful life. Discount rate of 5.90% used in the calculation was determined based on interest rates for incremental financing of fixed assets purchases by the Company as at the day of preparation of a financial statements and was adjusted for factors of time, risk and liquidity.

As a result of the procedures described above, the Company has increased an impairment loss by EUR 333 thousand due to a lower usage of assets and a decrease of cash inflows mainly from a transport revenues' decrease in 2016 and expected utilization of assets and expected transported volumes (mainly in diesel traction) in the next period .

Property, plant and equipment include locomotives acquired by means of finance lease with a total acquisition value of EUR 21,217 thousand (net book value EUR 13,572 thousand), wagons with an aggregate acquisition value of EUR 87,333 thousand (net book value EUR 65,259 thousand) and computing technology with a total acquisition value of EUR 2,772 thousand (net book value EUR 0 thousand).

Property, plant and equipment in the ownership of the Company with a total acquisition value of EUR 709 thousand (EUR 2,219 thousand at 31 December 2015) and with a net book value of EUR 488 thousand (EUR 2,015 thousand at 31 December 2015) is registered by the State as protected for cultural purposes.

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

14. INVESTMENT IN JOINT VENTURES AND SUBSIDIARY

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

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

Details of the Company's joint venture, affiliated company and subsidiary at 31 December 2016 are as follows:

Corporate name	Registration country	Ownership 2016	Carrying amount of investment 2016	Equity 2016	Profit/Loss 2016
Investment in joint ventures					
BULK TRANSSHIPMENT SLOVAKIA, a.s.	Slovak Republic	40%	2,829.5	21,543	2,918
Cargo Wagon, a.s.	Slovak Republic	34%	3,402.5	1,726	(1,376)
Total investment in joint ventures			**6,232**		
Investments in subsidiary					
ZSSK CARGO Intermodal, a.s.	Slovak Republic	100%	27.5	25	(1)

Details of the Company's joint venture, affiliated company and subsidiary at 31 December 2015 are as follows:

Corporate name	Registration country	Ownership 2015	Carrying amount of investment 2015	Equity 2015	Profit/Loss 2015
Investment in joint ventures					
BULK TRANSSHIPMENT SLOVAKIA, a.s.	Slovak Republic	40%	2,829.5	18,635	2,698
Cargo Wagon, a.s.	Slovak Republic	34%	3,402.5	3,844	(4,095)
Total investment in joint ventures			**6,232**		
Investments in subsidiaries					
ZSSK CARGO Intermodal, a.s.	Slovak Republic	100%	27.5	26	-

The Company signed a sale and purchase of shares contract with AAE Wagon a.s. (member of VTG/AAE Group), the winner of the international tender on 5 March 2015. According to the contract AAE Wagon a.s. acquired 66% of share capital of Cargo Wagon, a.s. and the transaction was completed after the approval of Antimonopoly authorities in May 2015.

As of 31 December 2016 Cargo Intermodal, a.s. is dormant with no operation.

15. INVENTORIES

In thousands of EUR	At cost 2016	At lower of cost or net realizable value 2016	At cost 2015	At lower of cost or net realizable value 2015
Machine and metal-working materials	3,143	2,700	3,068	2,814
Electrical materials	2,826	2,049	3,027	2,594
Chemicals and rubber	695	676	950	938
Diesel fuel	673	673	683	683
Protective tools	253	251	262	261
Other	146	138	198	194
	7,736	**6,487**	**8,188**	**7,484**

The Company expects to use up stocks amounted to EUR 20,354 thousand (2015: EUR 24,608 thousand) in a period of more than twelve months after the date of creation these financial statements.

16. TRADE AND OTHER RECEIVABLES

In thousands of EUR	31 December 2016	31 December 2015
Domestic trade receivables	29,718	24,637
Foreign trade receivables	15,381	13,753
VAT receivables	3,828	4,490
Other receivables	2,904	3,257
Allowance for impaired trade and other receivables	(4,151)	(4,085)
	47,680	**42,052**

At 31 December 2016 overdue receivables amounted to EUR 4,990 thousand (EUR 6,020 thousand at 31 December 2015).

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

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

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

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

Year	Total	Neither past due nor impaired	Past due but not impaired				
			< 90 days	90 - 180 days	180 – 270 days	270 – 365 days	> 365 days
2016	**47.680**	47.040	640	-	-	-	-
2015	**42.052**	41.181	871	-	-	-	-

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 2016	31 December 2015
Cash at banks and on hand and cash equivalents	125	3,370
Bank overdrafts	(49,583)	(43,517)
	(49,458)	**(40,147)**

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 2016		31 December 2015	
In thousands of EUR	Overdraft limit	Drawn down	Overdraft limit	Drawn down
Citibank Europe plc, poboč. zahr. banky.	15,000	9,232	20,000	10,053
ING Bank N.V., pobočka z.b.	20,000	12,166	20,000	9,604
Všeobecná úverová banka, a.s.	15,000	8,911	15,000	7,235
Tatra banka, a.s.	15,000	8,978	15,000	7,144
Slovenská sporiteľňa, a.s.	10,000	4,977	10,000	4,946
Československá obchodná banka, a.s.	10,000	5,319	10,000	4,535
,	**85,000**	**49,583**	**90,000**	**43,517**

Cash and cash equivalents as at 31 December 2016, include EUR 0 thousand that is restricted (31 December 2015: EUR 3,326 thousand).

18. SHAREHOLDER'S EQUITY

Share capital

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

Legal reserve fund

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

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

Other funds

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

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

Distribution of profit from previous accounting period

The distribution of profit of the 2015 statutory result was approved by the Company's General Meeting on 6 July 2016 and was booked in the amount of EUR 8 thousand to legal reserve fund and the amount of EUR 69 thousand was booked to accumulated losses.

19. INTEREST-BEARING LOANS AND BORROWINGS

In thousands of EUR	Maturity date	31 December 2016	31 December 2015
Long-term loans			
Secured			
ING Bank N.V.	31 July 2019	10,980	13,098
Total		**10,980**	**13,098**
Short-term portion of loans			
Long-term portion of loans		**2,182**	**2,118**
Dlhodobá časť úverov a,pôžičiek		**8,798**	**10,980**
Short-term loans			
Secured			
Privatbanka, a.s.	7 June 2017	10,000	7,000
Short-term loans		**10,000**	**7,000**
Short-term portion of loans (see above)		**2,182**	**2,118**
Overdrafts (Note 17)		**49,583**	**43,517**
Short-term portion of loans		**61,765**	**52,635**
Total		**70,563**	**63,615**

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

All loans presented in the table above are secured by promissory notes with a value of EUR 59,583 thousand (EUR 50,517 thousand at 31 December 2015), and with a nominal value of EUR 107,800 thousand (EUR 112,200 thousand as of 31 December 2015) except for the loan from ING Bank N.V. The long-term loan from ING Bank N.V. is secured by a lien on 250 wagons “Shimmns” (net book value EUR 20,916 thousand).

Under the terms of a loan agreement the Company is required to meet a financial debt ratio covenant. The covenant is derived from the Company’s management accounts. At 31 December 2015 the Company did not comply with the covenant for a loan in the amount of EUR 7,235 thousand. The Company is not obligated to maintain the debt ratio by amendment dated at 1 December 2016. At 31 December 2016, the Company has no obligation to comply any covenants.

The fair value of interest-bearing loans and borrowings amounts to EUR 70,563 thousand (EUR 63,615 thousand at 31 December 2015).

All interest-bearing loans and borrowings bear floating interest which range from 0.950% to 2.700% (0.950% to 2.700% in 2015) except for the fixed interest loan from Privatbanka, a.s.

20. EMPLOYEE BENEFITS

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

In thousands of EUR	Retirement benefits	Jubilee payments	Disability benefits	Total
At 1 January 2015	12,420	3,410	15	15,845
Current service cost	468	123	-	591
Interest expense	298	82	-	380
Actuarial gains and losses	189	25	(2)	212
Utilization of benefits	(905)	(451)	(6)	(1,362)
At 31 December 2015	**12,470**	**3,189**	**7**	**15,666**
Current 31 December 2015	496	369	4	869
Non-current 31 December 2015	11,974	2,820	3	14,797
At 31 December 2015	**12,470**	**3,189**	**7**	**15,666**

The principal actuarial assumptions used were as follows:

	2016	2015
Discount rate (% p.a.)	1.60	2.40
Future salary increases (%)	3.00	2.50
Mortality probability (male) (%)	0.04 – 2.26	0.04 – 2.26
Mortality probability (female) (%)	0.02 – 0.88	0.02 – 0.88

Sensitivity analysis

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

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

In thousands of EUR	31 December 2015	Discount rate (1.00%)	Average income (1.00%)	Mortality (-10.00%)
Net liability from employee benefits	15,666	(1,241)	321	150

21. PROVISIONS

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

In thousands of EUR	Environmental	Legal	Terminations	Other	Total
At 1 January 2015	**22,838**	**15,535**	**828**	**-**	**39,201**
Additions	-	1,107	981	6,482	8,570
Interest costs	-	-	-	(409)	(409)
Reversals	(503)	-	-	-	(503)
Utilization	(93)	(6)	(828)	-	(927)
At 31 December 2015	**22,242**	**16,636**	**981**	**6,073**	**45,932**
Current 31 December 2015	8,999	-	981	1,080	11,060
Non-current 31 December 2015	13,243	16,636	-	4,993	34,872
At 31 December 2015	**22,242**	**16,636**	**981**	**6,073**	**45,932**

Environmental matters

In 2016, the Company used its analysis of potential breaches of environmental regulations at its various sites from the prior year, with the support of an environment specialist, Centrum enviromentálnych služieb, s.r.o. As a result of this analysis, and based on the findings of Centrum enviromentálnych služieb, s.r.o., the Company has estimated that costs of EUR 22,154 thousand (EUR 22,242 thousand at 31 December 2015) are required to remedy the significant environmental issues relating to water, oil and fuel management identified in the past.

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

Expenditures will be incurred in 2018 – 2019. A discount rate of 2.00 % p.a. was used in the calculation.

Legal claims

Provisions for legal claims relate to a number of claims, the most significant one is REFIN B.A., Ltd. in the amount of EUR 8,932 thousand.

Other

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

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

In thousands of EUR	31 December 2016	31 December 2015
Domestic trade payables	53,891	62,729
Foreign trade payables	7,719	7,190
Payables due to employees	6,102	5,907
Payables due to social institutions	3,516	3,503
Other payables	5,187	3,419
	76,415	**82,748**

At 31 December 2016 overdue trade payables amounted to EUR 871 thousand (EUR 1,103 thousand at 31 December 2015). For details of related party payables, refer to Note 25.

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 2016	31 December 2015
At 1 January	**100**	**200**
Additions	605	610
Utilization	(626)	(710)
At 31 December	**79**	**100**

23. COMMITMENTS AND CONTINGENCIES

Finance lease commitments

At 31 December 2016 the Company has finance lease commitments relating to the acquisition of 753 wagons, 12 powered vehicles and hardware equipment (1,104 wagons and 12 powered vehicles at 31 December 2015).

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

In thousands of EUR	31 December 2016		31 December 2015	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Within one year	13,371	13,069	12,708	11,963
After one year but not more than five years	5,642	5,496	19,134	18,563
More than five years	-	-	-	-
Total minimum lease payments	19,013	18,565	31,842	30,526
Less: future finance charges	(448)	-	(1,316)	-
Present value of minimum lease payments	**18,565**	**18,565**	**30,526**	**30,526**

Operating lease commitments

At 31 December 2016 the Company has operating lease for a fixed period including mainly wagons, motor vehicles and other equipment.

In thousands of EUR	31 December 2016	31 December 2015
Operating lease of wagons	41,603	24,710
Operating lease of motor vehicles	486	427
Operating lease of other equipment	158	160
	42,247	**25,297**

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

In thousands of EUR	31 December 2016	31 December 2015
Within one year	40,247	40,973
After one year but not more than five years	191,823	190,383
More than five years	15,814	48,886
	247,884	**280,242**

Investing commitments

The Company's investment expenditure for the period from 1 January 2017 to 31 December 2017 (1 January 2016 to 31 December 2016) is as follows:

In thousands of EUR	31 December 2016	31 December 2015
Land and buildings	-	19
Machines, equipment and other assets	2,124	402
Intangible assets	-	-
	2,124	**421**

Expenditures of EUR 2,124 thousand (EUR 421 thousand at 31 December 2015) are committed under contractual arrangements.

Contingent liabilities

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

District Court Bratislava II announced judgment on 8 November 2016 in which rejected the charge in its entirety. ČD CARGO, a.s. is obliged to pay lawsuit costs an amount of EUR 106 thousand. The lawsuit has been lawfully completed. ČD CARGO, a.s. has filed an extraordinary appeal against the final ruling within a legal period in 2017.

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

In thousands of EUR	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
At 1 January 2016	-	-	-	-
At 31 December 2016	-	-	-	-

In thousands of EUR	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
At 1 January 2015	-	180,429	-	180,429
Disposals	-	(180,429)	-	(180,429)
At 31 December 2015	**-**	**-**	**-**	**-**

The Company signed a sale and purchase of shares contract with AAE Wagon a.s. (member of VTG/AAE Group), the winner of the international tender on 5 March 2015. According to the contract AAE Wagon a.s. acquired 66% of share capital of Cargo Wagon, a.s. A shareholders agreement governing relations between both shareholders AAE and ZSSK CARGO was also signed. After an approval of the Antimonopoly authorities, registering transfer of shares and the fulfillment of other conditional clauses the final transaction documents were signed – Agreement on transfer of movable assets for consideration and subsequent lease back of means of transport (Agreement on sale of 12,342 railway carriages and lease back of 8,216 railway carriages) and Bank loan agreement between financing banks and Cargo Wagon, a.s which was used to finance the purchase of railway carriages. The Company finalized the deal on 10 July 2015.

25. RELATED PARTY DISCLOSURES

Related parties of the Company comprise of all companies under same ownership (meaning under the control of the State), the Company's joint 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 2016 and 2015:

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

In thousands of EUR	31 December 2015			
Related party	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
ŽSR	734	63,706	95	40,132
ZSSK	13,434	3,924	1,963	501
Ministerstvo financií SR	90	-	-	-
Slovenský plynárenský priemysel	-	256	-	8
Cargo Wagon, a.s.	180,900	16,736	10,312	3,482
BTS (joint venture)	3,317	5,871	137	1,446
Other related parties	314	607	18	2

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

Statutory and supervisory bodies

Members of the Company's statutory and supervisory bodies as registered in the Commercial Register at the District Court Bratislava I at 31 December 2016 are as follows:

Board of Directors:	Ing. Martin Vozár, MBA, chairman (since 7 July 2016)
	Ing. Miroslav Hopta, vice-chairman (since 30 May 2016)
	Ing. Jaroslav Daniška, member (since 30 May 2016)
	Ing. Róbert Nemčík, PhD., member (since 8 July 2016)
	Ing. Ľubomír Kuťka, member (since 28 July 2016)
	Ing. Miroslav Hopta, member (since 28 May 2016 till 30 May 2016)
	Ing. Vladimír Ľupták, chairman (since 26 April 2012 till 27 May 2016)
	Ing. Jaroslav Daniška, vice-chairman (since 26 April 2012 till 30 May 2016)
	Ing. Peter Fejfar, member (since 26 April 2012 till 27 May 2016)
	Ing. Jozef Pavúk, chairman (since 28 May 2016 till 31 May 2016
Supervisory Board:	Ing. Martin Čatloš, chairman (since 15 August 2012)
	Ing. Radovan Majerský, PhD. (since 15 August 2012)
	Ing. Štefan Hlinka (since 15 August 2012)
	Ing. Bartolomej Kun (since 1 January 2015)
	Mgr. Zita Verčíková (since 1 January 2015)
	Ing. Ivan Gránsky (since 14 July 2016)
	Ing. Pavol Gábor (since 15 August 2012 till 13 July 2016)

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

The Board of Directors' total remuneration approximated EUR 38 thousand (EUR 29 thousand in 2015). The total remuneration of members of the Supervisory Board amounted to EUR 24 thousand (EUR 15 thousand in 2015).

Loans granted

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

26. FINANCIAL RISK MANAGEMENT

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

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

Interest rate risk

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

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

In thousands of EUR	31 December 2016	31 December 2015
EURIBOR (+0.5%)	(460)	(652)
EURIBOR (-0.5%)	-	161

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 2016 and 2015 consist of the following:

In thousands of EUR	31 December 2016	31 December 2015
Long-term loan facilities available	-	-
Short-term loan facilities available	36,511	49,577
Total loan facilities available	**36,511**	**49,577**

As at 31 December 2016 the Company did not have any banks guarantees (EUR 0 thousand at 31 December 2015).

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2016 based on contractual undiscounted payments.

In thousands of EUR	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Long-term loans	-	-	-	8,798	-	**8,798**
Trade and other payables	871	48,997	10,001	16,546	-	**76,415**
Obligations under finance leases	-	865	12,204	5,496	-	**18,565**
Short-term loans	-	-	54,606	7,159	-	**61,765**
	871	49,862	76,811	37,999	-	**165,543**

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2015 based on contractual undiscounted payments.

In thousands of EUR	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Long-term loans	-	-	-	10,980	-	**10,980**
Trade and other payables	1,103	47,490	17,503	18,046	-	**84,142**
Obligations under finance leases	-	258	11,705	18,563	-	**30,526**
Short-term loans	-	-	38,085	14,549	-	**52,634**
	1,103	47,748	67,293	62,138	**-**	**178,282**

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 Group, sales to which represent 59% of transport and related revenues (56% in 2015), but management is confident, based on historic experience, projections for the future and contracts in place, that the Company is not overly exposed to credit risk in respect of these three customers. The Company's procedure is to ensure that sales are made to customers with appropriate credit histories and that acceptable credit limits are not exceeded.

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

Capital management

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

The Company manages its capital structure, and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015.

The Company monitors indebtedness using a debt to equity ratio, by which debt consists of external interest-bearing loans and borrowings and excludes subordinated debt provided by related parties and finance lease obligations, divided by total equity.

In thousands of EUR	31 December 2016	31 December 2015
Long-term debt, net of current portion (excluding subordinated debt and finance lease obligations)	8,798	10,980
Short-term debt, including current portion of long-term debt (excluding finance lease obligations)	61,765	52,634
Debt	**70,563**	**63,614**
Equity	**114,338**	**114,215**
Debt to equity ratio (%)	**62%**	**56%**

27. EVENTS AFTER THE BALANCED SHEET DATE

No events occurred subsequent to 31 December 2016 that might have a material effect on the fair presentation of the matters disclosed in these financial statements.

Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 25 April 2017.

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 2016

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Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Železničná spoločnosť Cargo Slovakia, a.s. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group give a true and fair view of the financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS EU").

Basis for Opinion

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

Emphasis of Matters

We draw attention to the following matters:

i. As set out in Note 21 to the consolidated financial statements, the Group recorded provisions of EUR 22,154 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 Group's financial results in future accounting periods.

ii. As set out in Note 25 to the consolidated financial statements, the Group 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.

Our opinion is not modified in respect of these matters.

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

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

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

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

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

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

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

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

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

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

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

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

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

Report on Other Legal and Regulatory Requirements

Report on Information Disclosed in the Annual Report

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

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

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

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

- Information disclosed in the annual report prepared for 2016 is consistent with the consolidated financial statements for the relevant year,
- The annual report contains information based on the Act on Accounting.

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

25 April 2017
Bratislava, Slovak Republic

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

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

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT

Consolidated statement of comprehensive income for the year ended 31 December 2016

In thousands of EUR	Note	31 December 2016	31 December 2015
Revenues			
Transportation and related revenues	3	265,392	268,810
Other revenues	4	12,644	15,471
		278,036	**284,281**
Costs and expenses			
Consumables and services	5	(155,375)	(143,093)
Staff costs	6	(91,147)	(88,978)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	12, 13	(28,395)	(40,894)
Other operating revenues (expenses), net	7	(1,370)	(4,964)
		(276,287)	**(277,929)**
Finance costs			
Interest expense	8	(2,164)	(5,329)
Other finance revenues (costs), net	9	570	480
Share of the profit of the joint venture and affiliated company	14	699	(313)
		(895)	**(5,162)**
Income tax	11	(33)	(1,426)
Profit (Loss) for the period		821	(236)
Other comprehensive income for the period		-	-
Total comprehensive income for the period		821	(236)

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

Profit attributable to:		
Shareholder of the Company	821	(236)
Non-controlling interest of other owners of subsidiaries	-	-

Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 25 April 2017.

Consolidated statement of financial position for the year ended 31 December 2016

In thousands of EUR	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	13	260,648	274,586
Intangible assets	12	9,649	10,130
Group loans	16, 25	10,908	10,298
Investment in joint venture	14	10,174	9,475
Other non-current assets	10	492	4
		291,871	**304,493**
Current assets			
Inventories	15	6,487	7,484
Trade and other receivables	16	47,681	42,052
Cash and cash equivalents	17	149	3,395
		54,317	**52,931**
Assets held for sale	**24**	**-**	**-**
		54,317	**52,931**
TOTAL ASSETS		346,188	357,424
EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital	18	401,646	401,646
Legal reserve fund	18	34	26
Other funds	18	1,228	1,228
Accumulated losses	18	(284,642)	(285,455)
Total equity		**118,266**	**117,445**
Non-current liabilities			
Interest-bearing loans and borrowings	19	8,798	10,980
Employee benefits	20	14,895	14,797
Provisions	21	43,902	34,872
Trade and other payables	22	16,546	18,046
Finance lease liabilities	23	5,496	18,563
Other non-current liabilities	22	79	100
		89,716	**97,358**
Current liabilities			
Interest-bearing loans and borrowings	19	61,765	52,634
Employee benefits	20	929	869
Provisions	21	2,574	11,060
Trade and other payables	22	59,869	64,701
Tax liabilities	11	-	1,394
Finance lease liabilities	23	13,069	11,963
		138,206	**142,621**
Liabilities directly associated with assets held for sale	24	-	-
Total liabilities		**227,922**	**239,979**
TOTAL EQUITY AND LIABILITIES		346,188	357,424

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 25 April 2017.

Consolidated statement of changes in equity for the year ended 31 December 2016

In thousands of EUR	Share capital	Legal reserve fund	Other funds	Accumulated losses	Total
At 1 January 2015	**401,646**	**26**	**1,228**	**(285,219)**	**117,681**
Loss for the period	-	-	-	(236)	(236)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	(236)	(236)
Legal reserve fund	-	-	-	-	-
At 31 December 2015	**401,646**	**26**	**1,228**	**(285,455)**	**117,445**
Profit for the period	-	-	-	821	821
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	821	821
Legal reserve fund	-	8	-	(8)	-
At 31 December 2016	**401,646**	**34**	**1,228**	**(284,642)**	**118,266**

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 25 April 2017.

Consolidated statement of cash flows for the year ended 31 December 2016

In thousands of EUR	Note	31 December 2016	31 December 2015
Cash flows from operating activities			
Profit / (Loss) before tax		854	1,190
Adjustments for:			
Non-cash items			
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	12, 13	28,395	40,893
Gain on sale of property, plant and equipment	7	(1,081)	(4,793)
Gain on sale of Cargo Wagon's shares	14	-	(400)
Allowance of receivables and inventories	15, 16	611	(589)
Interest expense	8	2,164	5,329
Interest income and shares of profits		(610)	(323)
Share of the profit of the joint venture		(699)	287
Movements in provisions and employee benefits		703	5,158
Other non-cash items	4, 14	2	42
		30,339	**46,794**
Working capital adjustments			
Decrease in inventories		452	195
Decrease (increase) in trade and other receivables		(6,182)	1,446
Increase (decrease) in trade and other payables		(6,451)	(14,190)
Cash flows from operating activities		**18,158**	**34,271**
Income tax paid	11	(1,420)	(32)
Net cash flows from operating activities		**16,738**	**34,239**
Investing activities			
Purchase of property, plant and equipment	12, 13	(14,688)	(18,541)
Group loans	16	-	(10,000)
Proceeds from sale of Cargo Wagon's shares	14	-	7,000
Dividends received		-	25
Cash in subsidiaries after sale of majority share		-	(21)
Proceeds from sale of property, plant and equipment		1,418	185,173
Net cash flows from (used in) investing activities		**(13,270)**	**163,636**
Financing activities			
Proceeds from loans and borrowings	19	3,000	-
Repayment of loans and borrowings	19	(2,118)	(20,030)
Repayment of subordinated debt		-	(117,220)
Interest paid		(1,701)	(6,660)
Payments of finance lease liabilities	23	(11,961)	(8,683)
Net cash flows used in financing activities		**(12,780)**	**(152,593)**
Net (decrease) increase in cash and cash equivalents		**(9,312)**	**45,282**
Cash and cash equivalents at 1 January	**17**	**(40,122)**	**(85,404)**
Cash and cash equivalents at 31 December	**17**	**(49,434)**	**(40,122)**

The accounting policies and notes form an integral part of the financial statements.
Approved by Ing. Martin Vozár, MBA and Ing. Miroslav Hopta on behalf of the Board of Directors on 25 April 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Information on Reporting entity

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

The Slovak Republic is the sole shareholder of the Company through the Ministry of Transport and Construction of the Slovak Republic ("MTC SR") with its registered office on Námestie slobody 6, 810 05 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 Group rents properties and provides repair and maintenance, cleaning and other support services to ZSSK and other external customers. The Group is organized and managed as a single business unit and is viewed as a single operating unit by the Board of Directors for the purposes of resource allocation and assessing performance. The Group includes the Company, joint venture, associated company and subsidiary.

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

The registered office of ZSSK CARGO
Drieňová 24
820 09 Bratislava
Slovak Republic

2.1 BASIS OF PREPARATION AND MEASUREMENT

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 25 April 2017. The General Meeting held on 6 June 2016 approved the Group's financial statements for the previous accounting period.

The consolidated financial statements have been prepared on the historical cost basis. These financial statements constitute the statutory accounts of ZSSK CARGO, prepared in accordance with Article 17a (6) of Slovak Act No. 431/2002 Coll. on Accounting for the accounting period from 1 January 2016 to 31 December 2016.

The consolidated financial statements were prepared using the going concern assumption that the Group will continue its operations for the foreseeable future. The Group reported a profit of EUR 821 thousand for the year and total accumulated loss of EUR 284,642 thousand.

The Government of the Slovak republic approved the resolution No. 390/2013 on 10 July 2013 which sets measures to consolidate rail freight transport and its implementation should allow an economic consolidation and further development of the Group. The measures compensate a late introduction of a new regulatory framework for rail freight companies in the form of reduced fees for the use of railway infrastructure in the years 2014-2016 and also allow the Group to establish three subsidiaries in the sector of management of wagons, intermodal transport and repair and maintenance of machines and wagons and subsequently allow qualified and reputable partners to enter into those subsidiaries.

The Group established two subsidiaries Cargo Wagon, a.s. and ZSSK CARGO Intermodal, a.s. in 2013. The Group signed a sale and purchase of shares contract with AAE Wagon a.s. (member of VTG/AAE Group), the winner of the international tender on 5 March 2015. According to the contract AAE Wagon a.s. acquired 66% of share capital of Cargo Wagon, a.s. A shareholders agreement governing relations between both shareholders AAE and ZSSK CARGO has been also signed.

After an approval of the Antimonopoly authorities, registering transfer of share and the fulfillment of other conditional clauses the final transaction documents were signed in May 2015 – Agreement on transfer of movable assets for consideration and subsequent lease back of means of transport (Agreement on sale of 12,342 railway carriages and lease back of 8,216 railway carriages) and Bank loan agreement between financing banks and Cargo Wagon, a.s used to finance the purchase of railway carriages. Whole transaction was completed on 10 July 2015, when ZSSK CARGO received a payment for the sale of carriages of EUR 216.6 million (incl. VAT) which was used to decrease Group´s debt. The Group began to lease a significant part of its freight wagons. Regarding ZSSK Cargo Intermodal, a.s. the Group has closed the international tender without selecting a qualified partner in 2015. The Group will support activities of intermodal activities within ZSSK CARGO.

The successful rail freight transport consolidation, with the goal being the achievement of balanced results in the mid-term while continuing to implement internal measures, which should increase the productivity and effectivity of internal processes, considering the decreasing transports and fiercer competition will depend on additional supporting measures and a new regulatory framework for rail freight transporters and the fee set for the usage of rail infrastructure after the year 2016. In 2017 with outlook for 2018-2019 the support for rail freight transport in Slovakia continues in form of reduced network fees.

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

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

Statement of compliance

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and amended IFRS and IFRIC interpretations as at 1 January 2016, all adopted by the European Union (hereinafter as the "EU"):

- IAS 19 Defined Benefit Plans: Employee Contributions - Amendments to IAS 19 - effective for annual periods beginning on or after 1 January 2016
- IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization - Amendments to IAS 16 and IAS 38 - effective for annual periods beginning on or after 1 January 2016
- IAS 1 Disclosure Initiative - Amendments to IAS 1 - effective for annual periods beginning on or after 1 January 2016
- the Annual Improvements to IFRSs 2010 – 2012 Cycle - effective for annual periods beginning on or after 1 February 2015
  - IFRS 2 Share-based Payment - Definitions of vesting conditions
  - IFRS 3 Business Combinations - Accounting for contingent consideration in a business combination
  - IFRS 8 Operating Segments - Aggregation of operating segments
  - IFRS 8 Operating Segments - Reconciliation of the total of the reportable segments' assets to the entity's assets
  - IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Revaluation method - proportionate restatement of accumulated depreciation/amortization
  - IAS 24 Related Party Disclosures - Key management personnel
  - IFRS 3 Business Combinations - Scope exceptions for joint ventures
  - IFRS 13 Fair Value Measurement - Scope of paragraph 52 (portfolio exception)

Standards, interpretations and amendments to the published standards effective in 2016, but not applicable to the Group:

- IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28 - effective for annual periods beginning on or after 1 January 2016
- IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11- effective for annual periods beginning on or after 1 January 2016

- IAS 16 and IAS 41 Agriculture - Bearer Plants - Amendments to IAS 16 and IAS 41 - effective for annual periods beginning on or after 1 January 2016
- IAS 27 - Equity Method in Separate Financial Statements - Amendments to IAS 27 - effective for annual periods beginning on or after 1 January 2016
- the Annual Improvements to IFRSs 2012 – 2014 Cycle - effective for annual periods beginning on or after 1 January 2016
    - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal
    - IFRS 7 Financial Instruments: Disclosures - Servicing contracts
    - IFRS 7 Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements
    - IAS 19 Employee Benefits - Discount rate
    - IAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'

Standards issued but not yet effective

- IFRS 9 Financial Instruments - effective for annual periods beginning on or after 1 January 2018
- IFRS 15 Revenue from Contracts with Customers - effective for annual periods beginning on or after 1 January 2018
- IFRS 16 Leases - effective for annual periods beginning on or after 1 January 2019
- IAS 7 Disclosure Initiative – Amendments to IAS 7 - effective for annual periods beginning on or after 1 January 2017
- IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12 - effective for annual periods beginning on or after 1 January 2017
- IFRS 2 Classification and Measurement of Share-based Payment Transactions —
- Amendments to IFRS 2 - effective for annual periods beginning on or after 1 January 2018
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 - effective for annual periods beginning on or after 1 January 2018
- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - The amendments have not yet been endorsed by the EU
- IAS 40: Transfers to Investment Property (Amendments) - effective for annual periods beginning on or after 1 January 2018
- IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration - This Interpretation has not yet been endorsed by the EU
- the Annual Improvements to IFRSs 2014 – 2016 Cycle - effective for annual periods beginning on or after 1 January 2017 / 2018
    - IFRS 1 First-time Adoption of International Financial Reporting Standards
    - IAS 28 Investments in Associates and Joint Ventures
    - IFRS 12 Disclosure of Interests in Other Entities

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgments in applying accounting policies

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

Environmental matters

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

Lease arrangements

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

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

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

Sources of estimate uncertainty

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

Legal claims

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

Quantification and timing of environmental liabilities

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

Impairment of property, plant and equipment

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

Actuarial estimates applied for calculation of retirement benefit obligations

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

Depreciable lives and residual values of property, plant and equipment

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Functional and presentation currency

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

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

Property, plant and equipment

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

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

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

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

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

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

Intangible assets

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

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

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

Impairment of non-financial assets

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

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

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

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

Inventories

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

Joint venture and subsidiaries

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

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

Financial assets

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives des-

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ignated as hedging instruments in an effective hedge, as appropriate. Financial assets are designated on initial recognition. Financial assets are recognized initially at fair value plus, in case of financial assets not classified at fair value through profit or loss, directly attributable transaction costs. The Group's financial assets comprise cash at bank, petty cash and cash equivalents, trade and other receivables.

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

Financial assets

Loans and receivables

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

Held-to-maturity investments

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

As at 31 December 2016 and 2015, no financial assets have been designated as held-to-maturity investments.

Available-for-sale financial assets

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

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

As at 31 December 2016 and 2015, no financial assets have been designated as available-for-sale financial assets.

Amortised cost of financial instruments

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

Financial liabilities

Initial recognition

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings & subordinated debt

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

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

Trade and other payables

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

Fair value of financial instruments

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

Impairment of financial assets

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

Classification and derecognition of financial instruments

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

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

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

Derivative financial instruments 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 by which the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedge is expected to be highly effective in achieving offsetting of changes in fair value or cash flows attributable to the hedged risk and is assessed on an ongoing basis to determine that it has been highly effective throughout the financial reporting periods for which it was designated.

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

<u>Fair value hedge</u>

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

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

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

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

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

<u>Cash flow hedge</u>

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

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

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

As at 31 December 2016 and 2015, no financial liabilities have been designated as derivative financial instruments.

Cash and cash equivalents

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

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

Employee benefits

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

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

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

Termination payments

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

Provisions

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

Environmental matters

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

Legal claims

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

Leases

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

As Lessee

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

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

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

As Lessor

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

Revenue recognition

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

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

Borrowing costs

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

Income tax

Current income tax

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

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

Deferred income tax

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

Deferred tax liabilities are recognised for all taxable temporary differences.

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

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

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

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

3. TRANSPORTATION AND RELATED REVENUES

In thousands of EUR	31 December 2016	31 December 2015
Inland transport:		
Transport of goods	33,150	34,729
Wagon deposition	6,450	6,180
Haulage fees	1,317	1,252
	40,917	**42,161**
International transport:		
Import	89,231	92,383
Export	100,767	105,119
Transit	15,597	14,251
	205,595	**211,753**
Other transport related revenues:		
Usage of wagons under RIV, PGV and AVV regimes	11,571	6,996
Wagon rentals	2,046	2,067
Cross-border services	3,357	3,411
Other	1,906	2,422
	18,880	**14,896**
	265,392	**268,810**

4. OTHER REVENUES

In thousands of EUR	31 December 2016	31 December 2015
Repairs and maintenance	5,599	6,203
Operational performance	2,206	2,094
Property rentals	2,322	2,813
Other	2,517	4,361
	12,644	**15,471**

Other revenues included revenues charged to ZSSK of EUR 5,850 thousand (2015: EUR 6,104 thousand) for repair and maintenance, operational performance, property rental and other support services.

5. CONSUMABLES AND SERVICES

In thousands of EUR	31 December 2016	31 December 2015
Wagon rentals	(41,372)	(24,739)
Network fees	(27,194)	(27,340)
Traction electricity	(27,047)	(29,028)
Traction crude oil	(10,126)	(11,849)
Materials	(8,580)	(8,677)
Repair and maintenance	(7,553)	(3,407)
Foreign segments	(7,287)	(5,522)
IT services and telecommunication charges	(6,878)	(7,179)
Other energy costs	(4,140)	(4,972)
Cross-border services	(4,029)	(4,492)
Rentals	(3,433)	(3,005)
Security services	(1,221)	(1,252)
Travelling and entertainment	(1,186)	(1,235)
Cleaning of cars, property, waste disposal	(862)	(500)
Training	(428)	(301)
Advisory and consultancy fees	(359)	(1,520)
Medical care	(337)	(422)
Third party transhipment services	(254)	(5,599)
Other	(3,089)	(2,054)
	(155,375)	**(143,093)**

Consumables and services include amounts charged by ŽSR of EUR 60,197 thousand (2015: EUR 63,706 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 25).

The Group reported a decrease in third party transhipment services in the amount of EUR 254 thousand (2015: 5,599 thousand) due to the fact that the Group did not order the service from Bulk Transshipment Slovakia, a.s. but the customer ordered the service by its own in 2016.

6. STAFF COSTS

In thousands of EUR	31 December 2016	31 December 2015
Wages and salaries	(62,622)	(61,540)
Social security costs	(26,980)	(25,794)
Employee benefits (Note 20)	(2,738)	(2,625)
Termination payments (Note 21)	1,193	981
	(91,147)	**(88,978)**

Employee numbers at 31 December 2016 were 5,794 (2015: 6,027), thereof seven were members of management (as members of the Board of Directors or directors of individual departments). Average employee numbers at 31 December 2016 were 5,932 (2015: 6,056).

The average salary in 2016 amounted to EUR 913 (2015: EUR 896).

7. OTHER OPERATING REVENUES (EXPENSES), NET

In thousands of EUR	31 December 2016	31 December 2015
Reversal (creation) of provision for environmental matters, net (Note 21)	-	503
Profit on sale of property, plant, equipment and inventories	1,686	5,363
Provision for legal cases and other provisions (Note 21)	(1,063)	(7,589)
Allowance for doubtful debts	(146)	(733)
Insurance of assets	(1,140)	(1,138)
Other	(707)	(1,370)
	(1,370)	**(4,964)**

8. INTEREST EXPENSE

In thousands of EUR	31 December 2016	31 December 2015
Interest on loans and borrowings	(974)	(2,025)
Interest on subordinated debt	-	(2,322)
Interest charges on finance lease liabilities	(693)	(1,011)
Unwinding of discount on provisions and employee benefits	(497)	29
	(2,164)	**(5,329)**

9. OTHER FINANCE REVENUES (COSTS), NET

In thousands of EUR	31 December 2016	31 December 2015
Foreign exchange losses, net	(5)	(96)
Gains on sale of securities	-	400
Other revenues (costs), net	575	176
	570	**480**

10. OTHER NON-CURRENT ASSETS

In thousands of EUR	31 December 2016	31 December 2015
Advanced payments	480	-
Accrued costs	12	4
	492	**4**

11. INCOME TAX

The reported income tax represents special levy of EUR 0 thousand, a withholding tax paid abroad and in the amount of EUR 30 thousand and tax license in the amount of EUR 3 thousand. (2015: EUR 1,394 thousand, EUR 29 thousand and EUR 3 thousand).

A reconciliation between the reported income tax expense and the theoretical amount that would arise using the standard rates is as follows:

In thousands of EUR	31 December 2016	31 December 2015
Profit (Loss) before tax	854	1,190
Tax charge at statutory tax rate of 21% (2015: 22%)	179	262
Tax paid abroad and tax license	(33)	(32)
Forfeit tax loss carry forwards	31	355
Unrecognized deferred tax asset (incl. impact of change in tax rate)	(1,935)	(12)
Non-deductible expenses	1,725	(605)
Special levy	-	(1,394)
Total income tax	**(33)**	**(1,426)**

Deferred tax assets and liabilities at 31 December related to the following (for the year ended 31 December 2016 an income tax rate of 21% applicable in future accounting period was used, for the year ended 31 December 2015: 22%):

In thousands of EUR	31 December 2016	31 December 2015
Deferred tax assets		
Tax loss carried forward	1,963	3,085
Provision for environmental matters	4,652	4,893
Provision for employee benefits	3,323	3,446
Allowance for trade and other receivables	872	899
Allowance for inventories	262	155
Provision for legal cases	3,720	3,660
Termination payments	314	216
Other overdue liabilities (over 36 months)	3,796	6,029
Other	7,667	7,287
	26,569	**29,670**
Deferred tax liabilities		
Accelerated depreciation for tax purposes (net of value adjustments)	(2,207)	(3,480)
Deferred tax on revaluation of joint venture	(78)	69
Other	(52)	(92)
	(2,337)	3,503
Valuation allowance	**(24,232)**	**(26,167)**
Net deferred tax assets (liabilities)	**-**	**-**

A valuation allowance of EUR 24,232 thousand (2015: EUR 26,167 thousand) has been recognised for temporary deductible differences due to uncertainty as to the realization of tax benefits in future years. The Group will continue to assess the valuation allowance and, to the extent it is determined that such allowance is no longer required, the tax benefits of the remaining deferred tax assets will be recognised at that time.

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

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

12. INTANGIBLE ASSETS

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

In thousands of EUR	Software	Assets under construction	Total
Acquisition cost			
At 1 January 2015	**30,070**	**475**	**30,545**
Additions	-	1,523	1,523
Transfers	1,771	(1,771)	-
At 31 December 2015	**31,841**	**227**	**32,068**
Accumulated amortization			
At 1 January 2015	**(20,405)**	**-**	**(20,405)**
Charge for the period	(1,533)	-	(1,533)
At 31 December 2015	**(21,938)**	**-**	**(21,938)**
Net book value at 31 December 2015	**9,903**	**227**	**10,130**

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

In thousands of EUR	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
Acquisition cost				
At 1 January 2015	**77,561**	**462,432**	**4,414**	**544,407**
Additions	-	-	17,018	17,018
Disposals	(5,220)	(9,162)	(964)	(15,346)
Transfers	318	14,786	(15,104)	-
At 31 December 2015	**72,659**	**468,056**	**5,364**	**546,079**
Accumulated depreciation				
At 1 January 2015	**(31,783)**	**(215,186)**	**(534)**	**(247,503)**
Additions	(1,645)	(24,950)	-	(26,595)
Disposals	5,220	7,093	-	12,313
Impairment loss	(86)	(9,622)	-	(9,708)
At 31 December 2015	**(28,294)**	**(242,665)**	**(534)**	**(271,493)**
Net book value at 31 December 2015	**44,365**	**225,391**	**4,830**	**274,586**

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

The Group recorded impairment losses on assets individually assessed as damaged or not capable for further use. The impairment losses were recorded to reflect the amount of actual damage, respectively, the net book value of an asset component at 31 December 2016.

The impairment test required by IAS 36 was performed by management of the Group as at 31 December 2016. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The fair value less cost to sell of an asset was determined as its selling price adjusted for costs associated with the sale of the asset. The value in use of the asset was determined by discounted cash flows method. The Group as a whole is considered as a single cash generating unit. No impairment losses have been identified based on the impairment test when comparing the recoverable amounts of the assets and carrying values after considering impairment losses of selected assets.

The relevant cash flows were estimated based on the 2017 business plan updated to the latest available information at the balance sheet date and on forecasts of future periods based on best estimates using all available information. The future cash flows were estimated for the next 15 years which is an average remaining useful life of the cash generating unit's assets. The cash flows include unavoidable investment expenditures required to maintain the ability of the cash generating unit to generate revenues and proceeds from scrap value at the end of the useful life. Discount rate of 5.90% used in the calculation was determined based on interest rates for incremental financing of fixed assets purchases by the Group as at the day of preparation of a financial statements and was adjusted for factors of time, risk and liquidity.

As a result of the procedures described above, the Group has increased an impairment loss by EUR 333 thousand due to a lower usage of assets and a decrease of cash inflows mainly from a transport revenues' decrease in 2016 and expected utilization of assets and expected transported volumes (mainly in diesel traction) in the next period .

Property, plant and equipment include locomotives acquired by means of finance lease with a total acquisition value of EUR 21,217 thousand (net book value EUR 13,572 thousand), wagons with an aggregate acquisition value of EUR 87,333 thousand (net book value EUR 65,259 thousand) and computing technology with a total acquisition value of EUR 2,772 thousand (net book value EUR 0 thousand).

Property, plant and equipment in the ownership of the Group with a total acquisition value of EUR 709 thousand (EUR 2,219 thousand at 31 December 2015) and with a net book value of EUR 488 thousand (EUR 2,015 thousand at 31 December 2015) is registered by the State as protected for cultural purposes.

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

14. INVESTMENT IN JOINT VENTURES AND SUBSIDIARY

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

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

Details of the Group's joint venture, affiliated company and subsidiary as at 31 December 2016 are as follows:

Corporate name	Registration country	Ownership 2016	Carrying amount of investment 2016	Equity 2016	Profit/Loss 2016
Investment in joint ventures					
BULK TRANSSHIPMENT SLOVAKIA, a.s.	Slovak Republic	40%	8,621	21,543	2,918
Cargo Wagon, a.s.	Slovak Republic	34%	1,543	1,726	(1,376)
Total investment in joint ventures			**10,164**		
Investments in subsidiary					
ZSSK CARGO Intermodal, a.s.	Slovak Republic	100%	27.5	25	(1)

Details of the Group's joint venture and subsidiaries at 31 December 2015 are as follows:

Corporate name	Registration country	Ownership 2015	Carrying amount of investment 2015	Equity 2015	Profit/Loss 2015
Investment in joint ventures					
BULK TRANSSHIPMENT SLOVAKIA, a.s.	Slovak Republic	40%	7,454	18,635	2,698
Cargo Wagon, a.s.	Slovak Republic	34%	2,011	3,844	(4,094)
Total investment in joint ventures			**9,465**		
Investments in subsidiary					
ZSSK CARGO Intermodal, a.s.	Slovak Republic	100%	27.5	26	-

The Group signed a sale and purchase of shares contract with AAE Wagon a.s. (member of VTG/AAE Group), the winner of the international tender on 5 March 2015. According to the contract AAE Wagon a.s. acquired 66% of share capital of Cargo Wagon, a.s. and the transaction was completed after the approval of Antimonopoly authorities in May 2015.

The Group's share of assets and liabilities as at 31 December 2016 and 2015 and income and expenses for the years then ended of the BULK TRANSSHIPMENT SLOVAKIA, a. s. are as follows:

In thousands of EUR	31 December 2016	31 December 2015
Current assets	1,614	1,520
Non-current assets	14,395	8,466
Total assets	**16,009**	**9,986**
Current liabilities	2,181	1,012
Non-current liabilities	5,211	1,520
Total liabilities	**7,392**	**2,532**
Net assets	**8,617**	**7,454**

In thousands of EUR	31 December 2016	31 December 2015
Revenues	3,960	3,400
Costs	(2,783)	(2,011)
Profit before income tax	**1,177**	**1,390**
Income tax expense	(10)	(310)
Net profit (loss)	**1,167**	**1,079**

The Group's share of the assets and liabilities as at 31 December 2016 and 2015 and income and expenses for the years then ended of the Cargo Wagon, a.s. are as follows:

In thousands of EUR	31 December 2016	31 December 2015
Current assets	6,531	5,367
Non-current assets	50,736	56,306
Total assets	**57,267**	**61,673**
Current liabilities	6,508	5,237
Non-current liabilities	50,172	55,129
Total liabilities	**56,680**	**60,366**
	,	
Net assets	**587**	**1,307**

In thousands of EUR	31 December 2016	31 December 2015
Revenues	14,140	7,900
Costs	(14,607)	(9,291)
Profit before income tax	**(467)**	**(1,391)**
Income tax expense	(1)	(1)
Net profit (loss)	**(468)**	**(1,392)**

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

As of 31 December 2016 the Company is dormant with no operation.

15. INVENTORIES

In thousands of EUR	At cost 2016	At lower of cost or net realizable value 2016	At cost 2015	At lower of cost or net realizable value 2015
Machine and metal-working materials	3,143	2,700	3,068	2,814
Electrical materials	2,826	2,049	3,027	2,594
Chemicals and rubber	695	676	950	938
Diesel fuel	673	673	683	683
Protective tools	253	251	262	261
Other	146	138	198	194
	7,736	**6,487**	**8,188**	**7,484**

The Group expects to use up stocks amounted to EUR 20,354 thousand (2015: EUR 24,608 thousand) in a period of more than twelve months after the date of creation these financial statements.

16. TRADE AND OTHER RECEIVABLES

In thousands of EUR	31 December 2016	31 December 2015
Domestic trade receivables	29,718	24,637
Foreign trade receivables	15,381	13,753
VAT receivables	3,828	4,490
Other receivables	2,905	3,257
Allowance for impaired trade and other receivables	(4,151)	(4,085)
	47,681	**42,052**

At 31 December 2016 overdue receivables amounted to EUR 4,990 thousand (EUR 6,020 thousand at 31 December 2015).
Trade receivables are non-interest bearing and are generally due within 30-90 days.
For details of related party receivables, refer to Note 25.

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

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

Year	Total	Neither past due nor impaired	Past due but not impaired				
			< 90 days	90 - 180 days	180 – 270 days	270 – 365 days	> 365 days
2016	**47,680**	47,040	640	-	-	-	-
2015	**42,052**	41,181	871	-	-	-	-

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 2016	31 December 2015
Cash at banks and on hand and cash equivalents	125	3,370
Bank overdrafts	(49,583)	(43,517)
	(49,458)	**(40,147)**

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 2016		31 December 2015	
In thousands of EUR	Overdraft limit	Drawn down	Overdraft limit	Drawn down
Citibank Europe plc, poboč. zahr. banky.	15,000	9,232	20,000	10,053
ING Bank N.V., pobočka z.b.	20,000	12,166	20,000	9,604
Všeobecná úverová banka, a.s.	15,000	8,911	15,000	7,235
Tatra banka, a.s.	15,000	8,978	15,000	7,144
Slovenská sporiteľňa, a.s.	10,000	4,977	10,000	4,946
Československá obchodná banka, a.s.	10,000	5,319	10,000	4,535
	85,000	**49,583**	**90,000**	**43,517**

Cash and cash equivalents as at 31 December 2016, include EUR 0 thousand that is restricted (31 December 2015: EUR 3,326 thousand).

18. SHAREHOLDER'S EQUITY

Share capital

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

Legal reserve fund

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

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

Other funds

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

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

Distribution of profit from previous accounting period

The distribution of profit of the 2015 statutory result was approved by the Company's General Meeting on 6 July 2016 and was booked in the amount of EUR 8 thousand to legal reserve fund and the amount of EUR 69 thousand was booked to accumulated losses.

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19. INTEREST-BEARING LOANS AND BORROWINGS

In thousands of EUR	Maturity date	31 December 2016	31 December 2015
Long-term loans			
Secured			
ING Bank N.V.	31 July 2019	10,980	13,098
Total		**10,980**	**13,098**
Short-term portion of loans		2,182	2,118
Long-term portion of loans		**8,798**	**10,980**
Short-term loans			
Secured			
Privatbanka, a.s.	7 June 2017	10,000	7,000
Short-term loans		**10,000**	**7,000**
Short-term portion of loans (see above)		**2,182**	**2,118**
Overdrafts (Note 17)		**49,583**	**43,517**
Short-term portion of loans		**61,765**	**52,635**
Total		**70,563**	**63,615**

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

All loans presented in the table above are secured by promissory notes with a value of EUR 59,583 thousand (EUR 50,516 thousand at 31 December 2015), and with a nominal value of EUR 107,800 thousand (EUR 112,200 thousand as of 31 December 2015) except for the loan from ING Bank N.V. The long-term loan from ING Bank N.V. is secured by a lien on 250 wagons “Shimmns” (net book value EUR 20,916 thousand).

Under the terms of a loan agreement the Group is required to meet a financial debt ratio covenant. The covenant is derived from the Company’s management accounts. At 31 December 2015 the Group did not comply with the covenant for a loan in the amount of EUR 7,235 thousand. The Group is not obligated to maintain the debt ratio by amendment dated at 1 December 2016. At 31 December 2016, the Group has no obligation to comply any covenants.

The fair value of interest-bearing loans and borrowings amounts to EUR 70,563 thousand (EUR 63,615 thousand at 31 December 2015).

All interest-bearing loans and borrowings bear floating interest which range from 0.950% to 2.700% (0.950% to 2.700% in 2015) except for the fixed interest loan from Privatbanka, a.s.

20. EMPLOYEE BENEFITS

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

In thousands of EUR	Retirement benefits	Jubilee payments	Disability benefits	Total
At 1 January 2015	12,420	3,410	15	15,845
Current service cost	468	123	-	591
Interest expense	298	82	-	380
Actuarial gains and losses	189	25	(2)	212
Utilization of benefits	(905)	(451)	(6)	(1,362)
At 31 December 2015	**12,470**	**3,189**	**7**	**15,666**
Current 31 December 2015	496	369	4	869
Non-current 31 December 2015	11,974	2,820	3	14,797
At 31 December 2015	**12,470**	**3,189**	**7**	**15,666**

The principal actuarial assumptions used were as follows:

	2016	2015
Discount rate (% p.a.)	1.60	2.40
Future salary increases (%)	3.00	2.50
Mortality probability (male) (%)	0.04 – 2.26	0.04 – 2.26
Mortality probability (female) (%)	0.02 – 0.88	0.02 – 0.88

Sensitivity analysis

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

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

In thousands of EUR	31 December 2015	Discount rate (1.00%)	Average income (1.00%)	Mortality (-10.00%)
Net liability from employee benefits	15,666	(1,241)	321	150

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21. PROVISIONS

In thousands of EUR	Environmental	Legal	Terminations	Other	Total
At 1 January 2016	**22,242**	**16,636**	**981**	**6,073**	**45,932**
Additions	-	1,100	1,493	-	2,593
Interest costs	-	-	-	121	121
Reversals	-	-	(300)	(37)	(337)
Utilization	(88)	(20)	(681)	(1.044)	(1,833)
At 31 December 2016	**22,154**	**17,716**	**1,493**	**5,113**	**46,476**
Current 31 December 2016	-	-	1,493	1,081	2,574
Non-current 31 December 2016	22,154	17,716	-	4,032	43,902
At 31 December 2016	**22,154**	**17,716**	**1,493**	**5,113**	**46,476**

In thousands of EUR	Environmental	Legal	Terminations	Other	Total
At 1 January 2015	**22,838**	**15,535**	**828**	**-**	**39,201**
Additions	-	1,107	981	6,482	8,570
Interest costs	-	-	-	(409)	(409)
Reversals	(503)	-	-	-	(503)
Utilization	(93)	(6)	(828)	-	(927)
At 31 December 2015	**22,242**	**16,636**	**981**	**6,073**	**45,932**
Current 31 December 2015	8,999	-	981	1,080	11,060
Non-current 31 December 2015	13,243	16,636	-	4,993	34,872
At 31 December 2015	**22,242**	**16,636**	**981**	**6,073**	**45,932**

Environmental matters

In 2016, the Group used its analysis of potential breaches of environmental regulations at its various sites from the prior year, with the support of an environment specialist, Centrum enviromentálnych služieb, s.r.o. As a result of this analysis, and based on the findings of Centrum enviromentálnych služieb, s.r.o., the Group has estimated that costs of EUR 22,154 thousand (EUR 22,242 thousand at 31 December 2015) are required to remedy the significant environmental issues relating to water, oil and fuel management identified in the past.

Their exact estimates are not necessarily accurate due to several uncertainties involving continuous development of laws and regulatory requirements in the areas of environment and methods, timing and extent of corrective actions which could have a potentially significant impact on the economic results of the Group in future periods.

Expenditures will be incurred in 2018 – 2019. A discount rate of 2.00 % p.a. was used in the calculation.

Legal claims

Provisions for legal claims relate to a number of claims, the most significant one is REFIN B.A., Ltd. in the amount of EUR 8,932 thousand.

Other

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

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

In thousands of EUR	31 December 2016	31 December 2015
Domestic trade payables	53,891	62,729
Foreign trade payables	7,719	7,190
Payables due to employees	6,102	5,907
Payables due to social institutions	3,516	3,503
Other payables	5,187	3,418
	76,415	**82,747**

At 31 December 2016 overdue trade payables amounted to EUR 871 thousand (EUR 1,103 thousand at 31 December 2015). For details of related party payables, refer to Note 25.

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 2016	31 December 2015
At 1 January	100	200
Additions	605	610
Utilization	(626)	(710)
At 31 December	**79**	**100**

23. COMMITMENTS AND CONTINGENCIES

Finance lease commitments

At 31 December 2016 the Group has finance lease commitments relating to the acquisition of 753 wagons, 12 powered vehicles and hardware equipment (1,104 wagons and 12 powered vehicles at 31 December 2015).

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

In thousands of EUR	31 December 2016		31 December 2015	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Within one year	13,371	13,069	12,708	11,963
After one year but not more than five years	5,642	5,496	19,134	18,563
More than five years	-	-	-	-
Total minimum lease payments	19,013	18,565	31,842	30,526
Less: future finance charges	(448)	-	(1,316)	-
Present value of minimum lease payments	**18,565**	**18,565**	**30,526**	**30,526**

Operating lease commitments

At 31 December 2016 the Group has operating lease for fixed period including mainly wagons, motor vehicles and other equipment.

In thousands of EUR	31 December 2016	31 December 2015
Operating lease of wagons	41,603	24,710
Operating lease of motor vehicles	486	427
Operating lease of other equipment	158	160
	42,247	**25,297**

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

In thousands of EUR	31 December 2016	31 December 2015
Within one year	40,247	40,973
After one year but not more than five years	191,823	190,383
More than five years	15,814	48,886
	247,884	**280,242**

Investing commitments

The Group's investment expenditure for the period from 1 January 2017 to 31 December 2017 (1 January 2016 to 31 December 2016) is as follows:

In thousands of EUR	31 December 2016	31 December 2015
Land and buildings	-	19
Machines, equipment and other assets	2,124	402
Intangible assets	-	-
	2,124	**421**

Expenditures of EUR 2,124 thousand (EUR 421 thousand at 31 December 2015) are committed under contractual arrangements.

Contingent liabilities

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

District Court Bratislava II announced judgment on 8 November 2016 in which rejected the charge in its entirety. ČD CARGO, a.s. is obliged to pay lawsuit costs an amount of EUR 106 thousand. The lawsuit was definitively completed. ČD CARGO, a.s. has filed an extraordinary appeal against the final ruling with a legal period in 2017.

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

In thousands of EUR	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
At 1 January 2016	-	-	-	-
At 31 December 2016	-	-	-	-

In thousands of EUR	Land and buildings	Machines, equipment, other assets	Assets under construction	Total
At 1 January 2015	-	180,429	-	180,429
Disposals	-	(180,429)	-	(180,429)
At 31 December 2015	**-**	**-**	**-**	**-**

The Group signed a sale and purchase of shares contract with AAE Wagon a.s. (member of VTG/AAE Group), the winner of the international tender on 5 March 2015. According to the contract AAE Wagon a.s. acquired 66% of share capital of Cargo Wagon, a.s. A shareholders agreement governing relations between both shareholders AAE and ZSSK CARGO was also signed. After an approval of the Antimonopoly authorities, registering transfer of share and the fulfillment of other conditional clauses the final transaction documents were signed – Agreement on transfer of movable assets for consideration and subsequent lease back of means of transport (Agreement on sale of 12,342 railway carriages and lease back of 8,216 railway carriages) and Bank loan agreement between financing banks and Cargo Wagon, a.s which was used to finance the purchase of railway carriages. The Group finalized the deal on 10 July 2015.

25. RELATED PARTY DISCLOSURES

Related parties of the Group comprise of all companies under same ownership (meaning under the control of the State), the Group's joint 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 2016 and 2015:

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

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

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

Statutory and supervisory bodies

Members of the Company's statutory and supervisory bodies as registered in the Commercial Register at the District Court Bratislava I at 31 December 2016 are as follows:

Board of Directors:
Ing. Martin Vozár, MBA, chairman (since 7 July 2016)
Ing. Miroslav Hopta, vice-chairman (since 30 May 2016)
Ing. Jaroslav Daniška, member (since 30 May 2016)
Ing. Róbert Nemčík, PhD., member (since 8 July 2016)
Ing. Ľubomír Kuťka, member (since 28 July 2016)
Ing. Miroslav Hopta, member (since 28 May 2016 till 30 May 2016)
Ing. Vladimír Ľupták, chairman (since 26 April 2012 till 27 May 2016)
Ing. Jaroslav Daniška, vice-chairman (since 26 April 2012 till 30 May 2016)
Ing. Peter Fejfar, member (since 26 April 2012 till 27 May 2016)
Ing. Jozef Pavúk, chairman (since 28 May 2016 till 31 May 2016

Supervisory Board:
Ing. Martin Čatloš, chairman (since 15 August 2012)
Ing. Radovan Majerský, PhD. (since 15 August 2012)
Ing. Štefan Hlinka (since 15 August 2012)
Ing. Bartolomej Kun (since 1 January 2015)
Mgr. Zita Verčíková (since 1 January 2015)
Ing. Ivan Gránsky (since 14 July 2016)
Ing. Pavol Gábor (since 15 August 2012 till 13 July 2016)

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

The Board of Directors' total remuneration approximated EUR 38 thousand (EUR 29 thousand in 2015). The total remuneration of members of the Supervisory Board amounted to EUR 24 thousand (EUR 15 thousand in 2015).

Loans granted

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

26. FINANCIAL RISK MANAGEMENT

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

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

Interest rate risk

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

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

In thousands of EUR	31 December 2016	31 December 2015
EURIBOR (+0.5%)	(460)	(652)
EURIBOR (-0.5%)	-	161

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 2016 and 2015 consist of the following:

In thousands of EUR	31 December 2016	31 December 2015
Long-term loan facilities available	-	-
Short-term loan facilities available	36,511	49,577
Total loan facilities available	**36,511**	**49,577**

As at 31 December 2016 the Group did not have any banks guarantees (EUR 0 thousand at 31 December 2015). The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2016 based on contractual undiscounted payments.

In thousands of EUR	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Long-term loans	-	-	-	8,798	-	**8,798**
Trade and other payables	871	48,997	10,001	16,546	-	**76,415**
Obligations under finance leases	-	865	12,204	5,496	-	**18,565**
Short-term loans	-	-	54,606	7,159	-	**61,765**
	871	49,862	76,811	37,999	-	**165,543**

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 based on contractual undiscounted payments.

In thousands of EUR	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Long-term loans	-	-	-	10,980	-	**10,980**
Trade and other payables	1,102	47,490	17,503	18,046	-	**84,141**
Obligations under finance leases	-	258	11,705	18,563	-	**30,526**
Short-term loans	-	-	38,085	14,549	-	**52,634**
	1,102	47,748	67,293	62,138	**-**	**178,281**

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 Group, sales to which represent 59% of transport and related revenues (56% in 2015), but management is confident, based on historic experience, projections for the future and contracts in place, that the Group is not overly exposed to credit risk in respect of these three customers. The Group's procedure is to ensure that sales are made to customers with appropriate credit histories and that acceptable credit limits are not exceeded.

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

Capital management

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

The Group manages its capital structure, and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015.

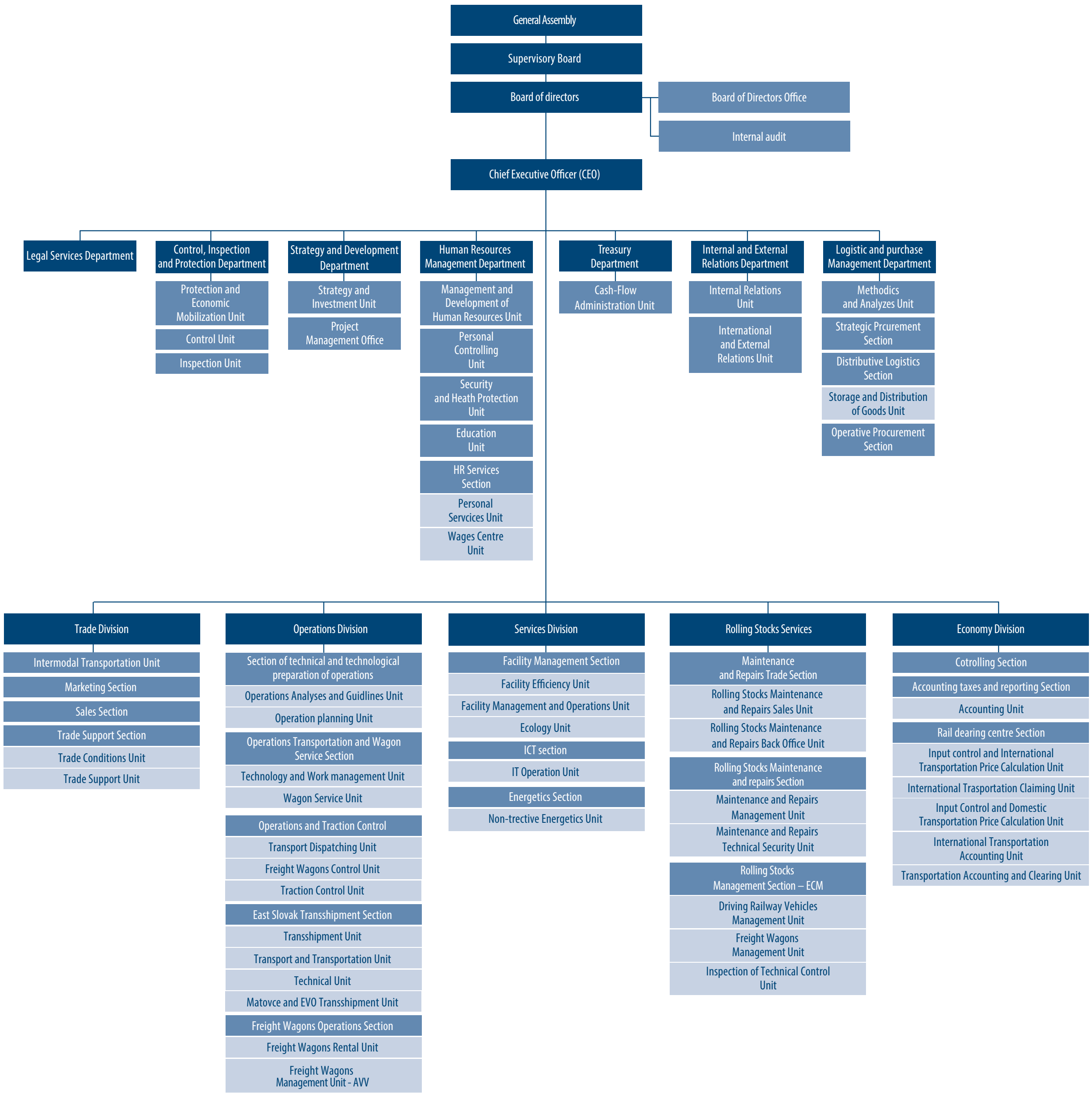
The Group monitors indebtedness using a debt to equity ratio, by which debt consists of external interest-bearing loans and borrowings and excludes subordinated debt provided by related parties and finance lease obligations, divided by total equity.

In thousands of EUR	31 December 2016	31 December 2015
Long-term debt, net of current portion (excluding subordinated debt and finance lease obligations)	8,798	10,980
Short-term debt, including current portion of long-term debt (excluding finance lease obligations)	61,765	52,634
Debt	**70,563**	**63,614**
Equity	**118,266**	**117,445**
Debt to equity ratio (%)	**60%**	**54%**

27. EVENTS AFTER THE BALANCED SHEET DATE

No events occurred subsequent to 31 December 2016 that might have a material effect on the fair presentation of the matters disclosed in these consolidated financial statements.

ORGANIZATION STRUCTURE AS AT 31.12.2016



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